

2014 Annual Report - Management's Discussion & Analysis

March 10, 2015

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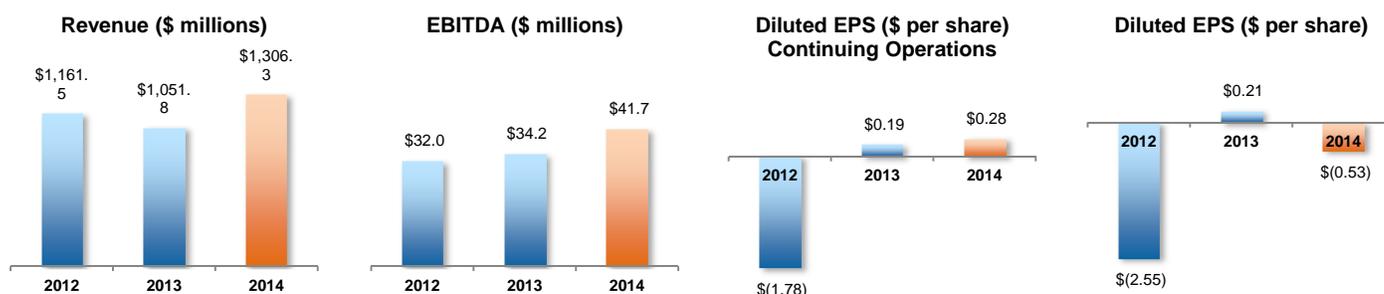
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The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of Stuart Olson Inc. ("Stuart Olson", the "Company", "we", "us", or "our") for the three and twelve months ended December 31, 2014, dated March 10, 2015, should be read in conjunction with the December 31, 2014 Audited Consolidated Annual Financial Statements and related notes thereto. Additional information relating to Stuart Olson, including our quarterly and annual reports and Annual Information Form ("AIF"), is available under the Company's SEDAR profile at www.sedar.com and on our website at www.stuartolson.com. 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 entitled "Forward-Looking Information" at the end of this document.

2014 OVERVIEW



2014 Corporate Highlights

- On May 22, 2014, we changed our name from "The Churchill Corporation" to "Stuart Olson Inc.", and our trading symbol from "CUQ" to "SOX". The name change reflects our strategic shift from a holding company to an integrated construction services company.
- On September 1, 2014, we divested of Broda Construction Inc. ("Broda") for estimated gross proceeds of \$38.7 million, subject to finalization of purchase price adjustments. Broda was formerly included in our Industrial Group results. Current and historical results have been restated to present Broda as a discontinued operation.
- In September, 2014, we raised gross proceeds of \$80.5 million (\$76.6 million net of transaction costs) through the issue of 6% convertible unsecured subordinated debentures due on December 31, 2019.
- On November 26, 2014, we announced an agreement to acquire Studon Electric & Controls Inc. ("Studon"), a non-union industrial electrical and instrumentation contractor headquartered in Red Deer, Alberta. The acquisition closed on January 6, 2015, with an estimated preliminary purchase price on closing of \$77.8 million, including \$59.9 million in cash, \$7.8 million in common shares, the assumption of net debt and an estimated working capital adjustment. The purchase price may be further increased by the fair value of earn-out payments by a maximum of \$24.2 million based on Studon's performance over the next three years.

2014 Financial Highlights

- Revenue increased 24.2% to \$1,306.3 million, from \$1,051.8 million in 2013. Contract income increased 6.3% to \$115.7 million, from \$108.8 million in 2013.
- 2014 contract income margin declined to 8.9% from 10.3%, reflecting a higher contribution of lower margin Buildings Group revenue in 2014, as well as project losses on certain Buildings Group industrial site projects.
- EBITDA increased 21.9% to \$41.7 million, from \$34.2 million in 2013. EBITDA results reflect increased revenue from all business groups and a consistent year-over-year consolidated EBITDA margin.
- 2014 net earnings from continuing operations increased to \$7.1 million (diluted earnings per share of \$0.28), from \$4.6 million in 2013 (diluted earnings per share of \$0.19), driven by higher contract revenue.

- We recorded a 2014 net loss of \$13.1 million (diluted loss per share of \$0.53), compared to net income of \$5.1 million (diluted earnings per share of \$0.21) in 2013, reflecting the non-cash loss of \$16.8 million incurred on the sale of Broda.
- Backlog of \$2.0 billion reflects \$1.2 billion in new contract awards and net increases in project scope awarded during the year (book-to-bill ratio of 0.94 to 1.0).
- As at December 31, 2014, we were in full compliance with our long-term debt covenants, had available cash of \$104.1 million and additional borrowing capacity of approximately \$118.6 million.
- On March 10, 2015, 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 April 15, 2015 to shareholders of record on March 31, 2015.

ECONOMIC DEVELOPMENTS

The rate of economic growth improved in Western Canada through most of 2014. Rising energy output continued to drive rapid growth in Alberta’s economy and provided support for construction activity in the province. British Columbia, Saskatchewan and Manitoba enjoyed solid economic growth, with healthy levels of commercial, industrial and infrastructure investment.

In the fourth quarter, oil prices for West Texas Intermediate (WTI), the U.S. benchmark crude, experienced an unexpected and dramatic decline following OPEC’s decision to maintain existing levels of production despite excess supply in the market. A number of major Alberta oil sands producers have since reduced capital spending and announced slowdowns in the construction of new projects. While forecasters predict the Alberta economy will experience significant negative impacts if oil prices remain low for a sustained period of time, none of the major oil sands producers have reined in production from existing or soon-to-be completed projects¹. The Canadian Association of Petroleum Producers predicts oil sands producers will spend \$25 billion of capital in 2015 despite lower oil prices. In addition, oil sands production remains on track to grow by 0.2 to 0.3 million bpd to an average of 2.3 million bpd in 2015, providing a continuing strong base for maintenance, repair and operation (“MRO”) services².

Outside of Alberta, the economic growth profile for provinces we operate in continues to improve. Ontario, BC and Manitoba are forecasting continued economic growth in 2015, with a number of sectors expected to benefit from lower energy costs and a weaker Canadian dollar.

OUTLOOK

We expect consolidated revenue for 2015 to be generally in line with overall revenue in 2014, while EBITDA margin as a percentage of revenue is expected to increase. Our outlook reflects our \$2.0 billion backlog, which provides line of sight to revenues for 2015 and 2016. Both the Buildings Group and Commercial Systems Group will be executing large backlogs dominated by public infrastructure projects distributed across multiple provinces. The majority of these projects are underway and are expected to be completed.

The Industrial Group will benefit from the addition of Studon, which was acquired on January 6, 2015 and will add approximately \$157 million of backlog to the group’s existing December 31, 2014 backlog of \$340.6 million. Current oil prices are expected to have a negative impact on new industrial construction opportunities in 2015. However, we anticipate continued strong demand for MRO services, and estimate that approximately 50% of the Industrial Group’s backlog is comprised of these stable and recurring services.

¹ Healing D. Oil prices expected to take \$23B from oilsands cash flows. Calgary Herald. 2015. Available at: <http://calgaryherald.com/business/energy/oil-prices-expected-to-take-23b-from-oilsands-cash-flows>. Accessed March 4, 2015.

² CAPP.ca. Increased access to markets remains critical despite recent oil price decline - Canadian Association of Petroleum Producers. 2015. Available at: <http://www.capp.ca/aboutUs/mediaCentre/NewsReleases/Pages/access-to-markets-remains-critical.aspx>. Accessed March 4, 2015.

Overall we expect market conditions will be challenging in 2015, particularly in terms of increased competition for fewer industrial and commercial construction project opportunities in Alberta. We continue to see good opportunities for infrastructure projects with Western Canadian provincial governments expected to maintain infrastructure spending at stable levels. As noted above, economic conditions are also expected to remain healthy in British Columbia, Manitoba and Ontario, providing opportunities for our operations in these provinces. Supported by our large backlog, we will manage our business tightly, focusing on cost control and strong project execution to ensure we achieve our financial objectives in 2015.

Buildings Group Outlook

We expect Buildings Group revenue to be lower in 2015 than in 2014 as we have significantly reduced our exposure to higher-risk industrial site projects. In 2014, industrial site projects accounted for greater than \$100 million of Buildings Group revenue. In addition, we expect to achieve higher EBITDA margins in 2015, as we tighten our focus on areas of core strength in the infrastructure and commercial markets.

We expect to execute approximately \$511.2 million of the Buildings Group's December 31, 2014 backlog during 2015.

Industrial Group Outlook

In 2014, the Industrial Group benefited significantly from a one-time large construction project that is now in its final stages. This factor, combined with the expected decline in new industrial construction opportunities in Alberta, will likely result in 2015 revenue from our legacy Industrial Group businesses being lower than the levels achieved in 2014. The Studon business also anticipates a year-over-year reduction in revenue as a result of the decline in industrial construction opportunities. We expect to offset some of this impact with our large base of continuing industrial MRO work and the addition of a significant Northwest Territories mining project, which was added to backlog in late 2014. The newly acquired Studon business is also providing opportunities to bundle and cross-sell construction and maintenance services to our respective customer groups.

While total 2015 Industrial Group revenue is targeted to be higher as a result of the Studon acquisition, consolidated Industrial Group EBITDA margins are expected to be weaker year-over-year as a result of increased competition, oil sands operators seeking supplier cost reductions in response to lower oil prices, and an increased proportion of lower risk cost reimbursable MRO work in the revenue mix. We expect the negative impact of low oil prices to be especially prevalent in the first quarter of 2015, given owner delays in moving forward with committed projects as they assess their own capital budgets.

