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Q2 2014 MANAGEMENT'S DISCUSSION & ANALYSIS

August 6, 2014

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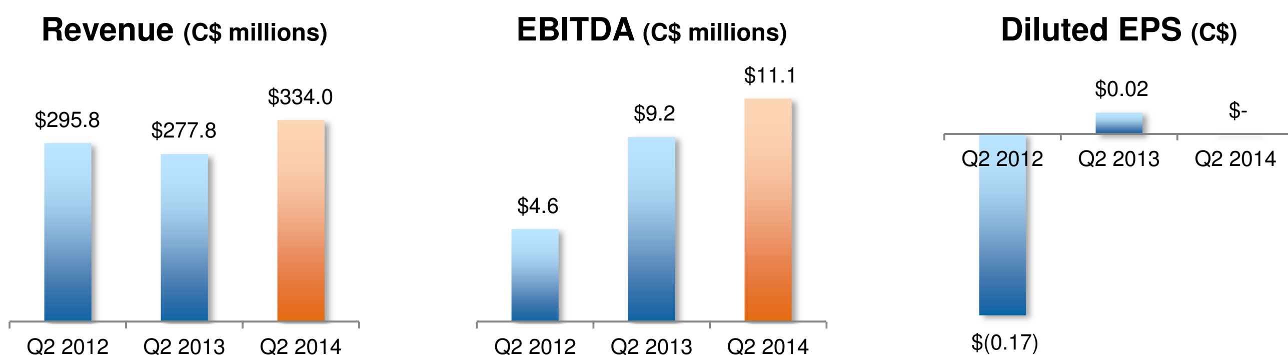
The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of Stuart Olson Inc. ("Stuart Olson", the "Company", "we", "us", or "our") for the three and six months ended June 30, 2014, dated August 6, 2014, should be read in conjunction with the June 30, 2014 Condensed Consolidated Interim Financial Statements and related notes thereto, the December 31, 2013 Audited Consolidated Annual Financial Statements and related notes thereto, and the December 31, 2013 MD&A. Unless otherwise specified all amounts are expressed in Canadian dollars.

The information presented in this MD&A, including information relating to comparative periods in 2013 and 2012, is presented in accordance with International Financial Reporting Standards ("IFRS") unless otherwise noted.

Readers should also read the section titled "Forward-Looking Information" at the end of this document.

SECOND QUARTER ("Q2") 2014 OVERVIEW

- On May 22, 2014, we changed our business name from The Churchill Corporation to Stuart Olson Inc., reflecting our strategic shift from a holding company to a fully integrated construction services company.
- Revenue increased 20.2% to $334.0 million, from $277.8 million in Q2 2013.
- Contract income increased 8.5% to $28.2 million, from $26.0 million in Q2 2013 on higher revenue; contract income margin declined to 8.4%, from 9.4%. Challenges meeting internal performance targets on certain Buildings Group industrial projects was the key factor in the margin percentage decline, as this group gains experience in the large and promising market of commercial building construction on industrial sites.
- EBITDA increased 20.7% to $11.1 million, from $9.2 million in Q2 2013. EBITDA results were in line with our expectations and reflect increased revenue in all business groups, combined with consistent year-over-year EBITDA margin for the organization as a whole.
- Second quarter net earnings were $nil (diluted earnings per share of $nil), compared to net income of $0.5 million (diluted earnings per share of $0.02) in Q2 2013. The $0.5 million decline was driven primarily by a one-time loss on equipment sold by the Industrial Group. Adjusted to exclude the non-recurring equipment disposal, net income would have been $1.4 million (diluted earnings per share of $0.06) in the second quarter of 2014.
- A backlog of $2.1 billion reflects $237.2 million in new contract awards and net increases in project scope awarded during the quarter.
- As at June 30, 2014, we were in full compliance with our long-term debt covenants, had available cash of $27.1 million and additional borrowing capacity of just over $58 million.
- On August 6, 2014, our Board of Directors ("Board") declared a common share dividend of $0.12 per share. The dividend is designated as an eligible dividend under the *Income Tax Act* (Canada) and is payable October 15, 2014 to shareholders of record on September 30, 2014.



OUTLOOK

For the balance of 2014, our outlook is as follows:

- Construction activity in Western Canada's commercial and institutional markets is expected to continue at a healthy pace, supported by the region's strong economy. Competition for projects is expected to moderate slightly as some of the foreign construction companies begin to turn their attention back to their recovering home markets.
- Demand from the industrial construction market remains robust, although competition levels continue to be high. Over the longer term, proposed new liquid natural gas (LNG) and pipeline projects could materially increase the size of the industrial market.
- With a strong backlog of $2.1 billion and a project mix predominantly comprised of lower-risk construction management and cost plus contracts, we have strong revenue visibility going forward. We expect to execute on this backlog from 2014 to 2018.
- Year-to-date revenue results are tracking with our expectations and we continue to forecast 2014 revenue to be higher than in 2013.
- We anticipate that 2014 EBITDA margin as a percentage of revenue will be consistent with, to slightly lower than, our 2013 results.
- We continue to assess our assets in terms of fit with our overall business strategy. In addition, we have an active corporate development function reviewing potential acquisitions, particularly those that support our Industrial Group's objective of becoming a self-performing general contractor.
- We continue to evaluate alternatives with respect to refinancing our $86.3 million convertible debentures that are due in June 2015. There are several alternatives available to us and we are confident in our ability to execute the refinancing before the end of 2014.

Buildings Group Outlook

While spending by provincial governments in Western Canada is expected to moderately decline during the next three years, the outlook for municipal and private sector commercial spending remains reasonably strong. New municipal projects continue to be advanced in Alberta and B.C. and significant commercial opportunities exist in all of our markets in Western Canada. In particular, the market for commercial buildings on industrial sites represents a sizeable growth opportunity. Our Buildings Group has been gaining experience in this market and we anticipate it will gradually become a larger and more profitable part of our business.

The Building Group's $1,606.9 million backlog provides good visibility to future revenue and, with solid execution, is expected to continue to support improved profitability. We expect revenue in the second half of 2014 to continue to significantly exceed comparative amounts for 2013. EBITDA margin is expected to modestly improve in the last half of 2014 as a number of projects move towards completion with risk contingencies converted into additional margin.

We expect to execute over $300 million of the Building Group's June 30, 2014 backlog during the remainder of 2014 with new project awards supplementing the group's revenues for the year.

Commercial Systems Group Outlook

Canem's 2014 revenue is expected to be higher than in 2013 reflecting strong demand and a sizeable $238.9 million backlog. EBITDA margins are forecast to be somewhat lower than in 2013 as a result of project mix and timing. Canem is working to enhance its margin by improving operational efficiencies.

During the balance of 2014, Canem expects to execute close to $100 million of its backlog. New awards, short-duration projects, building maintenance and tenant improvement work are expected to supplement the backlog revenue executed during the remainder of 2014.

Industrial Group Outlook

Activity in Alberta's oil sands and Saskatchewan and Ontario's mining districts remains strong and continues to provide numerous near-term industrial construction and maintenance opportunities to our Industrial Group. Over the medium-to-longer term, LNG activity in British Columbia could provide meaningful new work if project proposals proceed.

We continue to anticipate that 2014 revenue from the Industrial Group will modestly exceed 2013 levels, and combined with slightly higher year-over-year margins, is expected to generate increased EBITDA. Although the Industrial Group's backlog of $262.9 million at June 30, 2014 was lower than at year-end, this reduction is related to the timing of long-term maintenance contracts and does not reflect a reduction in activity levels. The group expects to execute approximately $170 million of its contracted June 30, 2014 backlog during the remainder of 2014. New contract awards, additional short-duration projects, scope changes and industrial maintenance work are expected to supplement the group's annual revenue. The backlog continues to reflect a high proportion of low-risk, cost-plus maintenance work.

RISKS

Various factors could cause our actual results to differ materially from those anticipated in our forward-looking statements and are described in this document and the "Risk Factors" section of Stuart Olson's Annual Information Form.

ABOUT STUART OLSON INC.

On May 22, 2014, we changed our business name from The Churchill Corporation to Stuart Olson Inc. This name change reflects our strategic shift from a holding company to an integrated construction services company.

The Stuart Olson name is a well-recognized and respected brand in the construction industry and helps to position us more clearly as a construction services company. Importantly, the rebranding builds on our "One Team with One Vision" business strategy to capitalize on and combine the strengths and synergies of our various business groups.

As part of the overall rebranding, we reorganized the branding of our three business groups as follows:

Buildings Group

Our Buildings Group provides services to private and public sector clients in the commercial, light industrial and institutional sectors. It operates through branch offices in Richmond, British Columbia; Calgary and Edmonton, Alberta; Saskatoon, Saskatchewan; Winnipeg, Manitoba; and Toronto, Ontario.

Projects undertaken by the Buildings Group include the construction, expansion or renovation of buildings ranging from schools, hospitals, and sports arenas, to high-rise office towers, retail and high technology facilities. More recently, the group has expanded into the market for commercial buildings on industrial sites. The Building Group, like all of our business groups, focuses on alternative methods of project delivery such as integrated project delivery, construction management and design-build approaches. These methods provide cost reductions for clients as a result of the project efficiencies we can generate. These approaches also support our ability to deliver on-time and on-budget project completion, assist us in building long-term relationships with clients, reduce project execution risk, and improve our contract margins.

Most of the revenue generated by the Buildings Group is from repeat clients or arises through pre-qualification processes and select invitational tenders. Our business model is to pursue larger projects, and preferably, negotiated construction management type contracts rather than hard-bid projects. The Buildings Group subcontracts up to 80% of its project work to subcontractors and suppliers and closely manages the construction process to deliver on commitments.

Industrial Group

The Industrial Group operates under the general contracting brand of Stuart Olson and under our endorsed brands of Laird, Northern, Fuller Austin, Sigma Power, Lakehead Insulation and Broda. The Industrial Group serves clients in a

wide range of industrial sectors including the oil and gas, petrochemical, refinery, mining, pulp and paper and power generation industries.

Originally organized as separate service companies, the Industrial Group increasingly operates as an integrated industrial contractor, capable of taking on and self-performing larger projects in the industrial construction and maintenance, repair and operations (MRO) space.

Construction services provided by the Industrial Group include mechanical, insulation installation, industrial metal siding and cladding, HVAC manufacturing, asbestos abatement, industrial electrical instrumentation and power line construction and maintenance services. Broda provides civil construction and earth moving services.

Commercial Systems Group

The Commercial Systems Group, operating under the Canem brand, is one of the largest electrical and data systems contracting companies in Western Canada. Canem is an industry leader in the provision of complex systems used in today's high-tech, high performance buildings. It not only designs, builds and installs a building's core electrical infrastructure, it also provides the services and systems that support information management, building systems integration, energy management, green data centres, security and risk management, and lifecycle services. Additionally, Canem provides ongoing maintenance and on-call service to customers, and manages regional and national multi-site installations and roll outs.

Canem focuses primarily on large, highly complex projects that contain both data and electrical components, or that require extensive logistical expertise. Like all of our business groups, Canem delivers these services as part of an integrated project delivery process that ensures close involvement with customers from the earliest stages of design. Canem is also an industry leader in the use of off-site assembly of modularized system components, which significantly improves worksite productivity.

BUSINESS STRATEGY

The Canadian construction industry is changing. Projects are becoming larger and more complex. Additionally, customers in the industrial sector are choosing contractors that can manage entire projects and self-perform much of the work. A new breed of larger, more sophisticated construction contractor is emerging, and these contractors are increasingly able to provide a one-stop service to their customers.

Stuart Olson is well positioned to benefit from this trend. Our strengths lie in the quality and dedication of our people, our values as an organization and the diverse range of services we offer our customers. Our opportunities for change and growth lie in our operating structure, specifically our ability to bring our industry-leading business groups – each with a rich heritage of innovation and delivering value – together under one brand, one culture and one vision, and to successfully communicate, market and deliver this single brand promise to our customers and stakeholders. We are implementing a strategy to realize this organizational change, meet the needs of our customers and deliver strong and consistent operating performance.

One Team with One Vision: During the first half of 2014 we simplified our operating structure and refocused our brand under one identifiable name: Stuart Olson. The Stuart Olson name has a long history of success, innovation and goodwill in the industry. Under its umbrella, we are now operating as One Team, with One Culture, One Vision and One Brand, not just internally, but outwardly to the market place.

Attracting and Retaining the Best People: We know that organizations that value people excel. Accordingly we are creating a culture of authentic leadership where all of our people can realize their potential, both as employees and as people. To support this, we have centralized our human resource functions, reinforced our leadership development program and are implementing a comprehensive succession plan. Our goal is to ensure we can attract, develop and retain the best people in the industry, which in turn, provides a strong foundation for our ongoing business success.

Exceptional Safety Performance: Safety is an ingrained value throughout Stuart Olson, fundamental to our way of doing business. Our goal continues to be no less than zero harm, everyone home safe every day. To support reaching our goal we have set a near-term target of a 10% reduction in our Recordable Injury Frequency rate from 2013 levels across our business groups. We continue to reinforce best practices that set the framework for the safety culture on all of our projects. We believe in the leading indicator program that identifies trends on projects that can lead to higher risk of incidents and/or injuries, enabling us to take positive action to mitigate or eliminate those factors.

