2016 Annual Report - Management's Discussion and Analysis

March 7, 2017

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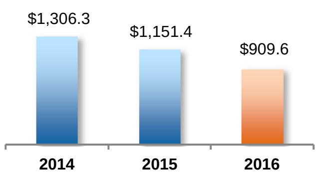
The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of Stuart Olson Inc. ("Stuart Olson", the "Company", "we", "us", or "our") for the three and twelve months ended December 31, 2016, dated March 7, 2017, should be read in conjunction with the December 31, 2016 Audited Consolidated Annual Financial Statements and related notes thereto, the December 31, 2015 Audited Consolidated Annual Financial Statements and related notes thereto, and the December 31, 2015 MD&A. Additional information relating to Stuart Olson 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 2015 and 2014, is presented in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted.

Certain measures in this MD&A do not have any standardized meaning as prescribed by IFRS and, therefore, are considered non-IFRS measures. These non-IFRS measures are commonly used in the construction industry, and by management of Stuart Olson Inc., as alternative methods for assessing operating results and to provide a consistent basis of comparison between periods. These measures are not in accordance with IFRS, and do not have any standardized meaning. Therefore, the non-IFRS measures in this MD&A are unlikely to be comparable to similar measures used by other entities. Non-IFRS measures include: contract income margin; work-in-hand; backlog; active backlog; book-to-bill ratio; working capital; adjusted free cash flow (FCF); adjusted free cash flow per share; adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA); adjusted EBITDA margin; earnings before tax (EBT); long-term indebtedness; indebtedness to capitalization; and net long term indebtedness to adjusted EBITDA. Further information regarding these measures can be found in the Non-IFRS Measures section of this MD&A.

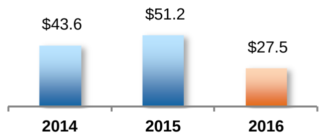
We encourage readers to read the section entitled "Forward-Looking Information" at the end of this document.

2016 OVERVIEW

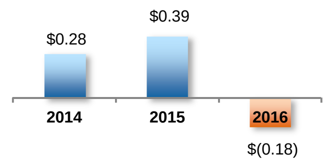
Revenue ($ millions)



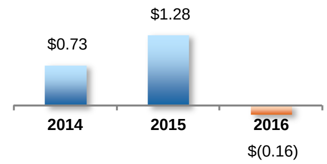
Adjusted EBITDA ($ millions)



Diluted EPS Continuing Operations ($ per share)



Adjusted FCF ($ per share)



Operational Highlights

- We ended the year with a backlog of $2.0 billion. This was the result of securing $943.9 million of net new project awards and scope increases in 2016, reflecting a book-to-bill ratio of 1.04 to 1.0. Our backlog includes a diverse mix of public, private and industrial projects from Ontario to British Columbia, and is predominantly made up of low-risk contract arrangements.
- In early 2016 we announced that Bob Myles had joined Stuart Olson as the Chief Operating Officer of the Industrial Group.
- We successfully pursued our Industrial Group strategy of expanding our recurring maintenance, repair and operations (“MRO”) business, and diversifying across geographies and sectors. The successful implementation of this strategy resulted in a record group backlog of $822.9 million and the announcement of over $700.0 million of awards in 2016, including:
  - A five-year master services agreement (“MSA”) valued at approximately $500.0 million, of which an estimated $400.0 million was added to backlog in 2016. The agreement relates to the provision of MRO services to a longstanding oil sands customer in Alberta.
  - Approximately $80.0 million of awards for the provision of mechanical, electrical and instrumentation services to a major mining company in Ontario, and a number of insulation contracts with traditional customers in Western Canada.
  - An estimated $100.0 million contract to provide MRO services to a longstanding oil sands customer’s newly constructed facility in Northern Alberta.
  - A $30.0 million award to provide electrical and instrumentation maintenance services to a new client at a newly constructed processing facility in Northern Alberta.
  - Subsequent to year-end, our Industrial Group announced a five-year MRO contract valued at an estimated $30.0 million. The contract is with a longstanding mining customer on a new project site in Saskatchewan.
- Our Buildings Group continued to successfully bid on new contracts notwithstanding the slow roll-out of federal and provincial infrastructure projects. New project announcements included:
  - Awards totaling approximately $105.0 million for both public infrastructure and private commercial projects in Western Canada, including several projects funded by the most recent Federal and Alberta capital budgets.
  - During Q4 2016, the group removed a $200.0 million private commercial project from backlog as a result of changes in expectations around start-up timing, construction schedule and project fees.
  - Subsequent to year-end, the Buildings Group announced $220.0 million in construction management (“CM”) contracts to retrofit existing facilities at two large post-secondary institutions in Western Canada. Of the total, $180.0 million was included in December 31, 2016 backlog, with the balance to be added in Q1 2017.