We expect to execute approximately \$330.6 million of Industrial Group backlog in 2015, including \$257.6 million of the December 31, 2014 backlog from our legacy Industrial Group businesses and approximately \$73.0 million of backlog from the Studon business. New contract awards, additional short-duration projects, scope changes and industrial maintenance work are expected to supplement the Industrial Group's combined annual revenue.

Commercial Systems Group Outlook

The Commercial Systems Group's 2015 revenue is expected to be similar to 2014, reflecting strong demand and the sizeable \$212.6 million backlog at December 31, 2014. EBITDA margins for 2015 are forecast to be consistent with 2014 levels.

During 2015, the Commercial Systems Group expects to execute approximately \$162.7 million of its backlog. New awards, short-duration projects, building maintenance and tenant improvement work on existing projects are expected to supplement the backlog revenue executed during the remainder of 2015.

RISKS

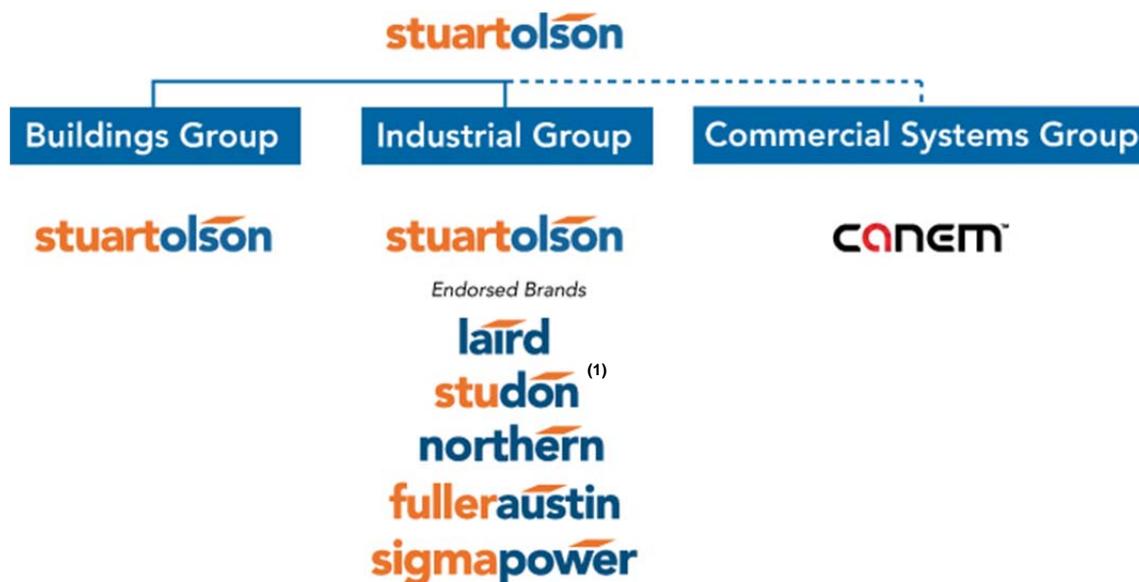
Various factors could cause our actual results to differ materially from the results anticipated by management. The factors are described in more detail in this document and the section of Stuart Olson’s Annual Information Form entitled “Risk Factors”. Readers are also encouraged to review the section of this MD&A entitled “Forward-Looking Information”.

ABOUT STUART OLSON INC.

On May 22, 2014, we changed our name from “The Churchill Corporation” to “Stuart Olson Inc.” The 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:



(1) Studon became part of the Industrial Group on January 6, 2015.

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; Winnipeg, Manitoba; and Mississauga, Ontario.

Projects undertaken by the Buildings Group include the construction, expansion and renovation of buildings ranging from schools, hospitals and sports arenas, to high-rise office towers, retail, high technology facilities and commercial buildings on industrial sites. The Buildings Group 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.

The majority 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 approximately 85% 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 and, as of January 6, 2015, Studon. The Industrial Group serves clients in a wide range of industrial sectors including oil and gas, petrochemical, refinery, mining, pulp and paper, and power generation.

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 MRO space. Services provided by the Industrial Group include mechanical, insulation installation, metal siding and cladding, heating, ventilating and air conditioning (HVAC), asbestos abatement, electrical instrumentation and power line construction and maintenance 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. Canem delivers these services on a tendered (hard bid) basis and as part of an integrated project delivery process that includes 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 (pre-fabrication), which significantly improves worksite productivity.

BUSINESS STRATEGY

Our Vision

Every day Stuart Olson positively impacts the businesses we serve, the communities in which we operate and the lives we touch. Stuart Olson is the trusted partner to the public, private and industrial construction industries.

Our 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 contractors is emerging, and these contractors are increasingly able to provide a one-stop service to their customers. During 2014, we introduced a new business strategy that better aligns our company with the changes reshaping our market.

Our strategy recognizes that 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 team and one vision, and to successfully communicate, market and deliver this single brand promise to our customers and stakeholders. We made significant progress implementing this strategy in 2014. Our strategic priorities, together with a selection of our key accomplishments, are as follows:

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, One Vision and One Brand, not just internally, but outwardly to the marketplace.

Attract and Retain 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. During 2014, we centralized our human resource functions, reinforced our leadership development program and implemented a comprehensive succession plan in support of this priority. 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.

Achieve 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 Recordable Injury Frequency target rate of zero for all of 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.

Delivering Tailored Solutions Through a Uniquely Positive Process: As a service provider, our most important job is to understand our clients and their vision of success. By doing this, we put ourselves in a position to do what we do best; create tailored, results-based solutions within a collaborative and seamless process. Our model for success is simple, yet powerful in its application. An approach to doing business grounded in respect, transparency and collaboration. A commitment to all stakeholders – clients, consultants, trades and community – to engage in a team approach that values people and thrives on fresh ideas and intelligent solutions. A dynamic process that allows for flexibility and adaptability, with a focus on achieving results and nurturing lasting relationships.

Enhance Execution Excellence: Execution excellence and predictable and consistent project results build customer trust and underpin strong and stable financial results. Across all of our operations, we remain 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: During 2014, we divested of Broda, a capital intensive and non-core earth moving business. We subsequently acquired Studon, a leading Western Canadian provider of non-union electrical and instrumentation services. The Studon acquisition aligns closely with our objective of transforming our Industrial Group into a fully self-performing general contractor and immediately provides cross-selling opportunities within our Industrial Group. As market timing and balance sheet permit, we will assess the potential for acquiring other industrial companies that provide complementary services or alternative labour strategies. We believe these additions align with our customers' strategies and values, while also supporting our overall growth strategy.

Achieve Growth: During 2014, we achieved consolidated organic revenue growth of 24.2%. Beginning in 2015, the newly acquired Studon business will provide us with additional sources of revenue, while also enhancing our customer diversification and enabling us to supply MRO services to in-situ oil sands operators in an impactful way. Our geographic diversification is also set to expand in 2015 as we begin work on significant new projects in Ontario and the Northwest Territories. Going forward, we will continue to identify other organic and acquisition-based growth opportunities that support our strategic objectives.

Strengthen Balance Sheet and Capital Structure: We recognize that a strong, flexible financial foundation is essential to realizing our goals. During 2014, we sold Broda for gross proceeds of \$38.7 million, subject to the finalization of purchase price adjustments. The sale strengthened our financial position by reducing indebtedness under our revolving credit facility. We also completed an \$80.5 million offering of convertible debentures, providing the balance of capital needed to repay our \$86.3 million convertible debentures when they become due in June 2015. In the interim, a portion of the funds have been used to repay outstanding indebtedness under our revolving credit facility. In early 2015 we used a portion of our year-end 2014 liquidity to fund the acquisition of Studon. Notwithstanding this reduction in liquidity and increased leverage, the Studon acquisition complements our longer term strategy to increase liquidity and reduce leverage through improved financial performance and reduced capital spending.

RESULTS OF OPERATIONS

Consolidated Annual Results

Year ended December 31

<i>\$millions, except percentages and per share amounts</i>	2014	2013 ⁽⁴⁾	2012 ⁽⁴⁾
Contract revenue	1,306.3	1,051.8	1,161.5
Contract income	115.7	108.8	110.8
Contract income margin ⁽¹⁾	8.9%	10.3%	9.5%
EBITDA ⁽¹⁾	41.7	34.2	32.0
EBITDA margin ⁽¹⁾	3.2%	3.3%	2.8%
Net earnings (loss) from continuing operations	7.1	4.6	(43.3)
Net (loss) earnings from discontinued operations	(20.2)	0.5	(19.0)
Net (loss) earnings	(13.1)	5.1	(62.3)
Earnings (loss) per share			
Basic from continuing operations	0.29	0.19	(1.78)
Basic (loss) earnings per share	(0.52)	0.21	(2.55)
Diluted from continuing operations	0.28	0.19	(1.78)
Diluted (loss) earnings per share	(0.53)	0.21	(2.55)
Dividends declared per share	0.48	0.48	0.48

<i>\$millions</i>	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Backlog ⁽¹⁾	1,986.8	2,116.2	1,690.5
Working capital ⁽¹⁾⁽³⁾	54.4	84.9	79.2
Long-term debt (excluding current portion)	0.8	50.3	51.9
Convertible debentures (excluding equity portion) ⁽²⁾	155.8	81.9	79.2
Total assets	783.6	694.7	742.4

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 issued in 2010, and due in 2015, are presented as a current liability of \$84.8 million as at December 31, 2014; whereas, they were presented as a non-current liability of \$81.9 million as at December 31, 2013.