Execution Excellence: Execution excellence and predictable and consistent project results build customer trust and underpin strong and stable financial results. Across our operations, we are focused on enhancing the consistency and standardization of our project planning, project controls, productivity reporting and financial forecasting to further enhance excellence in our project execution.

Optimize Asset Utilization: As we continue our shift to an "operations-focused construction company," we are assessing each of our operating groups to ensure our assets are aligned with our strategy. One of our near-term objectives is to grow our Industrial Group into a fully self-performing general contractor. This will be achieved in part by pursuing the acquisition of industrial companies that provide complementary services and alternative labour strategies. We believe these additions will enhance our ability to respond to industrial customers, while also supporting our overall growth strategy.

Growth: In addition to the industrial acquisitions described above, we have identified a number of organic growth initiatives. These include a push into Northern Alberta by our Commercial Systems Group, and a further expansion of the Industrial Group's service offering with the addition of high voltage testing and a mechanical service offering in Alberta. Going forward, we will continue to identify other organic and acquisition-based growth opportunities that support our objectives.

Strong Balance Sheet and Capital Structure: We recognize that a strong, flexible financial foundation is essential to realizing our goals. During the second quarter of 2014 we amended our $200 million revolving credit facility under improved terms and conditions. Going forward we are continuing to evaluate alternatives with respect to refinancing our $86.3 million convertible debentures that are due in June 2015. There are several alternatives available to us and we are confident in our ability to execute the refinancing in the near-term.

RESULTS OF OPERATIONS

Consolidated Results

	Three months ended June 30		Six months ended June 30	
$millions, except percentages and per share amounts	**2014**	**2013**	**2014**	**2013**
Contract revenue	**334.0**	277.8	**608.5**	514.7
Contract income	**28.2**	26.0	**53.5**	48.1
Contract income margin	**8.4%**	9.4%	**8.8%**	9.3%
EBITDA[1]	**11.1**	9.2	**19.1**	16.0
EBITDA margin	**3.3%**	3.3%	**3.1%**	3.1%
Net earnings (loss)	**0.0**	0.5	**(0.7)**	(0.7)
Net loss per common share				
Basic	**0.00**	0.02	**(0.03)**	(0.03)
Diluted	**0.00**	0.02	**(0.03)**	(0.03)
Dividends declared per share	**0.12**	0.12	**0.24**	0.24

$millions	**Jun. 30, 2014**	**Dec. 31, 2013**
Backlog[1]	**2,108.7**	2,116.2
Working capital[1][3]	**36.5**	84.9
Long-term debt (excluding current portion)	**77.4**	50.3
Convertible debentures (excluding equity portion)[2]	**83.3**	81.9
Total assets	**759.5**	694.7

Notes: (1) "Contract income margin", "EBITDA", "EBITDA margin", "backlog", and "working capital" are non-IFRS measures. Refer to "Non-IFRS Measures" for definitions of these terms.

(2) The convertible debentures are presented as a current liability as at June 30, 2014; whereas, they were presented as a non-current liability as at December 31, 2013.

(3) If the convertible debentures were excluded from working capital, adjusted June 30, 2014 working capital would have been $119.8 million (December 31, 2013 – $84.9 million).

For the three months ended June 30, 2014, consolidated contract revenue increased by 20.2% to $334.0 million, from $277.8 million in Q2 2013. Second quarter revenue from the Buildings Group increased by $40.9 million or 33.9%, Commercial Systems Group revenue increased by $12.1 million or 25.9% and Industrial Group revenue increased by $3.1 million or 2.7%. Intersegment revenue for the quarter was $5.5 million, unchanged from the period in 2013, reflecting consistent intercompany activity among our business groups.

Contract income increased 8.5% to $28.2 million in Q2 2014, from $26.0 million in the second quarter of 2013. This $2.2 million increase reflects a $1.6 million or 13.9% increase in contract income from the Industrial Group and a $0.5 million or 6.9% increase from the Buildings Group. Contract income as a percentage of revenue was 8.4% in Q2 2014, compared to 9.4% during the same period last year. The year-over-year change in contract income margin primarily reflects not meeting internal performance targets on oil sands projects undertaken by the Buildings Group as it gains experience in constructing larger commercial buildings on industrial sites.

Second quarter administrative expenses amounted to $23.3 million (7.0% of revenue) compared to $22.8 million (8.2% of revenue) in the second quarter of 2013. Quarterly administrative expenses increased by $1.8 million or 33.3% in the Corporate Group, $0.3 million or 9.4% in the Commercial Systems Group and $0.2 million or 3.6% in the Industrial Group. These increases were partially offset by a year-over-year decrease of $1.8 million or 20.9% in the Buildings Group's administrative expenses during the quarter.

Other income declined to a loss of $1.5 million in the second quarter of 2014, from income of $0.5 million during the same period of 2013. The $2.0 million decrease in other income was primarily driven by one-time losses on equipment disposals by the Industrial Group.

Second quarter EBITDA increased to $11.1 million, from $9.2 million in Q2 2013. This $1.9 million or 20.7% increase reflects higher revenue and contract income, partially offset by increased administrative expense. Consolidated net earnings for the second quarter of 2014 were $nil compared to net earnings of $0.5 million in the same period in 2013. The $0.5 million year-over-year decline reflects improved operating performance in the Q2 2014 period being offset by the one-time loss on the sale of equipment, increased administrative expense and a $0.4 million increase in income tax expense. Adjusted to exclude non-recurring asset disposals, net earnings would have been $1.4 million in Q2 2014, compared to $0.5 million during the same period last year.

For the six months ended June 30, 2014, consolidated contract revenue increased by 18.2% to $608.5 million, from $514.7 million in Q2 2013. First half revenue from the Buildings Group increased by $58.0 million or 24.4%, Commercial Systems Group revenue increased by $24.6 million or 26.1% and Industrial Group revenue increased by $14.1 million or 7.2%. Intersegment revenue for the period was $15.8 million, an increase of $2.9 million or 22.5% compared to the first six months of 2013. This increase reflects increased intercompany activity among our business groups.

Contract income increased 11.2% to $53.5 million (8.8% of revenue), from $48.1 million (9.3% of revenue) in the first six months of 2013. This $5.4 million increase reflects a $3.6 million or 27.1% increase in contract income from the Buildings Group, $1.6 million or 7.9% increase from the Industrial Group and a $1.1 million or 7.7% increase from the Commercial Systems Group, partially offset by a $0.9 million reduction from intersegment eliminations.

First-half 2014 administrative expenses amounted to $46.5 million (7.6% of revenue), compared to $43.6 million (8.5% of revenue) in the same period in 2013. Administrative expenses increased by $3.1 million or 30.4% in the Corporate Group, $1.3 million or 13.0% in the Industrial Group and $0.3 million or 4.3% in the Commercial Systems Group. These increases were partially offset by a decrease of $1.7 million or 10.4% in the Buildings Group. Of the administrative expense increase for the first half of 2014, approximately $2.0 million is not expected to be recurring.

Other income declined to a loss of $1.4 million in the first half of 2014, from income of $0.6 million in the six months ended June 30, 2013. The $2.0 million decrease was primarily driven by one-time equipment disposal losses by the Industrial Group.

EBITDA for the first six months of 2014 increased to $19.1 million, from $16.0 million in the same period of 2013. This $3.1 million or 19.4% increase reflects higher revenue and contract income, partially offset by increased administrative expense. Consolidated net loss for the six months ended June 30, 2014 was $0.7 million, consistent with the loss incurred in the same period in 2013. The first half 2014 result reflects a $0.6 million improvement in EBT in 2014, offset by a corresponding increase in income tax expense. Adjusted to exclude non-recurring asset disposals, net earnings would have been $0.8 million in the first half of 2014, compared to a net loss of $0.7 million during the same period last year.

Backlog

$millions, except percentages	Jun. 30, 2014	Dec. 31, 2013
Buildings Group	**1,606.9**	1,615.1
Industrial Group	**262.9**	336.4
Commercial Systems Group	**238.9**	164.7
Consolidated	**2,108.7**	2,116.2
Construction management	**63.3%**	58.6%
Cost plus	**21.9%**	24.8%
Tendered (hard bid)	**14.8%**	16.6%

Backlog as at June 30, 2014 was $2,108.7 million, down $7.5 million or 0.4% from backlog of $2,116.3 at December 31, 2013. As at June 30, 2014, backlog consisted of work-in-hand of $1,221.6 million (December 31, 2013 – $1,159.8 million) and active backlog of $887.1 million (December 31, 2013 – $956.4 million). Approximately 63.3% of the backlog consists of construction management (CM) contracts, 21.9% cost-plus arrangements (combined total of 85.2% CM and cost-plus) and 14.8% tendered (hard-bid) work. New contract awards and net increases in contract value of $486.1 million were added to work-in-hand in the quarter ended June 30, 2014 (second quarter of 2013 – $415.5 million).

Our Book-to-Bill ratio for the second quarter of 2014 was 0.7 to 1.0, and for the first half of 2014 was 1.0 to 1.0. Revenue exceeded backlog additions during the second quarter primarily due to the timing of the Industrial Group master service agreement renewals. We expect the ratio to improve in the last half of 2014 as the master service agreements are renewed and the Buildings Group and Commercial System Group continue to add new projects to backlog.

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RESULTS OF OPERATIONS BY BUSINESS GROUP

Buildings Group Results

	Three months ended June 30		Six months ended June 30	
$millions, except percentages	**2014**	**2013**	**2014**	**2013**
Contract revenue	**161.7**	120.8	**295.8**	237.8
Contract income	**7.7**	7.2	**16.9**	13.3
Contract income margin(1)	**4.8%**	6.0%	**5.7%**	5.6%
Administrative costs	**6.8**	8.6	**14.6**	16.3
EBITDA(1)	**2.2**	(0.1)	**5.0**	(0.6)
EBITDA margin(1)	**1.4%**	(0.1%)	**1.7%**	(0.3%)
EBT(1)	**1.0**	(1.1)	**2.5**	(2.7)
Backlog(1)(2)			**1,606.9**	1,615.1

Notes: (1) Contract income margin, EBITDA, EBITDA margin, EBT and backlog are non-IFRS measures. Refer to "Non-IFRS Measures" for definitions of these terms.
(2) Comparative backlog is as of December 31, 2013.

For the three months ended June 30, 2014, revenue from the Buildings Group increased 33.9% to $161.7 million, from $120.8 million in Q2 2013. The $40.9 million increase was primarily attributable to a strong backlog of work, increased commercial and institutional activity in British Columbia, Alberta and Manitoba, and continued growth in the group's industrial buildings branch.

Contract income increased 6.9% to $7.7 million in the second quarter of 2014, from $7.2 million during the same period in 2013. The $0.5 million increase reflects significant increases in 2014 revenue, partially offset by lower 2014 contract income margin. Margin on contract income declined to 4.8% from 6.0% in the second quarter of 2013 as a result of not meeting internal performance targets on certain Buildings Group's industrial projects.

The Buildings Group increased second quarter 2014 EBITDA to $2.2 million (1.4% EBITDA margin), from an EBITDA loss of $0.1 million (-0.1% EBITDA margin) in the second quarter of 2013. This $2.3 million improvement reflects the increase in contract income, combined with administrative cost savings from the centralization of certain administrative activities to the Corporate Group and other targeted reductions in the Buildings Group's administrative spending.

For the six months ended June 30, 2014, Buildings Group revenue increased 24.4% to $295.8 million, from $237.8 million during the same period in 2013. The $58.0 million increase was primarily attributable to a significant backlog of work, increased commercial and institutional activity in British Columbia, Alberta and Manitoba and continued growth in the group's industrial buildings division.

Buildings Group contract income increased in the first six months of 2014 by 27.1% to $16.9 million, from $13.3 million during the same period in 2013. The $3.6 million increase was principally driven by higher activity levels. Margin on contract income for the six months ended June 30, 2014 was 5.7%, in line with the 5.6% contract income margin for the six months ended June 30, 2013.

EBITDA for the six months ended June 30, 2014 increased to $5.0 million (1.7% EBITDA margin), from an EBITDA loss of $0.6 million (-0.3% EBITDA margin) in the first half of 2013. This $5.6 million improvement reflects the increase

in contract income, together with administrative cost savings from the centralization of certain administrative activities in the Corporate Group and other targeted reductions in the Buildings Group administrative spending.

As at June 30, 2014, the Buildings Group backlog was $1,606.9 million, compared to $1,615.1 million at December 31, 2013, a decrease of $8.2 million or 0.5%. As at June 30, 2014 approximately 77.5% of the Buildings Group's backlog was composed of CM assignments, 16.8% was cost-plus projects (combined total of 94.3% CM and cost-plus) and 5.7% were tendered projects. Buildings Group tendered projects mainly include commercial buildings constructed on industrial sites. The June 30, 2014 backlog consisted of $773.5 million of work-in-hand and $833.4 million of active backlog, compared to $738.4 million of work-in hand and $876.7 million of active backlog as at December 31, 2013. With respect to work-in-hand, the segment secured $261.5 million of new awards and project scope increases during the quarter, and executed $161.7 million of contract revenue.