Financial Overview

- We generated revenue of $909.6 million in 2016, compared to $1,151.4 million in 2015. The year-over-year change reflects challenging market conditions for our Industrial Group in Alberta, including the dual impacts of low and unstable oil prices and disruptions caused by the Northern Alberta wildfires. Revenue results for the Buildings and Commercial Systems Groups reflect delays in the rollout of new infrastructure opportunities, as well as changes in project stage of completion, with a greater proportion of new projects currently in pre-construction.
- Contract income margin of 9.7% compares to 10.6% in 2015. Contract income was $88.4 million compared to $121.7 million last year. Intersegment eliminations were a significant factor in contract income results, with prior-year contract income including the benefit of $3.6 million in positive intersegment eliminations, while 2016 included a reversal of intersegment profit of $3.9 million.
- In response to challenging market conditions, we strategically realigned our cost structure to match the level of activity throughout 2016. Our initiatives contributed to a $7.9 million year-over-year reduction in administrative costs, which will deliver permanent expense reductions going forward. Operational and administrative restructuring costs of $8.1 million were recognized during the year relating to these initiatives. We will continue to assess and, if necessary, further adjust our cost structure against the activity of the business in 2017.
- We generated adjusted EBITDA of $27.5 million (adjusted EBITDA margin of 3.0%) in 2016, compared to $51.2 million (adjusted EBITDA margin of 4.4%) in 2015. Our adjusted EBITDA results reflect lower contract income, partially offset by the reduction in administrative costs achieved through our restructuring initiatives.
- We reported a 2016 net loss of $4.9 million (diluted loss per share of $0.18), compared to net earnings of $11.2 million (diluted earnings per share of $0.39) in 2015. The decrease in net earnings primarily reflects the after-tax impact of lower adjusted EBITDA.
- We ended 2016 with a cash balance of $31.5 million and additional borrowing capacity of approximately $42.9 million.
- We negotiated the following amendments to our revolving credit facility (“Revolver”) in 2016:
    - On July 13, 2016, we amended our revolving credit facility, extending the maturity by one year to 2021 and negotiating improved terms. This amendment maintains our maximum borrowing capacity of $175.0 million.
    - On December 23, 2016, we announced a reduction in our Revolver interest coverage covenant ratio to 2.25:1 until June 30, 2017, increasing to 2.50:1 until March 31, 2018, and thereafter returning to the previous level of 3.00:1.
- We paid annual dividends of $0.48 per common share in 2016. On March 7, 2017, our Board of Directors (“Board”) declared a quarterly 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 13, 2017 to shareholders of record on March 31, 2017.

OUTLOOK

We expect 2017 consolidated revenue to be meaningfully higher than in 2016. The Northern Alberta wildfires that disrupted our oil and gas customers' operations in 2016 are not expected to repeat in 2017, and we believe we are well positioned to benefit from our growing volume of industrial MRO contracts with these customers. The Industrial Group also continues to successfully pursue new business opportunities both within and outside of Alberta, as evidenced by the major new contracts announced in recent months. Our revenue outlook also reflects the shift of several Buildings Group projects into higher activity construction phases in 2017. On a longer-term basis, our $2.0 billion backlog provides line of sight to activity levels into 2019, and reflects our access to many different segments and geographies within the Canadian construction market. Both the Buildings Group and Commercial Systems Group are executing backlogs dominated by public projects across multiple provinces.