(3) If the convertible debentures issued in 2010 were excluded from working capital, adjusted December 31, 2014 working capital would have been \$139.2 million (December 31, 2013 - \$84.9 million).

(4) Amounts have been restated as a result of the reclassification of Broda to discontinued operations. See the "Discontinued Operations" subsection of "Results of Operations by Business Group" of this MD&A and Note 13 of our December 31, 2014 Audited Consolidated Annual Financial Statements.

For the year ended December 31, 2014, consolidated contract revenue increased by 24.2% to \$1,306.3 million, from \$1,051.8 million in 2013. Revenue from the Buildings Group increased by \$185.7 million or 36.6%, Industrial Group revenue increased by \$48.9 million or 13.6%, and Commercial Systems Group revenue increased by \$28.6 million or 13.4%. Intersegment revenue for the period was \$37.5 million, an increase of \$8.7 million or 30.2% from 2013. This increase reflects increased intercompany activity among our business groups.

Contract income increased 6.3% to \$115.7 million (8.9% of revenue) in 2014, from \$108.8 million (10.3% of revenue) in 2013. This \$6.9 million increase includes an \$11.7 million or 29.5% increase in contract income from the Industrial Group reflecting the one-time impact of revenue associated with a large oil sands related construction project that is now in its final stages, partially offset by a \$2.7 million or 7.5% decrease in contract income from the Buildings Group, a \$0.2 million or 0.6% decrease from the Commercial Systems Group, and a \$1.9 million reduction from intersegment eliminations. The contract income margin percentage declined from 10.3% in fiscal 2013 to 8.9% in 2014. This decline reflects a higher contribution of lower margin Buildings Group revenue in 2014, as well as project losses on certain Buildings Group industrial site projects.

2014 administrative costs amounted to \$92.5 million (7.1% of revenue), compared to \$91.6 million (8.7% of revenue) in 2013. Administrative costs increased by \$5.9 million or 22.6% in the Corporate Group, \$0.9 million or 5.3% in the Industrial Group, and \$0.1 or 50.0% for intersegment eliminations. These increases were partially offset by administrative cost decreases of \$5.5 million or 16.5% in the Buildings Group and \$0.5 million or 3.4% in the Commercial Systems Group. The year-over-year variance within the various groups is due, in part, to the centralization of a number of support services to the Corporate Group in 2014. The balance of the variances relates primarily to higher activity levels.

EBITDA for the year ended December 31, 2014 increased 21.9% to \$41.7 million, from \$34.2 million in 2013. This \$7.5 million increase reflects higher revenue and contract income, combined with reduced administrative costs (excluding administrative depreciation which is excluded from EBITDA).

Consolidated net earnings from continuing operations increased 54.3% to \$7.1 million in 2014, from \$4.6 million in 2013. This \$2.5 million year-over-year improvement reflects the \$7.5 million increase in EBITDA, partially offset by higher interest costs associated with carrying two convertible debentures for a portion of 2014, increased depreciation associated with the write-down of tenant improvements as part of a reduction in leased Buildings Group office space, and a \$2.1 million increase in income tax expense.

We reported a 2014 net loss from discontinued operations of \$20.2 million, reflecting the \$16.8 million loss on the sale of Broda and \$3.4 million loss from Broda's operations. This compares to 2013 net earnings from discontinued operations of \$0.5 million. Net loss for 2014, which includes the results of discontinued operations, was \$13.1 million, compared to net earnings of \$5.1 million in 2013. The year-over-year change reflects the one-time loss on discontinued operations from the sale of Broda, partially offset by an increase in earnings from continuing operations.

Consolidated Q4 Results

<i>\$millions, except percentages and per share amounts</i>	Three months ended December 31	
	2014	2013 ⁽²⁾
Contract revenue	364.5	283.6
Contract income	32.3	34.4
Contract income margin ⁽¹⁾	8.9%	12.1%
EBITDA ⁽¹⁾	12.0	11.2
EBITDA margin ⁽¹⁾	3.3%	3.9%
Net earnings from continuing operations	1.2	3.4
Net (loss) earnings from discontinued operations	(0.7)	(0.1)
Net earnings	0.5	3.3
Earnings (loss) per share		
Basic from continuing operations	0.05	0.14
Basic earnings per share	0.02	0.13
Diluted from continuing operations	0.05	0.14
Diluted earnings per share	0.02	0.13
Dividends declared per share	0.12	0.12

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

(2) Amounts have been restated as a result of the reclassification of Broda to discontinued operations. See the "Discontinued Operations" subsection of "Results of Operations by Business Group" of this MD&A and Note 13 of our December 31, 2014 Audited Consolidated Annual Financial Statements.

For the three months ended December 31, 2014, consolidated contract revenue increased by 28.5% to \$364.5 million, from \$283.6 million in Q4 2013. Fourth quarter revenue from the Buildings Group increased by \$79.4 million or 58.1%, Industrial Group revenue increased by \$3.5 million or 3.6%, and Commercial Systems Group revenue increased by \$0.2 million or 0.3%. Intersegment revenue for the quarter increased to \$11.5 million, from \$9.3 million during the same period last year, reflecting increased intercompany activity among our business groups.

Contract income decreased 6.1% to \$32.3 million in Q4 2014, from \$34.4 million in the fourth quarter of 2013. This \$2.1 million decrease reflects a \$3.4 million or 24.8% decrease in contract income from the Buildings Group and a \$1.4 million or 14.1% decrease from the Commercial Systems Group, partially offset by a \$2.7 million or 26.0% increase from the Industrial Group. Contract income as a percentage of revenue was 8.9% in Q4 2014, compared to 12.1% during the same period last year. The year-over-year contract income decline reflects the higher proportion of lower margin Buildings Group revenue, as well as breakeven margins on a number of industrial site projects currently being completed by the Buildings Group (losses fully recognized in previous quarters) and the booking of additional provisions on one of these projects in the quarter. The decline in the Commercial Systems Group contract income reflects the Q4 2013 completion of a number of high margin projects which did not repeat in Q4 2014 due to project timelines.

Fourth quarter 2014 administrative costs decreased to \$26.4 million (7.2% of revenue) from \$27.6 million (9.7% of revenue) in the fourth quarter of 2013. In the Buildings Group, quarterly administrative costs decreased by \$2.2 million or 23.2% and in the Commercial Systems Group by \$0.7 or 15.6%, while the Industrial Group was consistent year-

over-year. These reductions were partially offset by a \$1.8 million or 20.2% increase in administrative costs in the Corporate Group. Group administrative cost variances are, in part, the result of the centralization of a number of support services to the Corporate Group in 2014.

Fourth quarter EBITDA increased 7.1% to \$12.0 million, from \$11.2 million in Q4 2013. This \$0.8 million improvement reflects higher revenue, partially offset by lower contract income margin.

Consolidated net earnings from continuing operations decreased to \$1.2 million in the fourth quarter of 2014 from \$3.4 million during the same period of 2013. This decline reflects a \$1.7 million decrease in earnings before tax (“EBT”) due to higher interest costs associated with carrying two convertible debentures in Q4 2014. It also reflects increased expense associated with the write-down of tenant improvements as part of a reduction in leased Buildings Group office space and a \$0.5 million increase in income tax expense.

Backlog

<i>\$millions, except percentages</i>	Dec. 31, 2014	Dec. 31, 2013
Buildings Group	1,433.6	1,615.1
Industrial Group	340.6	280.7
Commercial Systems Group	212.6	164.7
Backlog relating to continuing operations	1,986.8	2,060.5
Broda	nil	55.7
Consolidated backlog	1,986.8	2,116.2
Construction management	60.5%	58.6%
Cost-plus	23.7%	24.8%
Tendered (hard bid)	15.8%	16.6%

Consolidated backlog as at December 31, 2014 was \$1,986.8 million, down \$129.4 million or 6.1% from backlog of \$2,116.2 at December 31, 2013, but up \$99.8 million or 5.3% from backlog of \$1,887.0 million as at September 30, 2014. The year-over-year decline in backlog includes \$55.7 million related to the disposal of Broda on September 1, 2014 and lower backlog in the Buildings Group due to our strategic decision to reduce exposure to higher-risk industrial site projects. As at December 31, 2014, backlog consisted of work-in-hand of \$1,080.3 million (December 31, 2013 - \$1,159.8 million) and active backlog of \$906.5 million (December 31, 2013 - \$956.4 million). Approximately 60.5% of the backlog consists of construction management (CM) contracts, 23.7% cost-plus arrangements (combined total of 84.2% CM and cost-plus) and 15.8% tendered (hard-bid) work. New contract awards and net increases in contract value of \$1,318.3 million were added to work-in-hand in 2014 (2013 - \$1,330.5 million).

Our book-to-bill ratio for 2014 was 0.94 to 1.0, and 1.27 to 1.0 for the fourth quarter of 2014. Backlog additions exceeded revenue during the fourth quarter primarily due to Industrial Group additions in the period, including a one-year renewal of a key master services agreement, scope increases on existing projects and other major new project awards in Alberta and the Northwest Territories.