Industrial Group Results

	Three months ended June 30		Six months ended June 30	
$millions, except percentages	**2014**	**2013**	**2014**	**2013**
Contract revenue	**118.9**	115.8	**209.5**	195.4
Contract income	**13.1**	11.5	**21.8**	20.2
Contract income margin(1)	**11.0%**	9.9%	**10.4%**	10.3%
Administrative costs	**5.7**	5.5	**11.3**	10.0
EBITDA(1)	**10.0**	8.2	**15.5**	14.4
EBITDA margin(1)	**8.4%**	7.1%	**7.4%**	7.4%
EBT(1)	**5.7**	6.1	**8.7**	10.2
Backlog(1)(2)			**262.9**	336.4

Notes: (1) Contract income margin, EBITDA, EBITDA margin, EBT and backlog are non-IFRS measures. Refer to "Non-IFRS Measures" for definitions of these terms.
(2) Comparative backlog is as of December 31, 2013.

Revenue generated by the Industrial Group increased 2.7% to $118.9 million in the second quarter of 2014, from $115.8 million during the same period in 2013. The $3.1 million revenue improvement reflects increased activity levels in Alberta's oil sands.

The Industrial Group generated second quarter 2014 contract income of $13.1 million, an improvement of $1.6 million or 13.9% from the $11.5 million achieved during the same period last year. Second quarter contract income margins increased to 11.0%, from 9.9% in the second quarter of 2013, primarily reflecting the benefit of Workers' Compensation Board rebates reducing contract labour costs during the 2014 quarter.

EBITDA from the Industrial Group increased by $1.8 million or 22.0% to $10.0 million (8.4% EBITDA margin) in Q2 2014, from $8.2 million (7.1% EBITDA margin) in the second quarter of 2013. The year-over-year improvement in EBITDA margin reflects the increased contract income.

For the six months ended June 30, 2014, Industrial Group revenue increased 7.2% to $209.5 million, from $195.4 million during the same period last year. The $14.1 million revenue improvement reflects increased activity levels in Alberta's oil sands and Northern Ontario's mining industry.

The Industrial Group earned contract income of $21.8 million for the six months ended June 30, 2014, an improvement of $1.6 million or 7.9% from the $20.2 million achieved during the same period of 2013. Contract income margins were 10.4%, similar to the 10.3% margin achieved in the six months ended June 30, 2013.

EBITDA from the Industrial Group increased by $1.1 million or 7.6% to $15.5 million (7.4% EBITDA margin) in the first half of 2014, from $14.4 million (7.4% EBITDA margin) during the same period in 2013. The year-over-year improvement reflects increased contract income, partially offset by higher administrative expenses to support increased activity levels.

The Industrial Group recorded a backlog of $262.9 million as at June 30, 2014, compared to backlog of $336.4 million at December 31, 2013. The $73.5 million or 21.8% decrease primarily reflects the timing of large multi-year maintenance contracts which are nearing or have reached the end of their contract time frame. We continue to do a similar volume of work with these large industrial customers, but the value of this work cannot be reflected in backlog until new master services agreements are signed. As at June 30, 2014, 72.2% of the Industrial Group backlog consisted of cost-plus projects and the remaining 27.8% were tendered projects. The June 30, 2014 backlog consisted of $233.8 million of work-in-hand and $29.1 million of active backlog, compared to $281.7 million of work-in-hand and $54.7 million of active backlog at December 31, 2013. With respect to work-in-hand, the Industrial Group contracted $74.4 million of new awards and scope increases during the quarter and executed $118.9 million of construction activity.

Commercial Systems Group Results

	Three months ended June 30		Six months ended June 30	
$millions, except percentages	**2014**	**2013**	**2014**	**2013**
Contract revenue	**58.9**	46.8	**119.0**	94.4
Contract income	**7.2**	6.9	**15.3**	14.2
Contract income margin(1)	**12.2%**	14.7%	**12.9%**	15.0%
Administrative costs	**3.5**	3.2	**7.2**	6.9
EBITDA(1)	**4.1**	4.3	**9.0**	8.2
EBITDA margin(1)	**7.0%**	9.2%	**7.6%**	8.7%
EBT(1)	**3.7**	3.9	**8.2**	7.4
Backlog(1)(2)			**238.9**	164.7

Notes: (1) Contract income margin, EBITDA, EBITDA margin, EBT and backlog are non-IFRS measures. Refer to “Non-IFRS Measures” for definitions of these terms.
(2) Comparative backlog is as of December 31, 2013.

For the three months ended June 30, 2014, the Commercial Systems Group increased revenue by 25.9% to $58.9 million, from $46.8 million in Q2 2013. This $12.1 million improvement reflects the start-up of a number of significant new projects in British Columbia and Alberta.

Second quarter contract income increased by $0.3 million or 4.3% to $7.2 million, from $6.9 million during the same period in 2013. Contract income margin was 12.2% compared to 14.7% in Q2 2013, reflecting project mix, project stage of completion and increased labour costs on specific projects resulting from productivity issues.

EBITDA from the Commercial Systems Group declined 4.7% to $4.1 million (7.0% EBITDA margin) in the second quarter of 2014, from $4.3 million (9.2% EBITDA margin) in the second quarter of 2013. The $0.2 million EBITDA reduction primarily reflects increased administrative costs.

For the six months ended June 30, 2014, revenue from the Commercial Systems Group increased 26.1% to $119.0 million, from $94.4 million for the six months ended June 30, 2013. This $24.6 million improvement relates to the start-up of a number of significant projects in British Columbia and Southern Alberta.

First-half contract income increased by $1.1 million, or 7.7%, to $15.3 million, from $14.2 million during the same period in 2013. Year-to-date contract income margin was 12.9% in 2014 compared to 15.0% in 2013. The decrease in contract income margin reflects changes in the project mix and project stage of completion, as well as increased labour costs on specific projects as a result of project productivity issues.

EBITDA from the Commercial Systems Group improved 9.8% to $9.0 million (7.6% EBITDA margin) in the first six months of 2014, from $8.2 million (8.7% EBITDA margin) in the same period of 2013. The $0.8 million EBITDA increase primarily reflects the increase in contract income.

Commercial Systems Group backlog increased to $238.9 million as at June 30, 2014, from $164.7 million at December 31, 2013, a $74.2 million or 45.1% increase. As at June 30, 2014, the Commercial Systems Group's backlog was composed of approximately 38.4% CM and cost-plus projects, and 61.6% tendered projects. The June 30, 2014 backlog consisted of $214.4 million of work-in-hand and $24.5 million of active backlog compared to $139.7 million of work-in-hand and $25.0 million of active backlog at December 31, 2013. With respect to work-in-hand, the group secured $150.3 million of new awards and increases in contract value during the quarter and executed $58.9 million of construction activity.

Corporate Group Results

	Three months ended June 30		Six months ended June 30	
$millions	**2014**	**2013**	**2014**	**2013**
Administrative costs	**7.2**	5.4	**13.3**	10.2
Finance costs	**2.9**	3.1	**5.7**	5.8
EBT[1]	**(10.0)**	(8.5)	**(19.0)**	(16.0)

Note: (1) EBT is a non-IFRS measure. Refer to "Non-IFRS Measures" for the definition of the term.

The Corporate Group's administrative expenses were $7.2 million in the second quarter of 2014, compared to $5.4 million in the second quarter of 2013. The $1.8 million or 33.3% increase is due to a $2.0 million increase in administrative costs, offset by a $0.2 million reduction in depreciation and amortization. The administrative cost increase is primarily related to the centralization under the Corporate Group of human resource and accounting administrative activities previously managed and accounted for by the individual business groups, claim settlements

during the quarter and branding costs. These increases were partially offset by a decrease related to the decline in Stuart Olson's stock price in the second quarter of 2014, compared to share price appreciation in Q2 2013, and the corresponding impact of mark-to-market pricing on stock-based compensation expense.

For the three months ended June 30, 2014, the Corporate Group's depreciation and amortization expense was $1.7 million, compared to $1.9 million in Q2 2013, a $0.2 million or 10.5% decrease. These amounts primarily reflect the amortization of the intangible assets acquired in conjunction with the acquisition of Dominion and Canem, and the amortization of our enterprise resource planning system. The majority of the $0.2 million decrease resulted from having fully amortized Canem's backlog and agency intangibles in 2013.

The Corporate Group's finance costs were $2.9 million in the second quarter of 2014, compared to $3.1 million during the same period last year, a $0.2 million or 6.5% decrease. The decrease in finance costs reflects reduced interest expense on the revolving credit facility in Q2 2014.

The Corporate Group incurred a second quarter 2014 loss before tax of $10.0 million, compared to a loss before tax of $8.5 million in the comparable period in 2013, primarily as a result of the increase in administrative expenses.

For the six months ended June 30, 2014, Corporate Group administrative expenses were $13.3 million, compared to $10.2 million in the first half of 2013. The $3.1 million or 30.4% increase is due to a $3.5 million increase in administrative costs, offset by a $0.4 million reduction in depreciation and amortization. The administrative cost increase is primarily related to one-time onerous lease costs associated with moving to smaller facilities, rebranding costs, the appreciation in Stuart Olson's stock price and the corresponding impact of mark-to-market pricing on stock-based compensation expense during the first half of 2014, and the centralization under the Corporate Group of human resource and accounting administrative activities previously managed and accounted for by the individual business groups.

First-half depreciation and amortization expense was $3.4 million, compared to $3.8 million in 2013, a $0.4 million or 10.5% decrease. The majority of the decrease resulted from having fully amortized Canem's backlog and agency intangibles in 2013.

The Corporate Group's finance costs were $5.7 million in the first half of 2014, compared to $5.8 million during the same period last year, a decline of $0.1 million or 1.7%. Finance costs were similar year-over-year.

For the six months ended June 30, 2014, the Corporate Group incurred a loss before tax of $19.0 million, compared to a loss before tax of $16.0 million in the comparable period in 2013, primarily as a result of the increase in administrative expenses.

LIQUIDITY

Cash and Debt Balances

Cash and cash equivalents at June 30, 2014 were $27.1 million, compared to $36.2 million at December 31, 2013. This $9.1 million decline reflects the investment in non-cash working capital associated with increased activity in the first six months of 2014 as compared to the last half of 2013.

Long-term indebtedness, including the current portion of long-term debt and convertible debentures, amounted to $161.7 million at June 30, 2014. This compares to $134.8 million at December 31, 2013, a net increase of $26.9 million from investing in non-cash working capital associated with increased activity in the first six months of 2014 as compared to the last half of 2013. Long-term indebtedness consisted of $83.3 million (December 31, 2013 - $81.9 million) of the debt portion of Stuart Olson's outstanding convertible debentures, $77.4 million (December 31, 2013 - $50.3 million) drawn on our $200 million senior revolving credit facility, and $1.0 million related to the current portion of long-term debt (December 31, 2013 - $2.6 million).

As at June 30, 2014, we were in full compliance with our covenants and had additional borrowing capacity of $58.3 million available under the revolving credit facility.

Ratio	**Covenant**	**Actual as at June 30, 2014**
Working capital[1]	**>1.10:1.00**	**1.37**
Interest coverage	**>3.00:1.00**	**4.29**
Total debt to EBITDA	**<3.25:1.00**	**1.62**
Senior debt to EBITDA	**<2.75:1.00**	**1.58**

Notes: (1) As part of the June 2014 amendments to our $200 million senior secured revolving credit facility, the definition of working capital ratio for covenant calculation purposes was updated to specifically exclude the convertible debentures from current liabilities.

The outstanding balance under the revolving credit facility fluctuates from quarter to quarter as it is drawn to finance working capital requirements, capital expenditures and asset acquisitions, and as it is repaid with funds from operations.

Summary of Cash Flows

	Six months ended June 30	
$millions	**2014**	**2013**
Operating activities	**(26.2)**	(8.0)
Investing activities	**(3.8)**	(6.3)
Financing activities	**20.9**	11.3
Decrease in cash	**(9.1)**	(3.0)
Cash and cash equivalents, beginning of period	**36.2**	33.8
Cash and cash equivalents, end of period	**27.1**	30.8

For the six months ended June 30, 2014, cash flow used in operating activities was $26.2 million as compared to $8.0 million in the same period of 2013, a year-over-year net change of $18.2 million. The primary driver of the decline in operating cash flow was a $16.7 million net change in non-cash working capital balances; a $39.4 million cash outflow for the six months ended June 30, 2014 compared to $22.7 million for the same period of 2013. The additional outflow was due to investing in working capital to support increased revenue for all three business groups during the first six months of 2014 and collection of a significant holdback receivable in 2013.

Cash flow used in investing activities was $3.8 million for the six months ended June 30, 2014, as compared to $6.3 million in the same period in 2013, a $2.5 million decrease. The decline was due to a $1.8 million increase in proceeds on disposal of assets in 2014 and a $1.0 million reduction in 2014 additions to property, equipment, and intangible assets. The decline was partially offset by a $0.3 million 2014 increase in long-term receivables.

Cash generated by financing activities totalled $20.9 million for the first six months of 2014, as compared to $11.3 million for the same period in 2013, primarily due to increased draws on the revolving credit facility to support higher activity levels.