Adjusted EBITDA and adjusted EBITDA margin are expected to be higher in 2017 than in 2016, primarily reflecting the anticipated absence of both the wildfire impacts and the intersegment eliminations that negatively affected 2016 results. These year-over-year benefits are expected to be partially offset by an increase in incentive plan accruals associated with the expected improvement of consolidated financial results.

Industrial Group Outlook

Revenue from the Industrial Group is expected to be higher in 2017 than in 2016. Our customers' oil sands operations are recovering from the fire-related disruptions and challenging market conditions faced in 2016, enabling us to execute on our growing volume of MRO contracts. Industrial Group 2017 revenue will also be supported by the execution of industrial projects outside of Alberta, including continued work on a power project in Manitoba and a mining project in Ontario.

Industrial Group adjusted EBITDA and adjusted EBITDA margin as a percentage of revenue are expected to be meaningfully higher year-over-year. This reflects our expectation that productivity challenges and additional costs incurred during and following the 2016 wildfire crisis will not repeat in 2017.

We expect to execute approximately $264.6 million of the Industrial Group's December 31, 2016 backlog in 2017. New contract awards and changes in scope are expected to supplement the Industrial Group's 2017 revenue from year-end backlog.

Buildings Group Outlook

Our Buildings Group anticipates higher revenue in 2017, reflecting a shift in year-over-year project stage of completion, as a greater proportion of contracts move from pre-construction into construction phases. Buildings Group revenue as a whole is expected to continue to be supported by predominantly public projects in multiple provinces, including the group's growing activity in Ontario.

Buildings Group adjusted EBITDA is expected to be modestly higher year-over-year, primarily reflecting the increase in revenue. Adjusted EBITDA margin is expected to be slightly lower year-over-year, primarily reflecting the absence of close-out margins recognized on several larger public projects completed in 2016.

We expect to execute approximately $501.3 million of the Buildings Group's December 31, 2016 backlog during 2017. Longer term, we see a continued strong pipeline of public projects arising from increased infrastructure spending at both the provincial and federal levels across Canada.

Commercial Systems Group Outlook

Commercial Systems Group 2017 revenue is expected to be similar to 2016 levels, reflecting the slow rollout of new projects. Adjusted EBITDA and adjusted EBITDA margins are expected to be slightly higher than in 2016, reflecting completion of a large project that negatively impacted 2016 results, partially offset by competitive pricing pressures for both projects in backlog and projects expected to be secured in 2017.

During 2017, the Commercial Systems Group expects to execute approximately $102.4 million of its December 31, 2016 backlog. New awards, short-duration projects, building maintenance and tenant improvement work on existing projects are expected to supplement the secured projects in backlog.