RESULTS OF OPERATIONS BY BUSINESS GROUP

Buildings Group Results

<i>\$millions, except percentages</i>	Three months ended		Year ended	
	December 31		December 31	
	2014	2013	2014	2013
Contract revenue	216.1	136.7	693.7	508.0
Contract income	10.3	13.7	33.5	36.2
Contract income margin ⁽¹⁾	4.8%	10.0%	4.8%	7.1%
Administrative costs	7.3	9.5	27.9	33.4
EBITDA ⁽¹⁾	6.0	5.2	12.0	7.3
EBITDA margin ⁽¹⁾	2.8%	3.8%	1.7%	1.4%
EBT ⁽¹⁾	3.1	4.3	5.9	3.2
Backlog ⁽¹⁾			1,433.6	1,615.1

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

For the three months ended December 31, 2014, revenue from the Buildings Group increased 58.1% to \$216.1 million, from \$136.7 million in Q4 2013. The \$79.4 million increase was primarily attributable to increased commercial and institutional activity in British Columbia, Alberta and Manitoba, and several large industrial site projects.

Contract income decreased to \$10.3 million in the fourth quarter of 2014, from \$13.7 million during the same period in 2013. The \$3.4 million or 24.8% decrease reflects lower 2014 contract income margins, which declined to 4.8% from 10.0% in Q4 2013. The lower contract income margin reflects lower margins on certain industrial site projects.

Fourth quarter EBITDA from the Buildings Group increased to \$6.0 million (2.8% EBITDA margin), compared to EBITDA of \$5.2 million (3.8% EBITDA margin) in the same period in 2013. The \$0.8 million increase reflects 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, partially offset by lower contract income.

EBT declined \$1.2 million or 27.9% to \$3.1 million in the fourth quarter of 2014, from \$4.3 million in Q4 2013. The year-over-year reduction reflects Q4 2014 impairment associated with tenant improvement write-downs as the Buildings Group reduced leased office space.

For the year ended December 31, 2014, Buildings Group revenue increased 36.6% to \$693.7 million, from \$508.0 million in 2013. The \$185.7 million increase was primarily attributable to a significant increase in commercial and institutional activity in British Columbia, Alberta and Manitoba, and increased activity in the group's industrial site buildings branch.

Contract income for the 2014 year was \$33.5 million, compared to \$36.2 million in 2013. The \$2.7 million or 7.5% decrease reflects 2014 project losses on certain industrial site projects. Margin on the Building Group's 2014 contract income was 4.8%, compared to 7.1% last year.

Full year 2014 EBITDA from the Buildings Group increased 64.4% to \$12.0 million (1.7% EBITDA margin), from \$7.3 million (1.4% EBITDA margin) in 2013. This \$4.7 million improvement reflects 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, partially offset by lower contract income. Buildings Group EBT for 2014 improved to \$5.9 million, from \$3.2 million in 2013. The \$2.7 million or 84.4% EBT improvement reflects the higher EBITDA,

partially offset by 2014 impairment associated with the write-down of tenant improvements as part of a reduction in leased Buildings Group office space.

As at December 31, 2014, the Buildings Group's backlog was \$1,433.6 million, compared to \$1,615.1 million at December 31, 2013. The year-over-year decrease of \$181.5 million or 11.2% primarily reflects the decision to reduce exposure to higher-risk industrial site projects going forward. As at December 31, 2014, approximately 79.5% of the Buildings Group's backlog was composed of CM assignments, 17.0% was cost-plus projects (combined total of 96.5% CM and cost-plus) and 3.5% was tendered (hard-bid) projects. The tendered projects reflect the work left to be completed on the remaining industrial site projects. The December 31, 2014 backlog consisted of \$576.7 million of work-in-hand and \$856.9 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 \$531.9 million of new awards and project scope increases during the year, and executed \$693.7 million of contract revenue.

Industrial Group Results

<i>\$millions, except percentages</i>	Three months ended		Year ended	
	December 31		December 31	
	2014	2013 ⁽²⁾	2014	2013 ⁽²⁾
Contract revenue	99.4	95.9	407.8	358.9
Contract income	13.1	10.4	51.3	39.6
Contract income margin ⁽¹⁾	13.2%	10.8%	12.6%	11.0%
Administrative costs	4.6	4.6	18.0	17.1
EBITDA ⁽¹⁾	9.2	6.4	36.1	25.0
EBITDA margin ⁽¹⁾	9.3%	6.7%	8.9%	7.0%
EBT ⁽¹⁾	8.5	5.7	33.4	22.6
Backlog ⁽¹⁾			340.6	280.7

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) Amounts have been restated as a result of the reclassification of Broda to discontinued operations. See the "Discontinued Operations" subsection of "Results of Operations by Business Group" of this MD&A and Note 13 of our December 31, 2014 Audited Consolidated Annual Financial Statements.

For the three months ended December 31, 2014, the Industrial Group increased revenue by 3.6% to \$99.4 million, from \$95.9 million during the same period in 2013. The \$3.5 million improvement reflects a higher volume of construction work on oil sands projects compared to the fourth quarter of 2013.

The Industrial Group increased fourth quarter 2014 contract income to \$13.1 million, an improvement of \$2.7 million or 26.0% over the \$10.4 million achieved during the same period in 2013. Fourth quarter contract income margins increased to 13.2% from 10.8% in Q4 2013, reflecting a one-time large construction project in the oil sands, project mix, stage of completion, and improved project execution.

EBITDA from the Industrial Group increased by 43.8% to \$9.2 million (9.3% EBITDA margin) in the fourth quarter of 2014, from \$6.4 million (6.7% EBITDA margin) in the fourth quarter of 2013. The \$2.8 million year-over-year improvement reflects increased contract income.

For the full year ended December 31, 2014, the Industrial Group revenue increased by 13.6% to \$407.8 million, from \$358.9 million in 2013. The \$48.9 million revenue growth reflects higher volumes of work in Alberta's oil sands and Northern Ontario's mining industry.

Contract income increased 29.5% to \$51.3 million in 2014, up \$11.7 million from the \$39.6 million generated by the Industrial Group in 2013. Full year contract income margins increased to 12.6%, from 11.0% year over year, reflecting the one-time large construction project, project mix, stage of completion, strong project execution and write-downs taken on challenging projects in 2013 not repeating in 2014.

Full year EBITDA from the Industrial Group increased 44.4% to \$36.1 million (8.9% EBITDA margin) in 2014, from \$25.0 million (7.0% EBITDA margin) in 2013. The \$11.1 million improvement reflects increased contract income, partially offset by higher administrative costs to support increased activity levels.

The Industrial Group's backlog was \$340.6 million as at December 31, 2014, compared to backlog of \$280.7 million at December 31, 2013. The \$59.9 million or 21.3% increase is primarily due to new project awards and extensions of existing large maintenance contracts during 2014. As at December 31, 2014, approximately 66.3% of the Industrial Group's backlog was composed of cost-plus projects and 33.7% was tendered (hard-bid) projects. The December 31, 2014 backlog consisted of \$325.1 million of work-in-hand and \$15.5 million of active backlog, compared to \$225.9 million of work-in-hand and \$54.8 million of active backlog at December 31, 2013. With respect to work-in-hand, the Industrial Group contracted \$505.9 million of new awards and scope increases during the year and executed \$406.8 million of construction activity.

Commercial Systems Group Results

<i>\$millions, except percentages</i>	Three months ended		Year ended	
	December 31		December 31	
	2014	2013	2014	2013
Contract revenue	60.5	60.3	242.3	213.7
Contract income	8.5	9.9	32.0	32.2
Contract income margin ⁽¹⁾	14.0%	16.4%	13.2%	15.1%
Administrative costs	3.8	4.5	14.3	14.8
EBITDA ⁽¹⁾	5.1	5.8	19.4	19.3
EBITDA margin ⁽¹⁾	8.4%	9.6%	8.0%	9.0%
EBT ⁽¹⁾	4.7	5.4	17.8	17.7
Backlog ⁽¹⁾			212.6	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.

For the three months ended December 31, 2014, the Commercial Systems Group generated revenue of \$60.5 million, in line with the \$60.3 million generated in Q4 2013. The stable revenue result reflects similar activity levels in both periods.

Fourth quarter 2014 contract income from the Commercial Systems Group was \$8.5 million, a reduction of \$1.4 million or 14.1% from the \$9.9 million achieved during the same period in 2013. Fourth quarter contract income margins decreased to 14.0% from 16.4% in the prior year, reflecting project mix and project stage of completion.

EBITDA from the Commercial Systems Group was \$5.1 million (8.4% EBITDA margin) in the fourth quarter of 2014, compared to \$5.8 million (9.6% EBITDA margin) in the fourth quarter of 2013. The reduction in EBITDA margin primarily reflects lower contract income margin.

For the year ended December 31, 2014, revenue from the Commercial Systems Group increased 13.4% to \$242.3 million, from \$213.7 million in 2013. This \$28.6 million improvement reflects the start-up of a number of significant projects in Alberta during 2014.

Contract income for the 2014 year decreased by \$0.2 million, or 0.6%, to \$32.0 million, from \$32.2 million in 2013. Contract income margin was 13.2% in 2014, compared to 15.1% in 2013. The decrease in contract income margin reflects changes in project mix and project stage of completion, as well as increased costs on certain projects as a result of labour productivity issues.

Full year EBITDA from the Commercial Systems Group increased 0.5% to \$19.4 million, from \$19.3 million in 2013. The \$0.1 million increase reflects higher 2014 revenue partially offset by the lower contract income margin. The group's EBITDA margin was 8.0% in 2014, compared to 9.0% in 2013.