CAPITAL RESOURCES

Our objectives in managing capital are to ensure that we have sufficient liquidity to pursue growth objectives while maintaining a prudent amount of financial leverage.

Capital is composed of equity and long-term indebtedness, including convertible debentures. Our primary uses of capital are to finance operations, execute our growth strategies and fund capital expenditure programs.

In the second quarter of 2014, our capital and intangible expenditures totalled $4.2 million compared to $4.7 million in the quarter ended June 30, 2013. Capital and intangible expenditures during the second quarter of 2014 consisted of $2.6 million for construction and automotive equipment, $0.1 million for computer hardware and software, $1.4 million for tenant improvements, and $0.1 million for office furniture and equipment.

For the six months ended June 30, 2014, our capital expenditures were $5.5 million, compared to $8.1 million in the first half of 2013. Expenditures included $3.3 million for construction and automotive equipment, $0.5 million for computer hardware and software, $1.6 million for tenant improvements, and $0.1 million for office furniture and equipment.

Capital expenditures are associated with our need to maintain and support existing operations. Our capital spending program for 2014 is projected to be $15.0 million.

Working Capital

As at June 30, 2014, we had working capital of $36.5 million, compared to $84.9 million at December 31, 2013. Working capital decreased by $48.4 million because the convertible debentures became a current liability during Q2 2014. Excluding the convertible debentures, adjusted June 30, 2014 working capital was $119.8 million, a $34.9 million increase from December 31, 2013 driven by a significant increase in operating activity in 2014, particularly in the last month of Q2 2014 as compared to the last month of 2013.

On the basis of our current cash and cash equivalents, the ability to generate cash from operations and the undrawn portion of our revolving credit facility, we believe we have the capital resources and liquidity necessary to meet our commitments, support operations, finance capital expenditures, support growth strategies and fund declared dividends.

For additional information regarding our management of capital, please refer to *Note 16* to the Condensed Consolidated Interim Financial Statements.

Contractual Obligations

The following are our contractual financial obligations as at June 30, 2014. Interest payments on the revolving credit facility have not been included in the table below as they are subject to variability based upon outstanding balances at various points throughout the period. Further information is included in *Note 15(b)(iii)* to the Condensed Consolidated Interim Financial Statements.

$thousands	**Carrying amount**	Contractual cash flows	Not later than 1 year	Later than 1 year and less than 3 years	Later than 3 years and less than 5 years	Later than 5 years
Trade and other payables	**$ 224,930**	$ 224,930	$ 224,930	$ -	$ -	$ -
Provisions including current portion	**9,509**	9,509	3,592	1,522	-	4,395
Convertible debentures (debt portion)	**83,277**	91,425	91,425	-	-	-
Long-term debt including current portion	**78,313**	80,421	963	479	78,979	-
Lease commitments	**56,888**	56,888	7,170	12,018	12,017	25,683
	$ 452,917	$ 463,173	$ 328,080	$ 14,019	$ 90,996	$ 30,078

Scheduled long-term debt principal repayments due within one year of June 30, 2014 were $1.0 million (December 31, 2013 – $2.6), while scheduled convertible debenture principal repayments for this same period were $86.3 million (December 31, 2013 – $nil).

Share Data

We encourage employees to invest in our shares by offering an Employee Share Purchase Plan ("ESPP") available to all full-time employees. At June 30, 2014, the ESPP held 1,674,303 common shares for employees (December 31, 2013 – 1,630,047 common shares). Under the ESPP, common shares are acquired in the open market.

On January 14, 2014 and April 15, 2014, we issued 49,200 and 34,700 common shares, respectively, pursuant to our Dividend Reimbursement Plan ("DRIP").

As at June 30, 2014, we had 24,921,625 common shares issued and outstanding and 1,651,384 options convertible into common shares upon exercise (December 31, 2013 – 24,797,163 common shares and 1,838,117 options). Please refer to *Note 12* and *Note 13* of the Condensed Consolidated Interim Financial Statements for further detail.

As well, we have 6.0% convertible debentures outstanding in the principal amount of $86.3 million, convertible into 4,416,923 common shares.

Shareholders' equity was $230.4 at June 30, 2014, compared to $237.0 million at December 31, 2013. This $6.6 million reduction resulted from the first half 2014 net loss of $0.7 million, a $1.5 million defined benefit plan actuarial loss net of tax, and dividends declared of $6.0 million, partially offset by share capital increases of $0.8 million and $0.8 million related to DRIP shares and shares issued pursuant to the exercise of options, respectively.

DIVIDENDS

Declaration of Common Share Dividend

On August 6, 2014, our Board of Directors declared a common share dividend of $0.12 per share. The dividend is designated as an eligible dividend under the *Income Tax Act* (Canada) and is payable October 15, 2014 to shareholders of record on September 30, 2014. The declaration of this dividend reflects the Board of Directors' confidence in our ability to generate ongoing cash flows adequate to support our growth strategy, while providing a certain amount of income to our shareholders. The Board's intention is to maintain a quarterly dividend that rewards existing shareholders and provides new investors with an income incentive to invest in our common shares.

We also maintain a DRIP, details of which are available on our website (www.stuartolson.com). Future dividend payments may vary depending on a variety of factors and conditions, including overall profitability, debt service requirements, operating costs and other factors affecting cash flow.

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements in place at June 30, 2014.

RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2014, we incurred facility costs of $0.1 million (June 30, 2013 – $0.1 million) for the rental of a building that is 50.0% owned by Schneider Investments Inc., a company owned by George Schneider, a director of the Company. The rented building is the operations base for the Industrial Group in Fort McMurray. The rental charge is comparable to the market rates for similar properties. For the six months ended June 30, 2014, these facility costs were $0.2 million (June 30, 2013 - $0.2 million). No amounts are included in trade payables as at June 30, 2014 (June 30, 2013 – $0.04 million).

During the second quarter of 2014, we also incurred facility costs of $0.1 million (June 30, 2013 – $0.1 million) relating to the rental of a building owned by Broda Holdings (2009) Inc., a company owned by the president of Broda, a wholly owned subsidiary of Stuart Olson. The rented building is the head office, maintenance facility and operations base for Broda in Prince Albert, Saskatchewan. The rental charge is comparable to the market rates for similar properties. For the six months ended June 30, 2014, these facility costs were $0.2 million (June 30, 2013 - $0.2 million). At June 30, 2014, there was $0.03 million included in accounts payable (June 30, 2013 – $0.03 million).

QUARTERLY FINANCIAL INFORMATION

The following table sets out our selected quarterly financial information for the eight most recent three-month ended quarters:

	2014 Quarter Ended:		2013 Quarter Ended:				2012 Quarter Ended[1]:	
$millions, except per share amounts	**Jun. 30**	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30
Contract revenue	**334.0**	274.6	297.0	294.8	277.8	236.8	289.9	303.2
EBITDA[2]	**11.1**	8.0	12.8	12.3	9.2	6.8	9.1	12.0
Net earnings (loss)	**0.0**	(0.6)	3.3	2.6	0.5	(1.2)	(62.7)	1.7
Net earnings (loss) per common share								
Basic	**0.00**	(0.02)	0.13	0.10	0.02	(0.05)	(2.56)	0.07
Diluted	**0.00**	(0.02)	0.13	0.10	0.02	(0.05)	(2.56)	0.07

Notes: (1) Refer to Note 3 of the Company's 2013 Consolidated Annual Financial Statements for retrospective adoption of IAS 19 (2011).
(2) EBITDA is a non-IFRS measure, refer to "Non-IFRS Measures" for the definition.

Revenue in the fourth quarter of 2012 decreased compared to the third quarter of 2012, reflecting normal seasonal influences on our business. While lower contract revenue in the Buildings Group and lower contract income margins from the Commercial Systems Group had a negative impact on fourth quarter 2012 profitability, the most significant factor was a $64.6 million asset impairment charge, which resulted in a net loss for the period and the 2012 year.

Results in the first quarter of 2013 decreased compared to the fourth quarter of 2012, with all business groups experiencing some form of lower revenues and/or lower contract margins from operations during the period.

Financial results improved in the second quarter of 2013 compared to the first quarter of 2013 as modestly better Buildings Group results, consistent results from the Commercial Systems Group and strong operational results from the Industrial Group lifted revenues and earnings.

A positive contribution from the Buildings Group, along with strong results from the Commercial Systems Group and Industrial Group, resulted in all key financial metrics increasing in the third quarter of 2013 relative to the second quarter of 2013.

All financial results in the fourth quarter of 2013 increased compared to the third quarter of 2013 due to slightly increased revenues in all segments and increased contract income margins in the Buildings Group and Commercial Systems Group.

All first quarter 2014 financial results declined relative to the fourth quarter of 2013 as our business groups experienced seasonal revenue declines quarter over quarter.

Financial results for the second quarter of 2014 increased compared to the first quarter of 2014, principally due to strong revenue and margin in the Industrial Group and strong revenue growth in the Buildings Group, partially offset by somewhat lower Buildings Group margins.

For a more detailed discussion and analysis of quarterly results prior to June 30, 2014, please see our 2013 and 2012 Annual and Interim Reports.

CRITICAL ACCOUNTING ESTIMATES

Our financial statements include estimates and assumptions made by management in respect to operating results, financial condition, contingencies, commitments and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of management, the more significant estimates that have an impact on our financial condition and results of operations:

- Revenue recognition and contract cost estimates;
- Goodwill, property and equipment and intangibles impairment assessment;
- Estimates related to the useful lives and residual value of property and equipment;
- Income tax provisions;
- Provisions for warranty work and legal contingencies;
- Assumptions used in share-based payment arrangements;
- Accounts receivable collectability; and
- Valuation of defined benefit pension plans.

The key assumptions and basis for the estimates that management has made under IFRS and their impact on the amounts reported in the Condensed Consolidated Interim Financial Statements and notes thereto, are contained in the 2013 Annual Report, Management's Discussion and Analysis.

CHANGES IN ACCOUNTING POLICIES

Future Changes in Accounting Standards

We have reviewed new and revised accounting pronouncements that have been issued but are not yet effective. See *Note 4* to the Audited Consolidated Annual Financial Statements at December 31, 2013 for further information.

In addition, on May 28, 2014, the IASB and the Financial Accounting Standards Board (FASB) jointly issued IFRS 15 Revenue from Contracts with Customers. The core principle of the new Standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. We are currently evaluating the impact of this standard on our consolidated financial statements.

FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as accounts payable, borrowings and any other amounts that will result in future cash outlays. The fair

value of our short-term financial assets and liabilities approximates their respective carrying amounts on the statement of financial position because of the short-term maturity of those instruments. The fair value of our interest-bearing financial liabilities, including capital leases, financed contracts and the revolving credit facility, also approximates their respective carrying amounts due to the floating-rate nature of the debt.

The financial instruments we use expose Stuart Olson to credit, interest rate and liquidity risks. Our Board of Directors has overall responsibility for the establishment and oversight of our risk management framework and reviews corporate policies on an ongoing basis. We do not actively use financial derivatives, nor do we hold or use any derivative instruments for trading or speculative purposes.

We are exposed to credit risk through accounts receivable. This risk is minimized by the number of customers in diverse industries and geographical centres. We further mitigate this risk by performing an assessment of our customers as part of our work procurement process, including an evaluation of financial capacity.

Allowances are provided for potential losses as at the Statement of Financial Position date. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. We take into consideration the customer's payment history, creditworthiness and the current economic environment in which the customer operates to assess impairment.

We establish a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable. The provision for doubtful accounts has been included in administrative expenses in the Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss), and is net of any recoveries that were provided for in a prior period. Allowance for doubtful accounts as at June 30, 2014 was $1.9 million (December 31, 2013 – $3.2 million).

In determining the quality of trade receivables, we consider any change in credit quality of the customers from the date credit was initially granted up to the end of the reporting period. As at June 30, 2014, we had $18.7 million of trade receivables (December 31, 2013 – $20.6 million) which were greater than 90 days past due, with $16.7 million not provided for as at June 30, 2014 (December 31, 2013 – $17.4 million). Of the total, $10.8 million (57.8%) was concentrated in four customer accounts, and of this amount, $8.2 million remained outstanding as of August 6, 2014. The four customers are considered to be credit-worthy and there are currently no concerns regarding collectability of these accounts. Trade receivables are included in trade and other receivables on the Statement of Financial Position.

Financial risk is the risk to our earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. We do not use derivative instruments to reduce our exposure to this risk. At June 30, 2014, the increase or decrease in annual net earnings for each 100 basis point change in interest rates on floating rate debt would have been approximately $0.2 million (December 31, 2013 - $0.3 million) related to financial assets and by $0.6 million (December 31, 2013 - $0.4 million) related to financial liabilities.

Liquidity risk is the risk that we will encounter difficulties in meeting our financial obligations. We manage this risk through cash and debt management. We invest our cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations. We invest cash and cash equivalents with counterparties that are of high credit quality as assessed by reputable rating agencies. Given these high credit ratings, we do not expect any counterparties to fail to meet their obligations. In managing liquidity risk, we have access to committed short and long-term debt facilities as well as equity markets, the availability of which is dependent on market conditions.