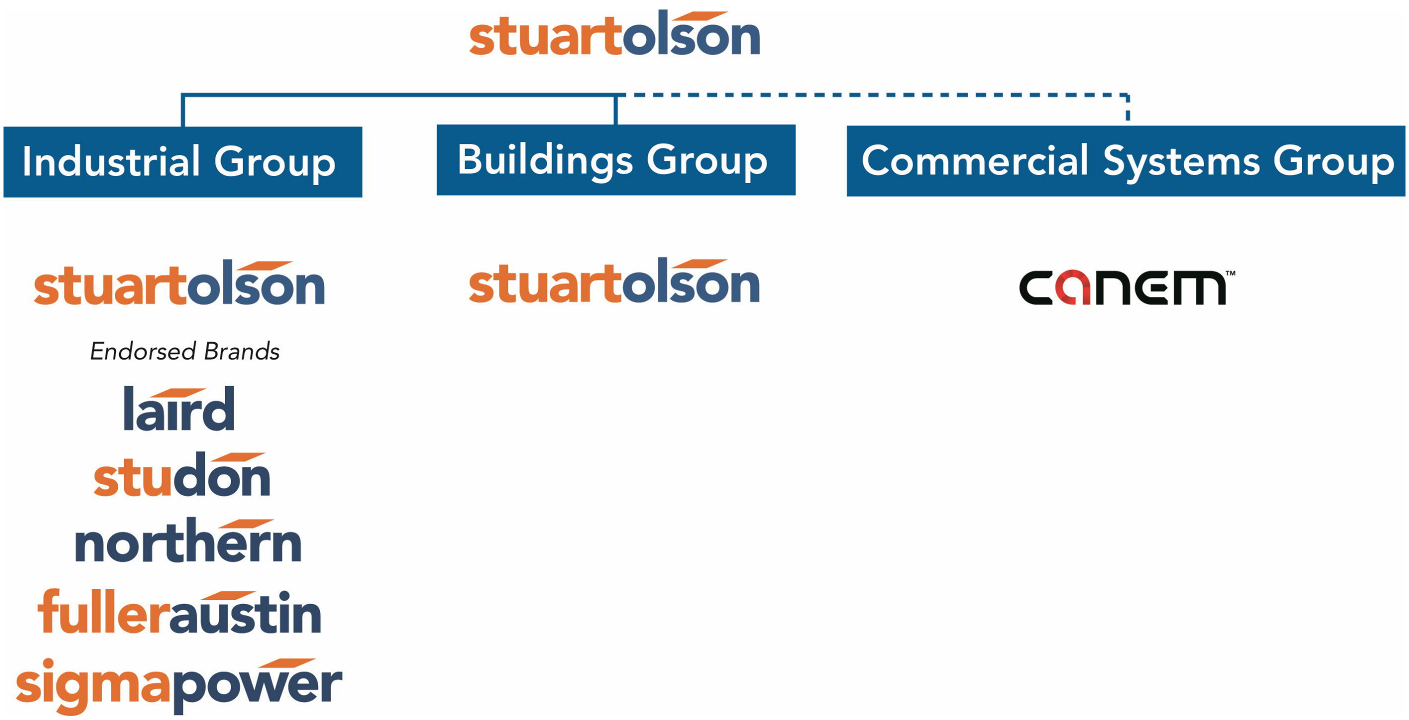
RISKS

Various factors could cause our actual results to differ materially from the results anticipated by management. These factors are described in more detail throughout 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.

Stuart Olson provides private, public and industrial construction services to a diverse range of customers from Ontario to British Columbia.

The branding of our three business groups is organized as follows:



Industrial Group

The Industrial Group operates under the general contracting brand of Stuart Olson and under our endorsed brands of Laird, Studon, Northern, Fuller Austin and Sigma Power. The Industrial Group offers services to a wide range of industrial sectors including oil and gas, petrochemical, refining, water and waste water, mining, pulp and paper and power generation. With Industrial Group offices and projects across Western Canada, Ontario and the territories, we have developed a national platform to deliver industrial services.

Originally organized as separate service companies, the Industrial Group increasingly operates as an integrated industrial contractor, capable of self-performing larger projects in the industrial construction and MRO space. The Industrial Group provides full-service general contracting, including mechanical, process insulation, metal siding and cladding, heating, ventilating and air conditioning ("HVAC"), asbestos abatement, electrical and instrumentation, high voltage testing and commissioning, as well as power line construction and maintenance services.

Buildings Group

Our Buildings Group provides services to clients in the private and public sectors. It operates projects and branch offices across Canada.

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 and high technology facilities. The Buildings Group focuses on alternative methods of project delivery such as construction management and design-build approaches. These methods provide cost reductions for clients as a result of the project efficiencies we are able to 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 and negotiate larger construction management 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.

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 with offices and projects in British Columbia, Alberta, Saskatchewan and Manitoba. 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, complex projects that contain both data and electrical components, or that require extensive logistical expertise. Canem's strategy is to deliver 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 pre-fabricated modularized system components, which significantly improves worksite productivity.