Commercial Systems Group backlog increased to \$212.6 million as at December 31, 2014, from \$164.7 million at December 31, 2013, a \$47.9 million or 29.1% increase. As at December 31, 2014, the group's backlog was composed of approximately 30.0% CM and cost-plus projects, and 70.0% tendered projects. The December 31, 2014 backlog consisted of \$178.4 million of work-in-hand and \$34.2 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 \$280.5 million of new awards and increases in contract value during the year and executed \$242.3 million of construction activity.

Corporate Group Results

\$millions	Three months ended		Year ended	
	December 31		December 31	
	2014	2013	2014	2013
Administrative costs	10.7	8.9	32.0	26.1
Finance costs	3.8	2.9	12.8	11.4
EBT ⁽¹⁾	(14.3)	(11.8)	(44.6)	(37.5)

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

For the three months ended December 31, 2014, the Corporate Group's administrative costs increased to \$10.7 million, from \$8.9 million in the fourth quarter of 2013. The \$1.8 million or 20.2% increase is primarily related to the inclusion of costs associated with the Studon acquisition and the centralization under the Corporate Group of human resources, marketing, accounting and information technology activities previously managed and accounted for by the individual business groups. The increase was partially offset by a decrease in stock-based compensation expense related to the decrease in our share price in the fourth quarter of 2014, compared to share price appreciation in Q4 2013, and the corresponding impact of mark-to-market pricing.

The Corporate Group's finance costs were \$3.8 million in the fourth quarter of 2014, compared to \$2.9 million during the same period last year. The \$0.9 million or 31.0% increase primarily reflects the carrying of interest costs on two sets of convertible debentures in Q4 2014, partially offset by the interim use of proceeds from the issuance of the September, 2014 \$80.5 million convertible debentures to reduce the balance under our revolving credit facility.

The Corporate Group incurred a fourth quarter 2014 loss before tax of \$14.3 million, compared to a loss before tax of \$11.8 million in the comparable period in 2013. This increase was due primarily to the higher administrative and finance costs.

For the year ended December 31, 2014, Corporate Group administrative costs were \$32.0 million, compared to \$26.1 million in 2013. The administrative cost increase is primarily related to 2014 onerous lease costs associated with moving to smaller facilities, rebranding costs and the centralization under the Corporate Group of human resources, marketing, accounting and information technology activities previously managed and accounted for by the individual business groups. The increase was partially offset by a decrease in stock-based compensation expense related to the

decrease in our share price in 2014, compared to share price appreciation in 2013, and the corresponding impact of mark-to-market pricing.

The Corporate Group's finance costs were \$12.8 million in 2014, compared to \$11.4 million in 2013, an increase of \$1.4 million or 12.3%. Finance costs were higher in 2014 primarily due to carrying interest costs on two sets of convertible debentures in the last half of 2014, partially offset by the interim use of proceeds from the issuance of the September 2014 \$80.5 million convertible debentures to reduce the balance under our revolving credit facility.

For the year ended December 31, 2014, the Corporate Group incurred a loss before tax of \$44.6 million, compared to a loss before tax of \$37.5 million in 2013. The year-over-year change primarily reflects increased administrative and finance costs.

Discontinued Operations

On September 1, 2014, we completed the sale of Broda for estimated gross cash proceeds of \$38.7 million (\$38.3 million received to date, with the balance recorded as accounts receivable), subject to the finalization of purchase price adjustments. The divestiture of Broda was the result of a strategic review undertaken to assess our assets and their utilization in the context of our broader business strategy going forward. Net proceeds of the sale have been used to repay outstanding indebtedness under our revolving credit facility.

In the December 31, 2014 Audited Consolidated Annual Financial Statements and this MD&A, Broda results for current and historical periods have been presented as discontinued operations. Discontinued operations are shown, net of tax, below the calculation of Stuart Olson's net earnings from continuing operations.

Broda's operating results for the previous eight quarters and three calendar years (including the calculation of EBT and EBITDA as though Broda was continuing operations, but excluding the loss incurred on disposal) were as follows:

\$millions	2014 Quarter Ended:				2013 Quarter Ended:			
	Dec. 31	Sep. 30 ⁽²⁾	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Contract revenue	nil	12.9	11.1	6.1	13.4	20.0	11.8	9.4
Contract income	nil	2.3	0.7	(1.7)	1.1	3.5	nil	0.6
EBITDA ⁽¹⁾	nil	2.2	1.2	(0.9)	1.8	3.8	0.4	1.1
EBT ⁽¹⁾	nil	1.1	(2.5)	(2.8)	0.1	2.2	(1.1)	(0.4)
Net (loss) earnings	(0.1)	0.7	(1.9)	(1.9)	0.2	1.6	(0.7)	(0.3)
Backlog ⁽¹⁾	n/a	n/a	45.4	57.3	55.7	41.3	55.4	43.8
Capital and intangible expenditures	nil	0.9	2.0	0.3	2.4	1.0	2.9	0.5

\$millions	2014 Year Ended:	2013 Year Ended:	2012 Year Ended:
	Dec. 31 ⁽²⁾	Dec. 31	Dec. 31
Contract revenue	30.1	54.6	60.6
Contract income	1.3	5.1	3.4
EBITDA ⁽¹⁾	2.4	7.1	4.7
EBT ⁽¹⁾	(4.3)	0.7	(22.0)
Net (loss) earnings	(3.4)	0.8	(19.0)
Backlog ⁽¹⁾	n/a	55.7	30.5
Capital and intangible expenditures	3.2	6.9	6.4

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

(2) Results for the three months and year ended December 31, 2014 reflect Broda results up to the September 1, 2014 disposition date.

For complete financial details of discontinued operations, including the loss incurred on the disposal of Broda, please refer to *Note 13* of our December 31, 2014 Audited Consolidated Annual Financial Statements.

LIQUIDITY

Cash and Borrowing Capacity

We monitor our liquidity principally through cash and cash equivalents and available borrowing capacity under our revolving credit facility.

Cash and cash equivalents at December 31, 2014 increased to \$104.1 million from \$36.2 million at December 31, 2013. This \$67.9 million increase reflects net proceeds of \$76.6 million received from the issuance of our 2014 convertible debentures and proceeds of \$38.3 million received to date from the sale of Broda, reduced by the repayment of the majority of indebtedness under our revolving credit facility.

As at December 31, 2014, we had additional borrowing capacity under our revolving credit facility of \$118.6 million, as compared to \$75.0 million at December 31, 2013. The increase in available borrowing capacity relates to the use of the previously mentioned proceeds received from both the issuance of our 2014 convertible debentures and the sale of Broda to pay down the majority of the revolving credit facility during the year.

Debt and Capital Structure

During the year we revised our definition of long-term indebtedness for the purposes of capital management to include principal amounts owing under long-term debt and convertible debentures. In prior periods, long-term indebtedness was comprised of the carrying values of long-term debt and convertible debentures, both net of deferred financing fees.

Long-term indebtedness, including the current portion of long-term debt and convertible debentures, increased to \$169.9 million at December 31, 2014, from \$141.5 million at December 31, 2013. The \$28.4 million increase in long-term indebtedness mainly reflects the issuance of our 2014 convertible debentures, partially offset by the repayment of outstanding amounts on our revolving credit facility. Long-term indebtedness consists of \$166.8 million (December 31, 2013 - \$86.3 million) of outstanding convertible debentures and \$3.1 million of long-term debt (December 31, 2013 - \$55.2 million). The current portion of long-term debt was \$0.4 million as at December 31, 2014 (December 31, 2013 - \$2.6 million). The current portion of convertible debentures was \$86.3 million as at December 31, 2014 (December 31, 2013 - nil).

On September 19, 2014 and September 29, 2014 we issued 6% convertible unsecured subordinated debentures in the principal amounts of \$70.0 million and \$10.5 million, respectively, for gross total proceeds of \$80.5 million. We received proceeds, net of transaction costs, of \$76.6 million. The convertible debentures have a maturity date of December 31, 2019, are convertible at the option of the holder into common shares of Stuart Olson at a conversion price of \$14.15 per share and are convertible at our option on or after December 31, 2017, and at any time prior to December 31, 2018, provided our share price is not less than 125% of the conversion price (\$17.79 per share). On or after December 31, 2018, and at any time prior to the maturity date, the debentures may be redeemed at our option at a price equal to 100% of their principal amounts plus accrued and unpaid interest.

The net proceeds will be used to repay at maturity a portion of the 6.0% convertible unsecured subordinated debentures due June 30, 2015 and, in the interim, have been used to repay the balance of indebtedness under our revolving credit facility in order to minimize interest costs. The balance of the \$86.3 million due on June 30, 2015 to settle our 2010 convertible debentures will be drawn from any excess cash on hand combined with a draw on our revolving credit facility.

We monitor our capital structure through the use of long-term indebtedness to capitalization and net long-term indebtedness to EBITDA metrics, both defined in the "Non-IFRS Measures" section of this MD&A. Indebtedness to capitalization has increased to 44% at December 31, 2014 compared to 37% at year-end 2013, which is slightly higher than our targeted range of 20 to 40% over the long-term. This increase is due to the increase in long-term indebtedness explained above, combined with a year-over-year decrease in equity due principally to the loss from discontinued operations incurred in 2014.