Under our risk management policy, derivative financial instruments are used only for risk management purposes and not for generating trading profits.

Please refer to *Note 15(b)(ii)* of the June 30, 2014 Condensed Consolidated Interim Financial Statements for further detail.

Disclosure Controls & Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including our CEO and CFO, on a timely basis, so that appropriate decisions can be made regarding public disclosure. The CEO and CFO together are responsible for establishing and maintaining our disclosure controls and procedures. They are assisted in this responsibility by the Disclosure Committee which is composed of members of our senior management team.

An evaluation of the effectiveness of the design of our disclosure controls and procedures was carried out under the supervision of our management, including our CEO and CFO, with oversight by the Board of Directors and Audit Committee, as of June 30, 2014. Based on this evaluation, our CEO and CFO have concluded that the design of our disclosure controls and procedures as defined in NI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings was effective as at June 30, 2014.

Internal Controls over Financial Reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of inherent limitations in all control systems, absolute assurance cannot be provided that all misstatements have been detected. Management is responsible for establishing and maintaining adequate internal controls appropriate to the nature and size of the business, to provide reasonable assurance regarding the reliability of our financial reporting.

Under the oversight of the Board of Directors and our Audit Committee, our management, including our CEO and CFO, evaluated the design of our internal controls over financial reporting using the control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework (1992). The evaluation included documentation review, enquiries, testing and other procedures considered by management to be appropriate in the circumstances. As at June 30, 2014, our CEO and CFO have concluded that the design of the internal controls over financial reporting as defined in NI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings was effective.

Material Changes to Internal Controls over Financial Reporting

There were no changes to our internal controls over financial reporting and the environment in which they operated during the period beginning on January 1, 2014 and ending on June 30, 2014 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

NON-IFRS MEASURES

Throughout this MD&A certain measures are used that, while common in the construction industry, are not recognized measures under IFRS. The measures used are “contract income margin percentage”, “work-in-hand”, “backlog”, “working capital”, “EBITDA”, “EBITDA margin”, and “EBT”. These measures are used by our management to assist in making operating decisions and assessing performance. They are presented in this MD&A to assist readers to assess

the performance of Stuart Olson and our business groups. While we calculate these measures consistently from period to period, they likely will not be directly comparable to similar measures used by other companies because they do not have standardized meanings prescribed by IFRS. Please review the discussion of these measures below.

Contract Income Margin

Contract income margin is the percentage derived by dividing contract income by contract revenue. Contract income is calculated by deducting all associated direct and indirect costs from contract revenue in the period.

Work-In-Hand

Work-in-hand is the unexecuted portion of work that has been contractually awarded to us for construction. It includes an estimate of the revenue to be generated from maintenance contracts during the shorter of (a) 12 months, or (b) the remaining life of the contract.

Backlog and Active Backlog

Backlog means the total value of work, including work-in-hand, that has not yet been completed that (a) is assessed by us as having high certainty of being performed by us or our subsidiaries by either the existence of a contract or work order specifying job scope, value and timing, or (b) has been awarded to us or our subsidiaries, as evidenced by an executed binding or non-binding letter of intent or agreement, describing the general job scope, value and timing of such work, and with the finalization of a formal contract respecting such work currently assessed by us as being reasonably assured. Active backlog is the portion of backlog that is not work-in-hand (has not been contractually awarded to us). We provide no assurance that clients will not choose to defer or cancel their projects in the future.

$millions	Jun. 30, 2014	Dec. 31, 2013
Work-in-hand	**1,221.6**	1,159.8
Active backlog	**887.1**	956.4
Total backlog	**2,108.7**	2,116.2

Book-to-Bill Ratio

The ratio of new projects added to backlog and increases in the scope of existing projects (“book”) to revenue (“bill”), for a specified period of time. A book-to-bill ratio of above 1 implies that backlog additions were more than revenue for the specified time period, while a ratio below 1 implies that revenue exceeded backlog additions for the period.

Working Capital

Working capital is current assets less current liabilities. The calculation of working capital is provided in the table below:

$millions	Jun. 30, 2014	Dec. 31, 2013
Current assets	**439.2**	367.3
Current liabilities	**(402.7)**	(282.4)
Working capital	**36.5**	84.9

EBITDA and EBT

During 2014, we revised our definition of EBITDA to exclude the impact of gains and losses on asset and investment dispositions. The update has not had a material impact on the calculation of EBITDA in either the current year or 2013 comparatives.

We define EBITDA as net earnings/loss from continuing operations before interest expense, income taxes, capital asset depreciation and amortization, impairment charges, and gains/losses on asset and investment dispositions. This measure as reported by us may not be comparable to similar measures presented by other reporting issuers. We define EBT as earnings/loss from continuing operations before income taxes.

While EBITDA is a common financial measure widely used by investors to facilitate an “enterprise level” valuation of an entity, it does not have a standardized definition prescribed by IFRS, therefore other issuers may calculate EBITDA differently. The following is a reconciliation of net earnings to EBITDA and EBT for each of the periods presented in this MD&A in accordance with IFRS.

	Three months ended June 30		**Six months ended June 30**	
$millions	**2014**	**2013**	**2014**	**2013**
Net earnings (loss) from continuing operations	**0.0**	0.5	**(0.7)**	(0.7)
Add: Income tax expense (recovery)	**0.5**	0.1	**0.5**	(0.1)
EBT	**0.5**	0.6	**(0.2)**	(0.8)
Add: Depreciation and amortization	**5.6**	5.5	**11.5**	10.9
Finance costs	**3.0**	3.1	**5.9**	5.9
Loss on disposal of assets	**2.0**	0.0	**1.9**	0.0
EBITDA	**11.1**	9.2	**19.1**	16.0

EBITDA Margin

EBITDA margin is the percentage derived from dividing EBITDA by contract revenue.

FORWARD-LOOKING INFORMATION

Certain information contained in this MD&A may constitute forward-looking information. This information relates to future events or our future performance. All statements, other than statements of historical fact, may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may", "will”, “project”, “predict”, “propose”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. We believe that the expectations reflected in this forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon by investors as actual results may vary. This information speaks only as of the date of this MD&A and is expressly qualified, in its entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking information, pertaining to the following:

- The development of management's strategy to provide for the repayment of our $86.3 million of outstanding convertible debentures including, without limitation, management's views as to timing and the form in which any refinancing may take;
- The Board's confidence in our ability to generate sufficient operating cash flows to support management's business plans, including its growth strategy, while providing a certain amount of income to shareholders;
- The Board's intention to continue to pay a quarterly dividend;
- Our 2014 capital expenditure program;
- Our objective to manage our capital resources so as to ensure that we have sufficient liquidity to pursue growth objectives and maintain the payment of dividends, while maintaining a prudent amount of financial leverage and strengthening our balance sheet through increased liquidity and reduced leverage;
- Our belief that we have sufficient capital resources and liquidity, and ability to generate ongoing cash flows to meet commitments, support operations, finance capital expenditures, support growth strategies and fund dividends;
- Our business strategies, including our focus on growing revenue and earnings through organic growth, expanded geographical presence, acquisitions, and our rebranding as "Stuart Olson";
- Our outlook on the business including, without limitation, those statements relating to backlog execution, project mix and timing, earnings visibility, revenue and margin;
- The continued assessment of tuck-in acquisitions in the context of our corporate development function in order to further our goal of becoming an integrated full-service construction company, including pursuing the acquisition of industrial companies;
- The expectation that any of our business groups will improve or maintain their business prospects or continue to grow their revenue, earnings, profitability and backlog in any manner whatsoever including, without limitation, through margin expansion, organic growth, new project awards or productivity efficiencies;
- Expectations regarding the ability of any of our business groups to add to or execute upon work-in-hand or active backlog;
- Expectations regarding the ability of any of our business groups to improve its Book-to-Bill ratio and the renewal of master service agreements;
- Expectations as to future general economic conditions and the impact those conditions may have on the company and our businesses including, without limitation, the discussion under the heading entitled "Outlook" pertaining to competition, government and institutional spending in Western Canada, LNG activity in British Columbia, margin expansion in certain of our business groups, and our ability to compete for projects;
- Expectations regarding the ability of counterparties with whom we invest cash and equivalents to meet their obligations;
- Our projected use of cash resources; and
- The ability of our business groups to execute upon their strategic and annual operating plans to expand geographically, target larger projects, hire talented employees, capture or maintain market share and increase operational scope and customer bases.

With respect to forward-looking information listed above and contained in this MD&A, we have made assumptions regarding, among other things:

- The expected performance of the global and Canadian economies and the effects thereof on our businesses;

- Our ability to attract future debt and/or equity investors;
- The impact of competition on our businesses;
- The global demand for oil and natural gas, its impact on commodity prices and its related effect on capital investment projects in Western Canada; and
- Government policies.

Our actual results could differ materially from those anticipated in this forward-looking information as a result of the risk factors set forth below:

- General global economic and business conditions including the effect, if any, of a slowdown in Western Canada and/or a slowdown in the United States;
- Weak capital and/or credit markets;
- Fluctuations in currency and interest rates;
- Changes in laws and regulations;
- Limited geographical scope of operations;
- Timing of client's capital or maintenance projects;
- Dependence on the public sector;
- Competition and pricing pressures;
- Unexpected adjustments and cancellations of projects;
- Action or non-action of customers, suppliers and/or partners;
- Inadequate project execution;
- Unpredictable weather conditions;
- Erroneous or incorrect cost estimates;
- Adverse outcomes from current or pending litigation;
- Interruption of information technology systems; and
- Those other risk factors described in our most recent Annual Information Form.

The forward-looking information contained in this MD&A is made as of the date hereof and we undertake no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws.

Additional Information

Additional information regarding Stuart Olson, including our current Annual Information Form and other required securities filings, is available on our website at www.stuartolson.com and under Stuart Olson's SEDAR profile at www.sedar.com.

Condensed Consolidated Interim Financial Statements

For the three and six month periods ended June 30, 2014 and 2013
(unaudited)

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STUART OLSON INC.
Condensed Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Earnings
For the three and six month periods ended June 30, 2014 and 2013
(in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

	Note	Three months ended June 30		Six months ended June 30	
		2014	2013	**2014**	2013
Contract revenue		**$ 333,974**	$ 277,808	**$ 608,535**	$ 514,652
Contract costs		**305,775**	251,762	**555,055**	466,601
Contract income		**28,199**	26,046	**53,480**	48,051
Other (expense) income		**(1,510)**	467	**(1,397)**	574
Finance income		**84**	63	**145**	134
Administrative costs		**(23,284)**	(22,818)	**(46,525)**	(43,628)
Finance costs		**(2,977)**	(3,149)	**(5,897)**	(5,887)
Earnings (loss) before tax		**512**	609	**(194)**	(756)
Income tax (expense) recovery					
Current income tax		**(626)**	(736)	**(715)**	(1,118)
Deferred income tax		**66**	612	**247**	1,161
	5	**(560)**	(124)	**(468)**	43
Net (loss) earnings		**(48)**	**485**	**(662)**	**(713)**
Other comprehensive (loss) earnings					
Items that will not be reclassified to net (loss) earnings					
Defined benefit plan actuarial (loss) gain	6	**(872)**	1,833	**(2,056)**	3,251
Deferred tax recovery (expense) on other comprehensive (loss) earnings		**227**	(463)	**534**	(821)
		(645)	1,370	**(1,522)**	2,430
Total comprehensive (loss) earnings		**$ (693)**	$ 1,855	**$ (2,184)**	$ 1,717
Earnings (loss) per share:					
Basic earnings (loss) per share	7	**$ 0.00**	$ 0.02	**$ (0.03)**	$ (0.03)
Diluted earnings (loss) per share	7	**$ 0.00**	$ 0.02	**$ (0.03)**	$ (0.03)
Weighted average common shares:					
Basic	7	**24,916,287**	24,594,855	**24,892,008**	24,567,143
Diluted	7	**24,916,287**	24,642,193	**24,892,008**	24,567,143

See accompanying notes to the condensed consolidated financial statements.

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STUART OLSON INC.
Condensed Consolidated Statements of Financial Position
As at June 30, 2014 and December 31, 2013
(in thousands of Canadian dollars)
(unaudited)

	Note		June 30, 2014		December 31, 2013
ASSETS					
Current assets					
Cash and cash equivalents		**$**	**27,111**	$	36,236
Trade and other receivables			**341,880**		262,836
Inventory			**12,188**		11,362
Prepaid expenses			**3,229**		2,426
Costs in excess of billings	8		**50,218**		48,455
Income taxes recoverable			**4,040**		5,470
Current portion of long-term receivable			**105**		75
Assets held-for-sale			**436**		436
			439,207		367,296
Service provider deposit			**5,559**		6,157
Long-term receivable			**488**		175
Deferred tax asset			**17,040**		13,881
Property and equipment			**69,562**		76,341
Goodwill			**179,016**		179,016
Intangible assets			**48,639**		51,810
		$	**759,511**	$	694,676
LIABILITIES					
Current liabilities					
Trade and other payables		**$**	**224,930**	$	190,363
Contract advances and unearned income	8		**89,560**		80,708
Current portion of provisions	9		**3,592**		3,987
Income taxes payable			**422**		4,823
Current portion of convertible debentures	11		**83,277**		-
Current portion of long-term debt	10		**963**		2,559
			402,744		282,440
Employee benefits	6		**4,831**		3,639
Provisions	9		**5,917**		4,892
Long-term debt	10		**77,350**		50,335
Convertible debentures	11		**-**		81,855
Deferred tax liability			**31,024**		28,646
Share-based payments	12(d)		**7,222**		5,911
			529,088		457,718
EQUITY					
Share capital	13(a)		**130,411**		129,134
Preferred share reserve			**5,128**		5,128
Convertible debentures			**7,100**		7,100
Share-based payment reserve	12(a)		**8,943**		8,594
Retained earnings			**78,841**		87,002
			230,423		236,958
		$	**759,511**	$	694,676

See accompanying notes to the condensed consolidated financial statements.