RESULTS OF OPERATIONS

Consolidated Annual Results

$millions, except percentages and per share amounts	2016	2015[3]	2014[3]
	Year ended December 31		
Contract revenue	**909.6**	1,151.4	1,306.3
Contract income	**88.4**	121.7	115.7
Contract income margin[1]	***9.7%***	*10.6%*	*8.9%*
Administrative costs	**86.5**	94.4	92.5
Adjusted EBITDA[1]	**27.5**	51.2	43.6
Adjusted EBITDA margin[1]	***3.0%***	*4.4%*	*3.3%*
Net (loss) earnings from continuing operations	**(4.9)**	11.2	7.1
Net loss from discontinued operations	**nil**	nil	(20.2)
Net (loss) earnings	**(4.9)**	11.2	(13.1)
(Loss) earnings per share			
Basic (loss) earnings from continuing operations	**(0.18)**	0.42	0.29
Basic (loss) earnings per share	**(0.18)**	0.42	(0.52)
Diluted from continuing operations	**(0.18)**	0.39	0.28
Diluted (loss) earnings per share	**(0.18)**	0.39	(0.53)
Dividends declared per share	**0.48**	0.48	0.48
Adjusted free cash flow[1]	**(4.2)**	33.7	18.2
Adjusted free cash flow per share[1]	**(0.16)**	1.28	0.73

$millions	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Backlog[1]	**1,995.1**	1,960.9	1,986.8
Working capital[1] [2]	**41.4**	64.4	54.4
Long-term debt (excluding current portion)	**32.8**	46.6	0.8
Convertible debentures (excluding equity portion)[2]	**74.3**	72.5	155.8
Total assets	**602.2**	646.8	783.6

Notes: (1) "Contract income margin", "adjusted EBITDA", "adjusted EBITDA margin", "adjusted free cash flow", "adjusted free cash flow per share", "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 repaid June 30, 2015, are presented as a current liability of $84.8 million as at December 31, 2014.
(3) Adjusted EBITDA for the years ended December 31, 2015 and December 31, 2014 is calculated based on our current definition. Please refer to the "Non-IFRS Measures" section for more information on our definition and the calculation.

Consolidated Annual Results

For the year ended December 31, 2016, we recorded consolidated contract revenue of $909.6 million, a decline of $241.8 million or 21.0%, from $1,151.4 million in 2015. On a segmented basis, 2016 revenue decreased by $110.3 million or 27.1% in the Industrial Group, by $109.3 million or 19.9% in the Buildings Group, and by $34.7 million or 14.9% in the Commercial Systems Group. We recorded intersegment revenue eliminations of $24.7 million during 2016, a decrease of $12.6 million or 33.8% from 2015. This decrease reflects reduced intersegment activity between our business groups.

Full-year contract income was $88.4 million in 2016, a decline of $33.3 million or 27.4% from $121.7 million in 2015. While contract income generated by the Buildings Group increased by $0.8 million or 2.1%, this was offset by an $18.4 million or 37.9% decrease in contract income from the Industrial Group and an $8.1 million or 25.8% decrease from the Commercial Systems Group. The timing of intersegment eliminations further reduced contract income by $7.6 million year-over-year. Intersegment eliminations occur when two or more of our business groups work together on a project. Over the life of the project, the impact of the eliminations to contract income will net to nil; however, the impact of eliminations may be temporarily significant from period-to-period depending on a number of factors. These factors include the number of intersegment projects under construction, the scale of the projects, contract terms and project stage of completion. Contract income margin decreased to 9.7% from 10.6% last year.

Administrative costs decreased by $7.9 million or 8.4% to $86.5 million in 2016 from $94.4 million in 2015, notwithstanding the incurrence of $6.5 million of administrative restructuring expenses, reflecting the effectiveness of our cost realignment measures. Administrative expenses were down by $6.8 million or 25.7% in the Corporate Group and by $4.1 million or 14.4% in the Industrial Group. These savings were partially offset by restructuring cost-driven increases of $2.7 million or 10.7% in the Buildings Group and $0.3 million or 2.1% in the Commercial Systems Group.

Adjusted EBITDA declined 46.3% to $27.5 million in 2016, from $51.2 million in 2015. The $23.7 million year-over-year change primarily reflects the lower contract income, partially offset by lower core administrative costs (administrative costs excluding depreciation/amortization and restructuring charges). Adjusted EBITDA margin decreased to 3.0% from 4.4% in 2015.