Net long-term indebtedness to EBITDA has declined at December 31, 2014 to 1.58 as compared to 3.07 at year-end 2013. The improvement was driven by the proceeds received on the sale of Broda that were used to pay down our revolving credit facility, combined with year-over-year improved EBITDA performance for each of our operating groups.

In accordance with the terms of our revolving credit facility agreement, the sale of Broda on September 1, 2014 reduced the limit of our revolving credit facility from \$200.0 million to \$167.4 million.

As at December 31, 2014, we were in full compliance with the covenants in our credit facility.

<i>Ratio</i>	Covenant	Actual as at Dec. 31, 2014
Working capital ⁽¹⁾	>1.10:1.00	1.38
Interest coverage	>3.00:1.00	3.41
Total debt to EBITDA	<3.25:1.00	0.07
Senior debt to EBITDA	<2.75:1.00	0.05

Notes: (1) As part of the June 2014 amendments to our \$167.4 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 acquisitions, and repaid with funds from operations, dispositions or financing activities.

Summary of Cash Flows

<i>\$millions</i>	Year ended December 31	
	2014⁽¹⁾	2013⁽¹⁾
Operating activities	23.2	28.7
Investing activities	30.0	(10.1)
Financing activities	14.7	(16.2)
Increase in cash	67.9	2.4
Cash and cash equivalents, beginning of period	36.2	33.8
Cash and cash equivalents, end of period	104.1	36.2

Notes: (1) This table includes both continuing and discontinued operations. See accompanying notes of our December 31, 2014 Audited Consolidated Annual Financial Statements.

For the year ended December 31, 2014, cash generated from operating activities was \$23.2 million as compared to cash generated of \$28.7 million in 2013, a year-over-year net change of \$5.5 million. The additional outflow is largely due to cash tax refunds received in 2013 that did not repeat in 2014.

Cash generated by investing activities was \$30.0 million for the year ended December 31, 2014, as compared to an outflow of \$10.1 million in 2013, a \$40.1 million increase. The primary factor for the increase was the sale of Broda in Q3 2014 for gross proceeds of \$38.7 million.

Cash generated by financing activities totalled \$14.7 million for 2014, as compared to an outflow of \$16.2 million during 2013, an increase of \$30.9 million. This increase primarily reflects the issuance of our 2014 convertible debentures in September, partially offset by the interim use of these proceeds combined with Broda sale proceeds to repay our revolving credit facility.

External Factors Impacting Liquidity

Please refer to the section entitled "Risk Factors" of Stuart Olson's Annual Information Form for a description of circumstances that could affect our sources of funding.

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 2014, our capital expenditures from continuing operations were \$7.1 million, compared to \$7.8 million in 2013. Expenditures included \$2.6 million for construction and automotive equipment, \$2.4 million for tenant improvements, \$1.9 million for computer hardware and software and \$0.2 million for office furniture and equipment. Capital and intangible expenditures attributable to discontinued operations were \$3.2 million in 2014, compared to \$6.9 million in 2013.

Capital expenditures are associated with our need to maintain and support existing operations. For 2015, capital spending has been restricted to only those assets we are contractually committed to acquire or that are needed in order to execute our backlog of work. Capital expenditures will be scaled within a range of \$4.5 million to \$6.0 million as we continue to monitor the movement of oil prices and the impact on Western Canadian construction activity. As of March 10, 2015, we expect to spend \$5.0 million on 2015 capital additions.

Working Capital

As at December 31, 2014, we had working capital of \$54.4 million, compared to \$84.9 million at December 31, 2013. The \$30.5 million decrease primarily reflects the 2010 convertible debentures becoming a current liability during 2014. Excluding the 2010 convertible debentures, adjusted December 31, 2014 working capital was \$139.2 million, a \$54.3 million increase from December 31, 2013. This increase reflects cash proceeds from the sale of Broda in 2014 and the balance of the 2014 convertible debenture proceeds after repayment of the balance under the revolving credit facility.

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 32* to the Audited Consolidated Annual Financial Statements.

Contractual Obligations

The following are our contractual financial obligations as at December 31, 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 31(c)(iii)* to the Audited Consolidated Annual Financial Statements.

<i>\$thousands</i>	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	\$ 264,196	\$ 264,196	\$ 264,196	\$ -	\$ -	\$ -
Provisions including current portion	7,529	7,529	2,616	869	124	3,920
Convertible debentures (debt portion)	155,760	193,488	93,668	9,660	90,160	-
Long-term debt including current portion	1,208	3,144	412	366	2,366	-
Lease commitments	66,782	68,782	7,241	14,090	14,089	33,362
	\$ 497,475	\$ 537,139	\$ 368,133	\$ 24,985	\$ 106,739	\$ 37,282

Scheduled long-term debt principal repayments due within one year of December 31, 2014 were \$0.4 million (December 31, 2013 - \$2.6 million), 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 through an Employee Share Purchase Plan ("ESPP") which is available to all full-time employees. At December 31, 2014, employees held 1,806,909 common shares (December 31, 2013 - 1,630,047 common shares) as a result of purchases made through the ESPP. Under the ESPP, common shares are acquired in the open market at prevailing market prices.

As at December 31, 2014, we had 25,054,310 common shares issued and outstanding and 1,682,042 options convertible into common shares (December 31, 2013 - 24,797,163 common shares and 1,838,117 options). Please refer to *Note 28* and *Note 29* of the Audited Consolidated Annual Financial Statements for further detail. On January 6, 2015, we issued 1,103,081 common shares as partial consideration to Studon shareholders as part of our acquisition of Studon. On January 15, 2015, we issued 88,515 shares pursuant to our Dividend Reinvestment Plan ("DRIP"). The details pertaining to our DRIP are available on our website.

The \$86.3 million of 6.0% convertible debentures issued in 2010 are convertible into 4,545,653 common shares, based on a conversion price of \$18.97 per share. Additionally, our \$80.5 million of 6.0% convertible debentures issued in 2014 are convertible into 5,689,046 common shares, based on a conversion price of \$14.15 per share.

At December 31, 2014, shareholders' equity was \$216.6 million, compared to \$237.0 million at December 31, 2013. This \$20.4 million reduction resulted from the \$13.1 million year-to-date net loss, a \$3.2 million defined benefit plan actuarial loss net of tax, and dividends declared of \$12.0 million. These were partially offset by share capital increases of \$1.4 million and \$2.0 million related to shares issued pursuant to the DRIP and the exercise of options, respectively, and \$4.6 million from the equity component of the 2014 convertible debentures.

DIVIDENDS

Declaration of Common Share Dividend

On March 10, 2015, 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 April 15, 2015 to shareholders of record on March 31, 2015. The declaration of this dividend reflects the Board of Directors' confidence in our ability to

generate cash flows adequate to support our growth strategy, while providing a certain amount of income to our shareholders.

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 December 31, 2014.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2014, we incurred facility costs of \$0.3 million (2013 – \$0.4 million) for the rental of a building that is 50% owned by Schneider Investments Inc., a company owned by George Schneider, a Director of Stuart Olson. No amounts are included in trade payables as at December 31, 2014 (2013 – \$nil).

We incurred facility costs during the year ended December 31, 2014 of \$0.3 million (2013 – \$0.4 million) for the rental of a building owned by Broda Holdings (2009) Inc. (Broda), a company owned by Gord Broda, the president of Broda, a former subsidiary of the Company. No amounts are included in trade payables as at December 31, 2014 (2013 - \$nil). We reclassified these facility costs as discontinued operations in the consolidated statements of (loss) earnings.

On September 1, 2014, we completed the sale of Broda to TriWest Capital Partners and certain members of the senior management team of Broda, for gross cash proceeds of \$38.7 million. Gord Broda was the President of Broda at the time of disposition and had an indirect interest in the entity that acquired Broda. Chad Danard, a Director of the Company and a Managing Director of TriWest, did not participate in any discussions relating to the Broda disposition.

QUARTERLY FINANCIAL INFORMATION

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

<i>\$millions, except per share amounts</i>	2014 Quarter Ended:				2013 Quarter Ended ⁽²⁾ :			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Contract revenue	364.5	350.4	322.9	268.5	283.6	274.8	266.0	227.5
EBITDA ⁽¹⁾	12.0	10.9	9.9	8.9	11.2	8.5	8.9	5.7
Net earnings (loss) from continuing operations	1.2	2.8	1.8	1.3	3.4	1.0	1.2	(0.9)
Net (loss) earnings from discontinued operations	(0.7)	(15.7)	(1.9)	(1.9)	(0.1)	1.6	(0.7)	(0.3)
Net earnings (loss)	0.5	(12.9)	nil	(0.6)	3.3	2.6	0.5	(1.2)
Net earnings (loss) per common share								
Basic from continuing operations	0.05	0.11	0.07	0.05	0.14	0.04	0.05	(0.04)
Basic earnings (loss) per share	0.02	(0.52)	nil	(0.02)	0.13	0.10	0.02	(0.05)
Diluted from continuing operations	0.05	0.11	0.07	0.05	0.14	0.04	0.05	(0.04)
Diluted earnings (loss) per share	0.02	(0.52)	nil	(0.02)	0.13	0.10	0.02	(0.05)

Notes: (1) "EBITDA" is a non-IFRS measure, refer to "Non-IFRS Measures" for the definition.

(2) Amounts have been restated as a result of the reclassification of Broda to discontinued operations. See the "Discontinued Operations" subsection of "Results of Operations by Business Group" of this MD&A and Note 13 of our December 31, 2014 Audited Consolidated Annual Financial Statements.