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STUART OLSON INC.
Condensed Consolidated Statements of Changes in Equity
For the six month periods ended June 30, 2014 and 2013
(in thousands of Canadian dollars)
(unaudited)

	Note	Share capital	Preferred share reserve	Convertible debentures	Share-based payment reserve	Retained earnings	Total equity
Balance at December 31, 2013		$ 129,134	$ 5,128	$ 7,100	$ 8,594	$ 87,002	$ 236,958
Net loss						(662)	(662)
Other comprehensive loss:							
Defined benefit plan actuarial loss, net of tax						(1,522)	(1,522)
Total comprehensive loss						(2,184)	(2,184)
Transactions recorded directly to equity							
Common shares issued under stock option plan	13(a), 12(a)	486			349		835
Dividends	13(a, b)	791				(5,977)	(5,186)
Balance at June 30, 2014		$ 130,411	$ 5,128	$ 7,100	$ 8,943	$ 78,841	$ 230,423
Balance at December 31, 2012		$ 126,602	$ 5,128	$ 7,100	$ 7,171	$ 89,149	$ 235,150
Net loss						(713)	(713)
Other comprehensive earnings:							
Defined benefit plan actuarial gain, net of tax						2,430	2,430
Total comprehensive earnings						1,717	1,717
Transactions recorded directly to equity							
Common shares issued under stock option plan					748		748
Dividends		830				(5,898)	(5,068)
Balance at June 30, 2013		$ 127,432	$ 5,128	$ 7,100	$ 7,919	$ 84,968	$ 232,547

See accompanying notes to the condensed consolidated financial statements.

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STUART OLSON INC.
Condensed Consolidated Statements of Cash Flow
For the six month periods ended June 30, 2014 and 2013
(in thousands of Canadian dollars)
(unaudited)

	Note	June 30, 2014	June 30, 2013
OPERATING ACTIVITIES			
Net loss		**$ (662)**	$ (713)
Depreciation and amortization		**11,486**	10,869
Loss (gain) on disposal of assets		**1,938**	(6)
Share-based compensation expense	12(e)	**2,950**	2,417
Income tax expense (recovery)	5	**468**	(43)
Finance costs		**5,897**	5,887
Contributions to employee benefits		**(864)**	(843)
Payment of share-based payment liability		**(772)**	(1,316)
Change in provisions		**630**	180
Change in non-cash working capital balances	14	**(39,392)**	(22,685)
Cash used in operations		**(18,321)**	(6,253)
Interest paid		**(4,155)**	(4,053)
Income taxes (paid) received		**(3,670)**	2,351
Net cash used in operating activities		**(26,146)**	(7,955)
INVESTING ACTIVITIES			
Additions to long-term receivable		**(343)**	-
Proceeds on disposal of assets		**2,018**	218
Additions to intangible assets		**(457)**	(672)
Additions to property and equipment		**(5,051)**	(5,821)
Net cash used in investing activities		**(3,833)**	(6,275)
FINANCING ACTIVITIES			
Decrease (increase) in service provider deposit		**598**	(840)
Proceeds of long-term debt		**296,000**	123,500
Repayment of long-term debt		**(270,901)**	(106,318)
Issuance of common shares		**328**	-
Dividend paid		**(5,171)**	(5,055)
Net cash generated in financing activities		**20,854**	11,287
Decrease in cash and cash equivalents during the period		**(9,125)**	(2,943)
Cash and cash equivalents, beginning of period		**36,236**	33,774
Cash and cash equivalents, end of period		**$ 27,111**	$ 30,831

See accompanying notes to the condensed consolidated financial statements.

1. REPORTING ENTITY

Stuart Olson Inc., formerly The Churchill Corporation, changed its name and was rebranded on May 22, 2014. The entity was incorporated on August 31, 1981 in Canada under the Companies Act of Alberta and was continued under the Business Corporations Act (Alberta) on July 30, 1985. The principal activities of Stuart Olson Inc. and its subsidiaries (collectively, the "Corporation") are to provide building construction, commercial electrical and data systems contracting, industrial insulation contracting, industrial electrical and instrumentation contracting, civil construction and related services within Canada.

The address of the Corporation's head office and its principal address is #600, 4820 Richard Road S.W., Calgary, Alberta, Canada, T3E 6L1. The registered and records office is located at #3700, 400 – 3rd Avenue, S.W., Calgary, Alberta, Canada, T2P 4H2.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These interim condensed consolidated financial statements are prepared in accordance with IAS 34, Interim Financial Reporting (IAS 34), as issued by the International Accounting Standards Board (IASB).

These unaudited condensed consolidated financial statements were approved by the Corporation's Board of Directors on August 6, 2014.

(b) Summary of Significant Accounting Policies

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Corporation for the year ended December 31, 2013. The disclosure contained in these interim condensed consolidated financial statements does not include all the requirements in IAS 1, "Presentation of Financial Statements" (IAS 1). Accordingly, these interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2013.

3. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Corporation.

On May 28, 2014, the IASB and the Financial Accounting Standards Board (FASB) jointly issued IFRS 15 *Revenue from Contracts with Customers.* The core principle of the new Standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Corporation is currently evaluating the impact of this standard to its consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the three and six month periods ended June 30, 2014 and 2013
(in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

4. SEGMENTS

The Corporation operates as a construction and maintenance services provider, primarily in Western Canada. The Corporation divides its operations into four reporting segments and reports its results under the categories of: Buildings Group (formerly General Contracting), Industrial Group (formerly Industrial Services), Commercial Systems Group, and Corporate Group (formerly Corporate and Other). The accounting policies and practices for each of the segments are the same as those described in Note 3 of the audited annual consolidated financial statements for the year ended December 31, 2013.

A significant customer is one that represents greater than 10% or more of contract revenue earned during the period. For the six month period ended June 30, 2014, the Corporation had revenue of $64,463 from one significant customer of the Buildings Group, and $72,205 from one significant customer of the Industrial Group (June 30, 2013 – $88,579 from one customer of the Industrial Group).

Three month period ended June 30, 2014	**Buildings Group**	**Industrial Group**	**Commercial Systems Group**	**Corporate Group**	**Intersegment Eliminations**	**Total**
Contract revenue	**$ 161,745**	**$ 118,903**	**$ 58,863**	**$ -**	**$ (5,537)**	**$ 333,974**
EBITDA [(1)]	**2,220**	**10,011**	**4,100**	**(5,409)**	**179**	**11,101**
Depreciation and amortization	**1,120**	**2,352**	**393**	**1,712**	**53**	**5,630**
Loss (gain) on sale of assets	**56**	**1,928**	**(2)**	**-**	**-**	**1,982**
Finance costs	**-**	**70**	**-**	**2,907**	**-**	**2,977**
Earnings (loss) before tax	**$ 1,044**	**$ 5,661**	**$ 3,709**	**$ (10,028)**	**$ 126**	**$ 512**
Income tax expense						**(560)**
Net loss						**$ (48)**
Goodwill and intangible assets	**$ 125,206**	**$ 7,782**	**$ 76,033**	**$ 18,634**	**$ -**	**$ 227,655**
Capital and intangible expenditures	**$ 83**	**$ 2,373**	**$ 424**	**$ 1,330**	**$ -**	**$ 4,210**
Total assets	**$ 364,121**	**$ 185,156**	**$ 128,945**	**$ 408,948**	**$ (327,659)**	**$ 759,511**
Total liabilities	**$ 237,516**	**$ 65,249**	**$ 52,796**	**$ 188,155**	**$ (14,628)**	**$ 529,088**

Three month period ended June 30, 2013	**Buildings Group**	**Industrial Group**	**Commercial Systems Group**	**Corporate Group**	**Intersegment Eliminations**	**Total**
Contract revenue	$ 120,805	$ 115,801	$ 46,755	$ -	$ (5,553)	$ 277,808
EBITDA	(93)	8,216	4,266	(3,526)	356	9,219
Depreciation and amortization	970	2,145	407	1,903	53	5,478
Loss (gain) on sale of assets	20	(36)	-	-	-	(16)
Finance costs	43	11	-	3,094	-	3,148
(Loss) earnings before tax	$ (1,126)	$ 6,096	$ 3,859	$ (8,523)	$ 303	$ 609
Income tax expense						(124)
Net earnings						$ 485
Goodwill and intangible assets	$ 127,468	$ 7,750	$ 79,065	$ 20,206	$ -	$ 234,489
Capital and intangible expenditures	$ 329	$ 3,791	$ 190	$ 250	$ -	$ 4,560
Total assets	$ 334,006	$ 176,878	$ 106,819	$ 414,148	$ (340,526)	$ 691,325
Total liabilities	$ 206,048	$ 65,725	$ 36,620	$ 171,929	$ (21,544)	$ 458,778

[(1)] The Corporation defines EBITDA as net earnings/loss from continuing operations before interest expense, income taxes, capital asset depreciation and amortization, impairment charges, and gains/losses on asset and investment dispositions. While EBITDA is a common financial measure widely used by investors to facilitate an "enterprise level" valuation of an entity, it does not have a standardized definition prescribed by IFRS, and therefore other issuers may calculate it differently.

Notes to the Condensed Consolidated Financial Statements

For the three and six month periods ended June 30, 2014 and 2013
(in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

Six month period ended June 30, 2014	**Buildings Group**	**Industrial Group**	**Commercial Systems Group**	**Corporate Group**	**Intersegment Eliminations**	**Total**
Contract revenue	**$ 295,822**	**$ 209,530**	**$ 118,961**	**$ -**	**$ (15,778)**	**$ 608,535**
EBITDA [1]	**5,012**	**15,479**	**8,970**	**(9,804)**	**(530)**	**19,127**
Depreciation and amortization	**2,429**	**4,704**	**797**	**3,450**	**106**	**11,486**
Loss (gain) on sale of assets	**53**	**1,903**	**(18)**	**-**	**-**	**1,938**
Finance costs	**-**	**168**	**-**	**5,729**	**-**	**5,897**
Earnings (loss) before tax	**$ 2,530**	**$ 8,704**	**$ 8,191**	**$ (18,983)**	**$ (636)**	**$ (194)**
Income tax expense						**(468)**
Net loss						**$ (662)**
Goodwill and intangible assets	**$ 125,206**	**$ 7,782**	**$ 76,033**	**$ 18,634**	**$ -**	**$ 227,655**
Capital and intangible expenditures	**$ 456**	**$ 2,717**	**$ 738**	**$ 1,597**	**$ -**	**$ 5,508**
Total assets	**$ 364,121**	**$ 185,156**	**$ 128,945**	**$ 408,948**	**$ (327,659)**	**$ 759,511**
Total liabilities	**$ 237,516**	**$ 65,249**	**$ 52,796**	**$ 188,155**	**$ (14,628)**	**$ 529,088**

Six month period ended June 30, 2013	**Buildings Group**	**Industrial Group**	**Commercial Systems Group**	**Corporate Group**	**Intersegment Eliminations**	**Total**
Contract revenue	$ 237,754	$ 195,363	$ 94,383	$ -	$ (12,848)	$ 514,652
EBITDA [1]	(628)	14,412	8,212	(6,374)	372	15,994
Depreciation and amortization	1,962	4,163	818	3,820	106	10,869
Loss (gain) on sale of assets	17	(19)	(4)	-	-	(6)
Finance costs	84	23	-	5,780	-	5,887
(Loss) earnings before tax	$ (2,691)	$ 10,245	$ 7,398	$ (15,974)	$ 266	$ (756)
Income tax recovery						43
Net loss						$ (713)
Goodwill and intangible assets	$ 127,468	$ 7,750	$ 79,065	$ 20,206	$ -	$ 234,489
Capital and intangible expenditures	$ 893	$ 5,975	$ 381	$ 667	$ -	$ 7,916
Total assets	$ 334,006	$ 176,878	$ 106,819	$ 414,148	$ (340,526)	$ 691,325
Total liabilities	$ 206,048	$ 65,725	$ 36,620	$ 171,929	$ (21,544)	$ 458,778

[1] The Corporation defines EBITDA as net earnings/loss from continuing operations before interest expense, income taxes, capital asset depreciation and amortization, impairment charges, and gains/losses on asset and investment dispositions. While EBITDA is a common financial measure widely used by investors to facilitate an “enterprise level” valuation of an entity, it does not have a standardized definition prescribed by IFRS, and therefore other issuers may calculate it differently.