We reported a consolidated net loss of $4.9 million for the year ended December 31, 2016 (diluted loss per share of $0.18), compared to consolidated net earnings of $11.2 million (diluted earnings per share of $0.39) in 2015. The year-over-year reduction reflects the lower adjusted EBITDA, restructuring charges incurred in 2016, and a one-time recovery in 2015 related to marking-to-market of an earn-out liability recognized as part of an acquisition. These impacts were partially offset by reduced finance costs and lower intangible asset amortization/impairment.

Adjusted free cash flow in 2016 was an outflow of $4.2 million (outflow of $0.16 per share), a decline of $37.9 million from an inflow of $33.7 million (inflow of $1.28 per share) in 2015. The year-over-year change reflects the decline in adjusted EBITDA, 2016 operational and administrative restructuring costs, the settlement of a provision in 2016, as well as an increase in capital expenditures related to the acquisition of property, equipment and intangibles. Partly offsetting these factors was a decrease in interest payments in 2016 as a result of having two sets of convertible debentures outstanding in the first half of 2015.

Consolidated Q4 Results

$millions, except percentages and per share amounts	Three months ended December 31 2016	2015[2]
Contract revenue	**218.8**	283.1
Contract income	**19.9**	30.7
Contract income margin[1]	***9.1%***	*10.8%*
Administrative costs	**20.1**	25.5
Adjusted EBITDA[1]	**5.4**	12.0
Adjusted EBITDA margin[1]	***2.5%***	*4.2%*
Net (loss) earnings	**(1.9)**	2.1
Earnings (loss) per share		
Basic (loss) earnings per share	**(0.07)**	0.08
Diluted (loss) earnings per share	**(0.07)**	0.08
Dividends declared per share	**0.12**	0.12
Adjusted free cash flow[1]	**0.6**	11.2
Adjusted free cash flow per share[1]	**0.02**	0.42

Notes: (1) "Contract income margin", "adjusted EBITDA", "adjusted EBITDA margin", "adjusted free cash flow", "adjusted free cash flow per share", "backlog" and "working capital" are non-IFRS measures. Refer to "Non-IFRS Measures" for definitions of these terms.
(2) Adjusted EBITDA for the three months ended December 31, 2015 is calculated based on our current definition. Please refer to the "Non-IFRS Measures" section for more information on our definition and the calculation.

Consolidated Q4 Results

For the three months ended December 31, 2016, we generated consolidated contract revenue of $218.8 million, 22.7% lower than the $283.1 million recorded in the same period in 2015. Revenue decreased by $48.6 million or 44.2% year-over-year in the Industrial Group and by $20.8 million or 35.0% in the Commercial Systems Group. Partially offsetting these decreases was a $3.7 million or 3.1% revenue increase in the Buildings Group, and a $1.3 million or 17.3% reduction in intersegment revenue eliminated on consolidation, reflecting lower levels of intersegment activity in the Q4 2016 period.

Fourth quarter contract income of $19.9 million decreased by $10.8 million or 35.2% from $30.7 million last year. The change in contract income included a $7.2 million or 58.5% decrease from the Industrial Group, a $4.3 million or 48.9% decrease from the Commercial Systems Group, and a $0.6 million or 5.4% decrease from the Buildings Group. The timing of intersegment eliminations further reduced contract income by $1.3 million year-over-year.

Fourth quarter 2016 administrative costs decreased to $20.1 million, from $25.5 million last year, primarily reflecting the benefits of our cost realignment measures. This 21.2% improvement was driven by administrative cost savings of $2.8 million or 38.4% in the Corporate Group, $1.3 million or 16.5% in the Buildings Group, $1.1 million or 16.2% in the Industrial Group and $0.4 million or 11.1% in the Commercial Systems Group.

For the three months ended December 31, 2016, we generated adjusted EBITDA of $5.4 million. This compares to $12.0 million in Q4 2015, a $6.6 million or 55.0% decrease. Adjusted EBITDA margin declined to 2.5% from 4.2% year-over-year. The change in adjusted EBITDA primarily reflects the lower contract income, partially offset by lower administrative costs.