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, increased revenue in the third quarter of 2013 relative to the second quarter of 2013; however, increased administrative costs negatively impacted EBITDA and net earnings from continuing operations. Net earnings improved in the quarter as a result of seasonal improvement in Broda's operations, which are presented as discontinued operations.

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

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 lower Buildings Group margins.

Financial results from continuing operations improved in the third quarter of 2014 compared to the second quarter of 2014 on increased revenue in all segments and higher margin in the Industrial Group and Commercial Systems Group. Despite improved performance, we recognized a net loss for the quarter driven by an after-tax loss on disposal of discontinued operations of \$16.3 million.

Fourth quarter 2014 revenue and EBITDA modestly improved compared to the third quarter of 2014. Improved Buildings Group performance more than offset the fourth quarter impact of seasonal declines in Industrial Group revenue and higher costs associated with the Studon acquisition. Fourth quarter results from continuing operations declined compared to the third quarter of 2014 due to a full quarter of interest on the 2014 convertible debentures and write-downs on Buildings Group tenant improvements. Net earnings improved significantly quarter-over-quarter as the third quarter loss on the disposal of Broda did not repeat in the fourth quarter.

For a more detailed discussion and analysis of quarterly results prior to December 31, 2014, please review our 2014 Interim and 2013 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:

- Convertible debentures;
- Revenue recognition;
- Estimates used to determine costs in excess of billings and contract advances;
- Estimates in impairment of property and equipment, goodwill and intangible assets;
- Estimates related to the useful lives and residual value of property and equipment;
- Income taxes;
- Provisions for warranty work and legal contingencies;
- Assumptions used in share-based payment arrangements;
- Accounts receivable collectability; and
- Measurement of defined benefit pension obligations.

Convertible Debentures

Convertible debentures issued by Stuart Olson are a compound financial instrument that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, losses and gains relating to the financial liability component are recognized in profit or loss. Distributions to the equity holders are recognized in equity, net of any tax benefit.

Revenue Recognition

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract at the end of the reporting period. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to the proportion that costs incurred to date bear to the estimated total costs of completing the contract. The stage of completion may also be assessed by reference to survey of work performed. Where there is uncertainty that the economic benefits associated with the contract will flow to the Corporation or where the total contract costs cannot be identified and measured, revenue is recognized only to the extent of contract costs incurred where it is probable those costs will be recoverable.

During the very early stages of significant multi-year contracts, the outcome of the contract cannot always be estimated reliably. In those circumstances where the outcome cannot be reliably estimated, contract revenue is recognized only to the extent contract costs are incurred and expected to be recoverable until such time that the outcome of the contract can be reliably estimated.

Contract costs include costs that relate directly to a specific contract, costs that are attributable to contract activity in general and can be allocated to individual contracts, and such other costs as are specifically chargeable to the customer under the terms of the contract. Contract costs exclude general administration costs (unless reimbursement is specified in the construction contract), selling costs, and research and development costs (unless reimbursement is specified in the construction contract). Contract costs are recognized as expenses in the period in which they are incurred.

Where current estimates indicate that total contract costs will exceed total contract revenue, the full amount of the expected loss is recognized immediately in contract costs.

Revenue from services rendered where the final outcome of the contract can be estimated reliably is recognized in profit or loss in proportion to the stage of completion of the contract at the reporting date. The stage of completion is assessed by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract. Revenue from time and material contracts where the work scope is not definitive is recognized (at the contractual rates) as labour hours and direct expenses are incurred.

The Corporation recognizes revenue from the sale of materials that are fabricated to customer specifications under specifically negotiated contracts.

[Estimates Used to Determine Costs in Excess of Billings and Contract Advances](#)

Costs in excess of billings represent unbilled amounts expected to be collected from customers for contract work performed to date. The amount is measured at cost plus profit recognized to date less progress billings and recognized losses. Costs include all expenditures directly related to specific projects. Costs in excess of billings are presented as a current asset in the consolidated statements of financial position for all contracts in which costs incurred plus recognized profits exceeds the progress billings and the amounts are expected to be billed and recovered within 12 months.

If progress billings exceed costs incurred plus recognized profits, the difference represents amounts collected in advance for contract work yet to be performed and is presented as contract advances and unearned income in the statements of financial position.

[Estimates in Impairment of Property and Equipment, Goodwill and Intangible Assets](#)

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less any liabilities assumed, based on their fair values. Goodwill is not amortized and is tested annually in the fourth quarter or more frequently if events or changes in circumstances indicate that an asset may be impaired. Goodwill arose during multiple past acquisitions. Goodwill associated with the Buildings Group and Commercial Systems Group cash generating units (CGU) arose from the Seacliff acquisition in 2010. Additional goodwill was attributed to the Commercial Systems Group CGU through the McCaine acquisition in 2011. Industrial Group goodwill stems from the acquisition of Laird in 2003. Goodwill recognized on all of these acquisitions was attributable mainly to the synergies achieved from the integration of the acquired company into

existing construction, commercial and industrial services. Any significant reduction in these estimates could result in an impairment of goodwill. The calculated Business Enterprise Value for each of the CGUs incorporated the financial projections set out in the respective CGU's strategic plan reviewed by senior management and the Board of Directors in December 2014. As of December 31, 2014, Stuart Olson's goodwill was not impaired.

If an impairment loss results from the comparison of the recoverable amount of the CGU to carrying amount, then the impairment loss is allocated first to goodwill and then to certain other assets of the CGU on a pro rata basis of the carrying amount of each asset in the unit.

The recoverable amount of the CGUs' assets was determined based on a value in use calculation. There is a significant amount of uncertainty with respect to the estimates of the recoverable amounts of the CGUs' assets given the necessity of making key economic assumptions about the future. The value in use calculation uses discounted cash flow projections which employ the following key assumptions: future cash flows, present and future discount rates, growth assumptions, including economic risk assumptions and estimates of achieving key operating metrics and drivers. Management uses its best estimate to determine which key assumptions to use in the analysis.

Key Impairment Assessment Assumptions

The key assumptions in the value in use calculations to determine the recoverable amounts by CGU have been prepared using a four-year discounted cash flow analysis with a terminal value. The financial projections used for the discounted cash flow analysis were derived from our 2014 Strategic Plan, which was reviewed by senior management and the Board of Directors in December 2014.

A four-year period for the discounted cash flow analysis was used as financial projections beyond a four-year time period are generally best represented by a terminal value. This period is appropriate given the timing of backlog projects and the predictability of CGU cash flows. Cash flows from growth opportunities are probability-weighted and relate to initiatives management expects to progress on in the medium-to-long term. These cash flows require assumptions to be made regarding the likelihood of projects progressing and the future economics of those projects.

The terminal value was calculated using a discount rate of 12% (2013 – 12%) and a steady annual growth of 2.0% (2013 – 2.0%) in the terminal year. The same discount rate was used in each of the CGUs given that each entity has access to the same source of debt and each CGU is ultimately governed by management at the parent company. In addition, entity specific risks were separately factored into each CGU forecast. That took into consideration market rates of return, capital structure, company size, industry risk and after-tax cost of debt and equity.

Sensitivity of Impairment Assessment Assumptions

Buildings Group and Industrial Group: Management and the Board of Directors believe that any reasonable change to the key assumptions used to determine this CGU's recoverable amount would not cause its carrying value to exceed its recoverable amount.

Commercial Systems Group: A 1.0% increase in the discount rate and no change in the annual growth would cause an impairment charge of approximately \$4.2 million. A decrease in growth rate of 1.0% and no change in the discount rate would cause an impairment charge of approximately \$1.6 million.

Estimates Related to the Useful Lives and Residual Value of Property and Equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010 are also capitalized as part of property and equipment.

Borrowing costs that are directly attributable to the acquisition and construction or production of a qualifying asset form part of the costs of the asset. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within other income in profit or loss.

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to us and its cost can be reliably measured. The carrying amount of the part replaced is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss when incurred.

Depreciation is calculated based on the cost of an asset (or deemed cost) less its residual value. Depreciation is recognized for each significant component of an item of property and equipment.

Depreciation is recognized in the statements of earnings (loss) on a straight-line basis over the estimated useful life of each asset. Leased assets are depreciated over the shorter of the lease term and their estimated useful lives, unless it is reasonably certain that we will obtain ownership by the end of the lease term. The method of depreciation has been selected based on the expected pattern of consumption of the economic benefits of the asset.

The estimated useful lives are as follows:

Asset	Basis	Useful Life
Land improvements	Straight line	30 years
Buildings and improvements	Straight line	10 to 25 years
Leasehold improvements	Straight line	Lesser of estimated useful life or lease term
Construction equipment	Straight line	5 to 20 years
Automotive equipment	Straight line	5 years
Office furniture and equipment	Straight line	3 to 5 years
Computer Hardware	Straight line	1 to 3 years
Equipment components	Straight line	1.5 to 3 years

Depreciation commences when the asset is available for use and ceases on the earliest of when the asset is derecognized or classified as held for sale. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted where appropriate.

Income Taxes

Income tax provisions, including deferred income tax assets and liabilities, may require estimates and interpretations of federal and provincial tax rules and regulations, and judgments as to their interpretation and application to our specific situation. Income tax provisions are estimated each quarter, updated each year-end to reflect actual differences and the impact of revenue recognition estimates, and then finalized during the preparation of the tax returns. Any changes between the quarterly estimates, the year-end provision, and the final filing position, may impact the income tax expense category, as well as the income taxes recoverable, income taxes payable, deferred tax asset and deferred tax liability categories.