5. INCOME TAXES

Income tax recognized in the condensed consolidated statement of (loss) earnings:

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Net earnings (loss) before tax	**$ 512**	$ 609	**$ (194)**	$ (756)
Income tax at statutory rate of 25.7% (2013 - 25.3%)	**(132)**	(154)	**50**	191
Statutory and other rate differences	**53**	88	**22**	38
Non-deductible expenses	**(130)**	(210)	**(265)**	(360)
Other	**(351)**	152	**(275)**	174
Income tax (expense) recovery	**$ (560)**	$ (124)	**$ (468)**	$ 43

6. EMPLOYEE BENEFITS

Movement in the net liability for the Defined Benefit Pension Plan during the periods:

	June 30, 2014	December 31, 2013
Balance, beginning of the period	**$ 3,639**	$ 10,820
Expense recognized in profit or loss	**511**	1,673
Loss (gain) recognized in other comprehensive (earnings) loss	**2,056**	(6,097)
Company contributions	**(1,375)**	(2,757)
Balance, end of the period	**$ 4,831**	$ 3,639

The loss recognized in other comprehensive loss for the six months period ended June 30, 2014 resulted from a decrease in the discount rate from 4.70% at December 31, 2013 to 4.00% at June 30, 2014, which was partially offset by the plan assets earning more than expected during the period.

7. EARNINGS PER SHARE

(a) Basic loss per share

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Net (loss) earnings attributable to common shareholders (basic)	**$ (48)**	$ 485	**$ (662)**	$ (713)
Issued common shares at beginning of period	**24,886,925**	24,547,535	**24,797,163**	24,493,462
Effect of shares issued related to a dividend reinvestment plan (DRIP)	**29,362**	47,320	**60,427**	73,681
Effect of shares issued on exercise of stock options	**-**	-	**34,418**	-
Weighted average number of common shares for the period	**24,916,287**	24,594,855	**24,892,008**	24,567,143
Basic earnings (loss) per share	**$ 0.00**	$ 0.02	**$ (0.03)**	$ (0.03)

(b) Diluted loss per share

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Net (loss) earnings attributable to common shareholders (diluted)	**$ (48)**	$ 485	**$ (662)**	$ (713)
Weighted average number of common shares (basic)	**24,916,287**	24,594,855	**24,892,008**	24,567,143
Incremental shares - stock options	**-**	47,338	**-**	-
Weighted average number of common shares for the period (diluted)	**24,916,287**	24,642,193	**24,892,008**	24,567,143
Diluted earnings (loss) per share	**$ 0.00**	$ 0.02	**$ (0.03)**	$ (0.03)

For the three and six month periods ended June 30, 2014, the number of options excluded from the diluted weighted average number of common shares calculation was 1,651,384 (three and six months periods ended June 30, 2013 – 1,297,498 and 1,991,510, respectively), as their effect would have been anti-dilutive. There were no incremental shares related to the convertible debentures included in the weighted average calculation for the three and six month periods ended June 30, 2014 and 2013 as the impact of the normalization of earnings (interest, accretion and amortization add-back) outweighed the effect of the related incremental shares and therefore the convertible debentures were anti-dilutive.

As the Corporation incurred a net loss during the three and six month periods ended June 30, 2014, the basic and diluted loss per common share are the same amount.

8. CONSTRUCTION AND NON-CONSTRUCTION CONTRACTS

Contracts in progress:

	June 30, 2014	December 31, 2013
Construction costs incurred plus recognized profits less recognized losses to date	**$ 3,914,184**	$ 4,514,572
Less: progress billings	**(3,966,756)**	(4,557,358)
Net over billings on construction contracts	**(52,572)**	(42,786)
Non-construction costs incurred plus recognized profits less recognized losses to date	**$ 268,104**	$ 307,355
Less: progress billings	**(254,874)**	(296,822)
Net under billings on non-construction contracts	**13,230**	10,533
Total net contract position	**$ (39,342)**	$ (32,253)

Recognized and included in the condensed consolidated statement of financial position:

	June 30, 2014	December 31, 2013
Costs in excess of billings - Construction contracts	**$ 36,988**	$ 37,918
Costs in excess of billings - Non-construction contracts	**13,230**	10,537
Total costs in excess of billings	**50,218**	48,455
Contract advances and unearned income - Construction contracts	**$ (89,560)**	$ (80,691)
Contract advances and unearned income - Non-construction contracts	**-**	(17)
Total contract advances and unearned income	**(89,560)**	(80,708)
Total net contract position	**$ (39,342)**	$ (32,253)

At June 30, 2014, retentions held by customers for contract work amounted to $93,010 (December 31, 2013 - $62,123). Advances received from customers for contract work amounted to $89,560 (December 31, 2013 - $80,708).

9. PROVISIONS

Provisions are recognized when the Corporation has a settlement amount as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate of the obligation can be made. Reversals of provisions are made when new information arises in the period which leads management to conclude that the provisions are not necessary.

	Warranties	Restructuring costs	Claims and disputes	Subcontractor default	Onerous contract	Total
Balance at December 31, 2013	$ 3,067	$ 371	$ 1,901	$ 3,540	$ -	**$ 8,879**
Provisions made during the period	812	-	40	1,085	739	**2,676**
Provisions used during the period	(432)	(89)	-	(230)	-	**(751)**
Provisions reversed in the period	(1,313)	-	-	-	-	**(1,313)**
Unwinding of discount	-	-	-	-	18	**18**
Balance at June 30, 2014	**$ 2,134**	**$ 282**	**$ 1,941**	**$ 4,395**	**$ 757**	**$ 9,509**

The provisions are presented on the statement of financial position as follows:

	June 30, 2014	December 31, 2013
Current portion of provisions	**$ 3,592**	$ 3,987
Long-term provisions	**5,917**	4,892
Total provisions	**$ 9,509**	$ 8,879

10. LONG-TERM DEBT

	June 30, 2014	December 31, 2013
Current portion of long-term debt		
Finance contracts	**$ 106**	$ 97
Finance lease obligations	**857**	2,462
	$ 963	$ 2,559
Non-current		
Revolving credit facility	**$ 76,393**	$ 49,320
Finance contracts	**273**	291
Finance lease obligations	**684**	724
	$ 77,350	$ 50,335

In June 2014, the Corporation amended its $200,000 senior secured revolving credit facility. The syndicate of lenders remains the same and the revolving credit facility continues to include a $75,000 accordion feature. The material changes to the revolving credit facility, which became effective on June 5, 2014, include additional flexibility in the borrowing covenants such that Senior Debt to EBITDA and Debt to EBITDA ratios are both permanently increased by 0.25 times to 2.75 times and 3.25 times, respectively, with an additional increase of 0.25 times for a period of two quarters following the completion of a material acquisition or following the maturity date of the currently outstanding convertible debentures of the Corporation if more than $50,000 is utilized from the revolving credit facility in the repayment of those convertible debentures.

Included as part of the credit facility is a swingline loan of $20,000 that allows the Corporation to enter into an overdraft position. This drawdown must be repaid within seven days of the drawdown date and is therefore classified as current. At June 30, 2014, there was no drawdown on the swingline.

11. CONVERTIBLE DEBENTURES

On June 15, 2010, the Corporation issued an aggregate of $75,000 principal amount of 6% convertible extendible unsecured subordinated debentures of the Corporation at a price of one thousand dollars per debenture. On June 15, 2010, an additional $11,250 principal amount of the convertible debentures was issued pursuant to the exercise of the underwriters' over-allotment option. Total gross proceeds from the offering amounted to $86,250. Net proceeds of the offering, after payment of the underwriters' fee and other expenses of the offering of $3,401, were $82,849.

The maturity date of the debentures is June 30, 2015. The debentures bear interest at an annual rate of 6% payable in equal installments semi-annually in arrears on December 31 and June 30 in each year. Each debenture is convertible into common shares of the Corporation at the option of the holder at any time after July 13, 2010 and prior to the earlier of the maturity date and the date of redemption of the debenture, at an initial conversion price of $22.75 per common share, or a conversion rate of approximately 43.956 common shares per one thousand dollar principal amount of debentures. The Corporation has reserved 3,791,205 common shares for issuance upon conversion of the debentures.

From June 30, 2013 and at any time prior to the final maturity date, the Corporation may, at its discretion, redeem the debentures, in whole or in part from time to time, provided that the current market price of the Corporation's common shares is at least 125% of the conversion price or $28.44 per common share, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. The Corporation may, at its discretion, elect to satisfy its obligation to pay the principal amount of the debentures by issuing and delivering common shares. The Corporation may also elect to satisfy its obligation to pay interest on the debentures by delivering common shares. The number of shares issued will be determined based on market prices at the time of issuance. In the event of a change of control, the Corporation shall be required to offer to purchase all of the outstanding debentures on the date that is 30 business days after the date that such offer is delivered, at a purchase price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest to the purchase date.

As at June 30, 2014, the Corporation reclassified the carrying value of the convertible debentures of $83,277 as a current liability.

12. SHARE-BASED PAYMENTS

(a) Stock options

Movement during the periods:

	June 30, 2014		December 31, 2013	
	Number of Stock Options	**Weighted Average Exercise Price**	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of the period	**1,838,117**	**$ 12.29**	1,379,981	$ 14.76
Granted	**-**	**-**	756,719	7.69
Forfeited	**(52,468)**	**13.95**	(65,629)	11.30
Exercised	**(40,562)**	**8.08**	(94,481)	6.52
Expired	**(93,703)**	**13.15**	(138,473)	16.22
Outstanding, end of period	**1,651,384**	**$ 12.33**	1,838,117	$ 12.29

The options outstanding for the periods ended June 30, 2014 and December 31, 2013 have an exercise price in the range of $7.50 to $19.63 and lives of 5 and 10 years.

Compensation costs are recognized over the vesting period as stock-based compensation expense and an increase to the share-based payment reserve. When options are exercised, the fair value amount in the share-based payment reserve is credited to share capital. During the six months period ended June 30, 2014, 40,562 stock options were exercised at a weighted average price of $8.08.

The following table illustrates the movement in the share-based payment reserve:

	June 30, 2014	December 31, 2013
Balance, beginning of the period	**$ 8,594**	$ 7,171
Stock compensation expense	**507**	1,701
Stock options exercised	**(158)**	(278)
Balance, end of period	**$ 8,943**	$ 8,594

(b) Medium Term Incentive Plan (MTIP)

Movement of units during the periods:

	Bridging Restricted Share Units (BRSU)	Restricted Share Units (RSU)	Performance Share Units (PSU)
Units outstanding at December 31, 2012	-	-	279,447
Granted	295,109	164,792	318,002
Forfeited	(17,764)	(10,388)	(19,512)
Vested	(5,130)	-	(10,285)
Vested and paid	(9,734)	(7,662)	(64,679)
Units outstanding at December 31, 2013	262,481	146,742	502,973
Units outstanding at December 31, 2013	262,481	146,742	502,973
Granted	159,223	256,346	211,332
Forfeited	(9,634)	(4,219)	(2,811)
Vested	(335)	-	-
Vested and paid	(56,724)	(2,000)	(64,907)
Units outstanding at June 30, 2014	**355,011**	**396,869**	**646,587**

In April 2014, 20% of the BRSUs issued on April 1, 2013 vested at a weighted average price of $10.18. The PSUs issued in March 2011 vested on March 22, 2014 at a payout ratio of 30%.

(c) Deferred share units (DSU)

Movement of units during the periods:

Number of DSUs	June 30, 2014	December 31, 2013
Outstanding, beginning of the period	**363,550**	407,575
Granted	**49,816**	121,990
Cancelled	**-**	(14,407)
Settled	**(1,393)**	(151,608)
Outstanding, end of period	**411,973**	363,550

(d) Stock-based payment liability

		June 30, 2014		December 31, 2013
Carrying amount of liabilities for cash-settled arrangements				
Current portion	**$**	**916**	$	556
Long-term portion		**7,222**		5,911
Total carrying amount	**$**	**8,138**	$	6,467
Total intrinsic value of liability for vested benefits	**$**	**4,298**	$	3,480

Included in trade and other payables is the current portion of the MTIPs to be paid out within the next twelve months. The long-term portion of MTIPs and DSUs of $7,222 at June 30, 2014 (December 31, 2013 – $5,911) is classified as share-based payments in the statement of financial position. The total intrinsic value reflects all of the outstanding DSUs and vested MTIPs as at June 30, 2014.

(e) Stock compensation expense

	Three months ended June 30				Six months ended June 30			
		2014		2013		**2014**		2013
Stock compensation expense on stock options	**$**	**247**	$	494	**$**	**507**	$	748
Effects of changes in fair value and accretion of MTIP grants		**1,089**		844		**1,617**		940
Effects of changes in fair value and grants for DSUs		**(78)**		755		**826**		729
	$	**1,258**	$	2,093	**$**	**2,950**	$	2,417

13. SHARE CAPITAL

(a) Common shares and preferred shares

The Corporation's common shares have no par value and the authorized share capital is comprised of an unlimited number of common shares and an unlimited number of preferred shares issuable in series with rights set by the directors.

	June 30, 2014			December 31, 2013		
	Shares		**Share Capital**	Shares		Share Capital
Common Shares						
Issued, beginning of period	**24,797,163**	**$**	**129,134**	24,493,462	$	126,602
Dividend reinvestment plan	**83,900**		**791**	209,220		1,638
Issued in the period	**40,562**		**486**	94,481		894
Issued, end of period	**24,921,625**	**$**	**130,411**	24,797,163	$	129,134

(b) Common shares and dividends

As at June 30, 2014, trade and other payables includes $2,991 (December 31, 2013 - $2,976) related to the dividend payable on July 15, 2014, of which $277 (December 31, 2013 - $425) is to be reinvested in common shares under the DRIP and the remainder paid in cash.

	June 30, 2014		December 31, 2013	
	Per Share	**Total**	Per Share	Total
Dividend payable, beginning of period	**$ 0.12**	**$ 2,976**	$ 0.12	$ 2,940
Total dividends declared during the period	**0.24**	**5,977**	0.48	11,840
Total dividends paid during the period [1]	**(0.24)**	**(5,962)**	(0.48)	(11,804)
Dividend payable, end of period	**$ 0.12**	**$ 2,991**	$ 0.12	$ 2,976

[1] Includes DRIP non-cash payments totaling $791 (December 31, 2013 - $1,638) which are recorded through share capital.

14. CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATING TO OPERATIONS

	Six months ended June 30	
	2014	2013
Trade and other receivables	**$ (79,044)**	$ 44,654
Inventory	**(826)**	793
Prepaid expenses	**(803)**	945
Costs in excess of billings	**(1,763)**	(3,317)
Trade and other payables	**34,192**	(56,159)
Contract advances and unearned income	**8,852**	(9,601)
	$ (39,392)	$ (22,685)

15. FINANCIAL INSTRUMENTS

(a) Carrying values

	June 30, 2014	December 31, 2013
Financial assets:		
Cash and cash equivalents	**$ 27,111**	$ 36,236
Trade and other receivables	**341,880**	262,836
Service provider deposit	**5,559**	6,157
Long-term receivable, including current portion	**593**	250
Financial liabilities:		
Trade and other payables	**$ 224,930**	$ 190,363
Long-term debt, including current portion	**78,313**	52,894
Convertible debentures - debt component	**83,277**	81,855

(b) Financial risk management

(i) Credit risk

The Corporation invests its cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations. The Corporation invests its cash and cash equivalents with counterparties that it believes are of high credit quality as assessed by reputable rating agencies. Given these high credit ratings, the Corporation does not expect any counterparties holding these cash equivalents to fail to meet their obligations.

The Corporation assesses trade and other receivables for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Corporation takes into consideration the customer's payment history, credit worthiness and the current economic environment in which the customer operates to assess impairment.

Prior to accepting new customers, the Corporation assesses the customer's credit quality and establishes the customer's credit limit. The Corporation accounts for specific bad debt provisions when management considers that the expected recovery is less than the actual amount of the accounts receivable.

The provision for doubtful accounts has been included in administrative costs in the condensed consolidated statement of (loss) earnings and is net of any recoveries that were provided for in a prior period.

The following table represents the movement in the allowance for doubtful accounts:

	June 30, 2014	December 31, 2013
Balance at beginning of the period	**$ 3,224**	$ 1,589
Impairment losses recognized on receivables	**389**	2,869
Amounts written off during the period as uncollectible	**(131)**	(190)
Amounts recovered during the period	**(1,208)**	(993)
Impairment losses reversed	**(325)**	(51)
Balance at the end of the period	**$ 1,949**	$ 3,224

Trade receivables shown on the statement of financial position include the following amounts that are current and past due at the end of the reporting period. The Corporation does not hold any collateral over these balances. The terms and conditions established with individual customers determine whether or not the receivable is past due.

	June 30, 2014	December 31, 2013
Current	**$ 166,804**	$ 101,045
1-60 days past due	**53,251**	73,744
61-90 days past due	**7,389**	6,359
More than 90 days past due	**18,678**	20,594
	$ 246,122	$ 201,742

In determining the quality of trade receivables, the Corporation considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The Corporation had $18,678 of trade receivables (December 31, 2013 – $20,594) which were greater than 90 days past due with $16,729 not provided for as at June 30, 2014 (December 31, 2013 – $17,370). Of the total, $10,765 (58%) was concentrated in four customer accounts and of this amount $8,213 remained outstanding as August 6, 2014. The four customers are considered to be credit-worthy and there are presently no concerns regarding collectability of these accounts. Trade receivables are included in trade and other receivables on the statement of financial position.

(ii) Interest rate risk

Financial risk is the risk to the Corporation's earnings that arises from fluctuations in the interest rates and the degree of volatility of these rates. The Corporation is exposed to variable interest rate risk on its revolving credit facility. The Corporation does not use derivative instruments to reduce its exposure to this risk.

At the reporting date, the interest rate profile of the Corporation's interest-bearing financial instruments was:

	Carrying amount	
	June 30, 2014	December 31, 2013
Fixed rate instruments		
Financial liabilities	**$ 83,277**	$ 81,855
Variable rate instruments		
Financial assets	**$ 27,111**	$ 36,236
Financial liabilities	**78,313**	52,894

Fixed rate sensitivity

The Corporation does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

Variable rate sensitivity

A change of 100 basis points in interest rates at the reporting date would have increased or decreased equity and profit or loss by $203 (December 31, 2013 - $272) related to financial assets and by $587 (December 31, 2013 - $397) related to financial liabilities.

(iii) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages this risk through cash and debt management. In managing liquidity risk, the Corporation has access to committed short and long-term debt facilities as well as equity markets, the availability of which is dependent on market conditions.

The Corporation believes it has sufficient funding through the use of these facilities to meet foreseeable financial liability obligations.

The following are the contractual obligations, including interest payments as at June 30, 2014, in respect of the financial obligations of the Corporation. Interest payments on the revolving credit facility have not been included in the table below since they are subject to variability based upon outstanding balances at various points throughout the period.

	Carrying amount	Contractual cash flows	Not later than 1 year	Later than 1 year and less than 3 years	Later than 3 years and less than 5 years	Later than 5 years
Trade and other payables	**$ 224,930**	$ 224,930	$ 224,930	$ -	$ -	$ -
Provisions including current portion	**9,509**	9,509	3,592	1,522	-	4,395
Convertible debentures (debt portion)	**83,277**	91,425	91,425	-	-	-
Long-term debt including current portion	**78,313**	80,421	963	479	78,979	-
Lease commitments	**56,888**	56,888	7,170	12,018	12,017	25,683
	$ 452,917	$ 463,173	$ 328,080	$ 14,019	$ 90,996	$ 30,078

16. CAPITAL MANAGEMENT

The Corporation's objectives in managing capital are to ensure sufficient liquidity to pursue growth objectives, and maintain the payment of dividends, while maintaining a prudent amount of financial leverage.

The Corporation's capital is composed of equity and long-term indebtedness. The Corporation's primary uses of capital are to finance operations, execute upon its growth strategies and fund capital expenditure programs.

The Corporation intends to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue new shares, raise debt or refinance existing debt with different characteristics.

The primary non-IFRS measures used by the Corporation to monitor its financial leverage are its ratios of long-term indebtedness to capitalization and net long-term indebtedness to EBITDA. The net long-term indebtedness to EBITDA measure was adopted in the period and replaces the previous measure of long-term indebtedness to EBITDA. The new metric nets cash on hand against long-term indebtedness, which more closely reflects how management measures the strength of the balance sheet.

For the purposes of capital management, long-term indebtedness includes the current and non-current portions of long-term debt and the debt component of convertible debentures, both net of deferred financing charges.

Notes to the Condensed Consolidated Financial Statements

For the three and six month periods ended June 30, 2014 and 2013
(in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

Over the long-term, the Corporation strives to maintain a target long-term indebtedness to capitalization percentage in the range of 20 to 40 percent, calculated as follows:

	June 30, 2014	December 31, 2013
Long-term indebtedness:		
Long-term debt, net of deferred financing fees	**$ 78,313**	$ 52,894
Convertible debentures - debt component, net of deferred financing fees	**83,277**	81,855
Total long-term indebtedness	**161,590**	134,749
Total equity	**230,423**	236,958
Total capitalization	**$ 392,013**	$ 371,707
Indebtedness to capitalization percentage	**41%**	36%

The Corporation targets a net long-term indebtedness to EBITDA ratio of 2.0x to 3.0x over a three to five-year planning horizon. At June 30, 2014, the net long-term indebtedness to EBITDA was 3.04x (June 30, 2013 – 3.40x) calculated on a last twelve-month basis as follows:

	June 30, 2014	June 30, 2013
Total long-term indebtedness	**$ 161,590**	$ 152,112
Less: Cash on hand	**(27,111)**	(30,831)
Net long-term indebtedness	**$ 134,479**	$ 121,281
Net earnings (loss)	**$ 5,196**	$ (61,806)
Add:		
Finance costs	**11,586**	11,629
Income tax expense (recovery)	**2,404**	(1,960)
Depreciation and amortization	**23,125**	24,284
Loss (gain) on sale of assets	**1,888**	(1,066)
Impairment loss	**-**	64,600
EBITDA	**$ 44,199**	$ 35,681
Net long-term indebtedness to EBITDA ratio	**3.04x**	3.40x

The Corporation also manages its capital through a rolling forecast of financial position and expected operating results. In addition, the Corporation establishes and reviews operating and capital budgets and cash flow forecasts in order to manage overall capital with respect to financial covenants. The Corporation's revolving credit facility is subject to the amended covenants described in Note 10. The working capital ratio and interest coverage covenants remain as described in Note 32 of the consolidated audited annual financial statements. The covenants are measured each quarter on March 31, June 30, September 30 and December 31. The Corporation was in full compliance with its credit facility covenants at June 30, 2014 and December 31, 2013.

17. RELATED PARTY TRANSACTIONS

Balances and transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

The Corporation incurred facility costs during the three months ended June 30, 2014 of $76 (June 30, 2013 – $110) for the rental of a building that is 50% owned by Schneider Investments Inc., a company owned by George Schneider, a Director of the Corporation. For the six months ended June 30, 2014, these facility costs were $156 (June 30, 2013 – $186). No amounts are included in trade payables as at June 30, 2014 (June 30, 2013 – $39).

The Corporation incurred facility costs during the three months ended June 30, 2014 of $101 (June 30, 2013 – $101) for the rental of a building owned by Broda Holdings (2009) Inc., a company owned by the president of Broda Construction Inc., a wholly owned subsidiary of the Corporation. For the six months ended June 30, 2014, these facility costs were $202 (June 30, 2013 – $202). At June 30, 2014, $29 is included in trade payables (June 30, 2013 - $29).

18. CONTINGENCIES, COMMITMENTS, AND GUARANTEES

The Corporation has made various donations in support of local communities. Over the next three years, the Corporation has committed to pay $813 (June 30, 2013 - $295), of which $710 (June 30, 2013 - $195) is to be paid out in the upcoming 12 month period.

The Corporation has provided several letters of credit in the amount of $3,465 in connection with various projects and joint arrangements (December 31, 2013 - $5,059), of which $nil are financial letters of credit (December 31, 2013 - $nil).

19. EVENTS AFTER THE REPORTING PERIOD

On August 6, 2014, the Corporation’s Board of Directors declared a common share dividend of $0.12 per share. The dividend is designated as an eligible dividend under the *Income Tax Act* (Canada) and is payable October 15, 2014 to shareholders of record on September 30, 2014.

Corporate & Shareholder Information

Officers

David LeMay, MBA
President and Chief Executive Officer

Daryl Sands, B.Comm., CA
Executive Vice President, Finance and Chief Financial Officer

Allan Tarasuk, P.Eng., STS
President and Chief Operating Officer
Stuart Olson Industrial Inc.

Al Miller
President
Canem Systems Ltd.

Gord Broda
President and Chief Operating Officer
Broda Construction Inc.

Joette Decore, BSc., MBA
Vice President, Strategy and Corporate Development

Amy Gaucher, B.Comm., CA
Vice President, Finance

Evan Johnston, L.L.B., CFA
Vice President, General Counsel and Corporate Secretary

Directors

Albrecht W.A. Bellstedt, B.A., J.D., Q.C.
Chair

Richard T. Ballantyne, P. Eng. (1) (4)

Rod Graham, CFA, MBA (1) (4)

Wendy L. Hanrahan, CA (2) (3)

Carmen R. Loberg (1) (3)

Ian M. Reid, B.Comm. (2) (3)

George M. Schneider (2) (4)

Chad Danard (1) (2)

David LeMay, MBA

(1) Member of the Audit Committee

(2) Member of the Human Resources & Compensation Committee

(3) Member of the Corporate Governance & Nominating Committee

(4) Member of the Health, Safety and Environment Committee

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Principal Bank

HSBC Bank Canada

Bonding and Insurance

Aon Reed Stenhouse Inc.
Federal Insurance Company
Liberty Mutual Insurance Company

Registrars and Transfer Agents

Inquiries regarding change of address, registered holdings, transfers, duplicate mailings and lost certificates should be directed to:

Common Shares:

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Fax: 403 776-3916
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Website: www.canstockta.com
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Convertible Debentures:

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