Provisions for Warranty Work and Legal Contingencies

Provisions for the expected cost of construction warranty obligations under construction contracts are recognized upon completion or substantial performance under the construction contract and represent the best estimate of the expenditure required to settle our obligation.

Provisions related to claims and disputes arising on our contracts are included in this category. The timing and measurement of the related cash flows are, by their nature, uncertain and the amounts recorded reflect the best estimate of the expenditure required to settle the obligations.

Assumptions Used in Share-Based Payment Arrangements

The grant date fair value of stock options granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

In April 2014, we issued three types of medium term share-based awards. These awards were issued substantially in accordance with the Amended 2008 Executive Share Unit Plan and are classified as Bridging Restricted Share Units (BRSU), Restricted Share Units (RSU) and Performance Share Units (PSU).

BRSUs are units that track the value of a common share and provide eligible participants with an equivalent cash value of common shares. Each grant vests 20% in the first year, 30% in the second year, and the remaining 50% in the third year.

RSUs are units that track the value of a common share and provide eligible participants with an equivalent cash value of common shares. Each grant cliff vests at the end of three years.

PSUs are units that track the value of a common share and provide eligible participants with an equivalent cash value of common shares. Each grant cliff vests at the end of three years, subject to certain performance criteria. We have set the PSU performance criteria based on a Board approved corporate objective. When each grant vests at three years, the payout can be 0% to 200% of the vested units, depending on our performance against the Board approved corporate objective. Each grant of PSUs is individually evaluated regularly with regard to vesting and payout assumptions.

We will settle the PSUs in cash within 90 days after actual results are determined and reported. The original cost of the PSU is equal to the fair market value at the date of grant. Changes in the amount of the liability due to fair value changes after the initial grant date at each reporting period are recognized as a compensation expense of the period in which the changes occur.

We have a deferred share unit ("DSU") plan which participants were previously entitled to a portion of their earnings. As of January 1, 2013, employees were no longer able to contribute under the DSU plan. DSUs are units which provide the holder the right to receive a cash payment equal to the five-day weighted average of the value of the common shares at the payout date. DSUs are cash settled only when an employee or Director ceases to be an employee or Director. The terms of the plan allow for discretionary grants by the Board of Directors. Discretionary grants vest immediately. As DSUs are awarded, a liability is established and compensation expense is recognized in earnings upon grant. Changes in the amount of the liability due to fair value changes after the initial grant date are recognized as a compensation expense in the period in which the changes occur. DSUs are also adjusted for the dividend reinvestment plan as they are paid.

Information about the vesting conditions for share-based payments is disclosed in *Note 28* of the Consolidated Annual Financial Statements.

Accounts Receivable Collectability

Accounts receivable collectability requires an assessment and estimation of the creditworthiness of the client, the interpretation of specific contract terms, the strength of any security that we may have, and the timing of collection. An

allowance will be provided against any amount estimated to be uncollectible, and reflected as a bad debt expense. Further information can be found in the Financial Instruments section of this report.

Measurement of Defined Benefit Pension Obligations

Fluctuations in the valuation of our defined benefit pension plans expose us to additional risk. Economic factors such as expected long-term rate-of-return on plan assets, discount rates and future salary and bonus increases will cause volatility in the accrued benefit obligation. Refer to *Note 3(f) and 15* to the Audited Consolidated Annual Financial Statements for further information.

All estimates are updated each reporting period to reflect actual activity as well as incorporate all relevant information that has come to the attention of management. Given the nature of construction, with numerous contracts in progress at any given time, the impact of these critical accounting estimates on the results of operations is significant. Activities or information received subsequent to the date of this MD&A may cause actual results to vary, which will be reflected in the results of subsequent reporting periods.

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, 2014 for further information. We are still evaluating the potential impact of future accounting standard changes on our financial reporting.

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 us 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, credit worthiness and the current economic environment in which the customer operates to assess impairment.

We establish a specific bad debt provision when we consider that the expected recovery will be less than the actual account receivable. The provision for doubtful accounts has been included in administrative costs in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Earnings, and is net of any recoveries that were provided for in a prior period. Allowance for doubtful accounts as at December 31, 2014 was \$2.1 million (December 31, 2013 - \$3.2 million).

In determining the quality of trade receivables, we consider any change in credit quality of customers from the date credit was initially granted up to the end of the reporting period. As at December 31, 2014, we had \$21.3 million of trade receivables (December 31, 2013 - \$20.6 million) which were greater than 90 days past due, with \$19.2 million not provided for as at December 31, 2014 (December 31, 2013 - \$17.4 million). Of the total, \$8.2 million (38.5%) was concentrated in two customer accounts, and of this amount, \$8.2 million remained outstanding as of March 10, 2015. The two customers are considered to be credit-worthy and management is not concerned 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 December 31, 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 \$0.8 million (December 31, 2013 - \$0.3 million) related to financial assets and by \$nil (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 31* of the December 31, 2014 Audited Consolidated Annual 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 and operation 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 December 31, 2014. Based on this evaluation, our CEO and CFO have concluded that the design and operation 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 December 31, 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, and 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 and operation 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 (2013). The evaluation included documentation review, enquiries, testing and other procedures considered

by management to be appropriate in the circumstances. As at December 31, 2014, our CEO and CFO have concluded that the design and operation 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 December 31, 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", "active backlog", "book-to-bill ratio", "working capital", "EBITDA", "EBITDA margin", "EBT", "Long-term Indebtedness", "Indebtedness to Capitalization" and "Net Long-Term Indebtedness to EBITDA". 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.

<i>\$millions</i>	Dec. 31, 2014	Dec. 31, 2013
Work-in-hand	1,080.3	1,104.1
Active backlog	906.5	956.4
Backlog relating to continuing operations	1,986.8	2,060.5
Broda work-in-hand	nil	55.7
Broda active backlog	nil	nil
Consolidated backlog	1,986.8	2,116.2

Book-to-Bill Ratio

Book-to-bill ratio means the ratio of new projects added to backlog and increases in the scope of existing projects ("book") to revenue ("bill"), for continuing operations for a specified period of time (excluding backlog reductions for divestitures). 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:

<i>\$millions</i>	Dec. 31, 2014	Dec. 31, 2013
Current assets	501.6	367.3
Current liabilities ⁽¹⁾	(447.2)	(282.4)
Working capital	54.4	84.9

Notes: (1) The 2010 convertible debentures are presented as a current liability of \$84.8 million as at December 31, 2014, whereas, they were presented as a non-current liability of \$81.9 million as at December 31, 2013. If the 2010 convertible debentures were excluded from working capital, adjusted December 31, 2014 working capital would have been \$139.2 million (December 31, 2013 - \$84.9 million).

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.

<i>\$millions</i>	Three months ended		Year ended	
	December 31		December 31	
	2014	2013 ⁽¹⁾	2014	2013 ⁽¹⁾
Net earnings from continuing operations	1.2	3.4	7.1	4.6
Add: Income tax expense	1.2	0.6	4.1	2.0
EBT	2.4	4.0	11.2	6.6
Add: Depreciation and amortization ⁽²⁾	5.8	4.3	17.5	16.1
Finance costs	3.8	2.9	12.9	11.6
Loss (gain) on disposal of assets ⁽²⁾	nil	nil	0.1	(0.1)
EBITDA	12.0	11.2	41.7	34.2

Notes: (1) Amounts have been restated as a result of the reclassification of Broda to discontinued operations. See the “Discontinued Operations” subsection of “Results of Operations by Business Group” of this MD&A and Note 13 of our December 31, 2014 Audited Consolidated Annual Financial Statements.

(2) Depreciation and amortization and loss on disposal of assets excludes amounts related to discontinued operations.

EBITDA Margin

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

Long-term Indebtedness

Long-term indebtedness is the gross value of our indebtedness. It is calculated as the sum of the contractual cash flow of long-term debt excluding interest (current and non-current portion of long-term debt, gross of deferred financing fees) and principal value of convertible debentures.

Indebtedness to Capitalization

Indebtedness to capitalization is a percentage metric we use to measure our financial leverage. It is calculated as long-term indebtedness by the sum of long-term indebtedness and total equity.

Net Long-Term Indebtedness to EBITDA

Net long-term indebtedness to EBITDA is a ratio used by us to measure our financial leverage. It is calculated as long-term indebtedness less cash and cash equivalents, and the result divided by EBITDA for the trailing twelve months.

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. No assurance can be given that will prove to be correct and such information 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:

- Our capital expenditure program for 2015;
- Our objective to manage our capital resources so as to ensure that we have sufficient liquidity to pursue growth objectives, while maintaining a prudent amount of financial 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 declared dividends;
- Those statements under the section entitled “Business Strategy”, including those relating to our focus on growing revenue and earnings through organic growth, expanded geographical presence, acquisitions, and our ability to achieve expectations pertaining to increasing our liquidity and reducing debt levels;
- Our outlook on the business including, without limitation, those statements in the section entitled “Outlook” relating to backlog execution, project mix and timing, earnings visibility, revenue, margin and the growth in oil sands maintenance projects;
- 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;
- 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 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, the reaction of oil sands owners to the recent decrease in oil prices, 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; and
- Our projected use of cash resources.

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;
- 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;
- Fluctuations in the price of oil, natural gas and other commodities;
- 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.