We recorded a consolidated net loss of $1.9 million (diluted loss per share of $0.07) in the fourth quarter of 2016. This compares to net earnings of $2.1 million (diluted earnings per share of $0.08) in the fourth quarter of 2015. The $4.0 million year-over-year decline in net earnings reflects the lower adjusted EBITDA and significant restructuring costs incurred in the fourth quarter of 2016, partially offset by lower depreciation and tax expense.

Adjusted free cash flow in the fourth quarter of 2016 was an inflow of $0.6 million (inflow of $0.02 per share), a decline of $10.6 million from an inflow of $11.2 million (inflow of $0.42 per share) in the fourth quarter of 2015. The year-over-year change reflects the decline in adjusted EBITDA, as well as an increase in capital expenditures related to the acquisition of property, equipment and intangibles.

Consolidated Backlog

$millions, except percentages	Dec. 31, 2016	Dec. 31, 2015
Industrial Group	**822.9**	493.5
Buildings Group	**1,048.5**	1,334.0
Commercial Systems Group	**123.7**	133.4
Consolidated backlog	**1,995.1**	1,960.9
Construction management	**44.0%**	57.9%
Cost-plus	**38.2%**	28.2%
Design-build	**5.3%**	5.3%
Tendered (hard bid)	**12.5%**	8.6%

Consolidated backlog as at December 31, 2016 was $1,995.1 million, an increase of $34.2 million or 1.7% from backlog of $1,960.9 million as at December 31, 2015. As at December 31, 2016, backlog consisted of work-in-hand of $986.9 million (December 31, 2015 - $897.2 million) and active backlog of $1,008.2 million (December 31, 2015 - $1,063.7 million). Approximately 44.0% of the backlog consists of construction management contracts, 38.2% cost-plus arrangements, 5.3% design-build contracts and 12.5% tendered (hard-bid) work. Net new contract awards and increases in contract value of $202.5 million and $1,035.8 million were added to work-in-hand in the fourth quarter and full-year 2016, respectively.

Our book-to-bill ratio for the fourth quarter and full-year of 2016 was 0.74 to 1.0 and 1.04 to 1.0, respectively. Revenue exceeded backlog additions in the fourth quarter of 2016 primarily due to delays in the rollout of new infrastructure project opportunities. Backlog additions exceeded revenue in 2016 primarily as a result of the large five-year MSA awarded to the Industrial Group, which added $400.0 million to backlog in the first quarter of 2016. The remaining $100.0 million balance of the total $500.0 million MSA award was added to backlog in the fourth quarter of 2015.

RESULTS OF OPERATIONS BY BUSINESS GROUP

Industrial Group Results

	Three months ended December 31		Year ended December 31	
$millions, except percentages	**2016**	**2015[2]**	**2016**	**2015[2]**
Contract revenue	**61.4**	110.0	**296.4**	406.7
Contract income	**5.1**	12.3	**30.1**	48.5
Contract income margin[1]	**8.3%**	11.2%	**10.2%**	11.9%
Administrative costs	**5.7**	6.8	**24.4**	28.5
Adjusted EBITDA[1]	**1.2**	7.3	**14.0**	29.9
Adjusted EBITDA margin[1]	**2.0%**	6.6%	**4.7%**	7.4%
EBT[1]	**(0.7)**	5.6	**5.8**	20.0
Backlog[1][2]			**822.9**	493.5

Notes: (1) "Contract income margin", "adjusted EBITDA", "adjusted EBITDA margin", "EBT" and "backlog" are non-IFRS measures. Refer to "Non-IFRS Measures" for definitions of these terms.
(2) Adjusted EBITDA for the three months and year ended December 31, 2015 is calculated based on our current definition. Please refer to the "Non-IFRS Measures" section for more information on our definition and the calculation.

Three-Month Results

For the three months ended December 31, 2016, the Industrial Group generated revenue of $61.4 million, a $48.6 million or 44.2% decrease from revenue of $110.0 million during the same period in 2015. The year-over-year change primarily reflects the move by a number of customers in Alberta to demobilize MRO service providers for the December holiday break significantly earlier than in the past in order to preserve capital. It also reflects a reduction in new construction activity in the Alberta oil sands related to the "lower-for-longer" oil price environment. These impacts were partially offset by increased activity on a power project in Manitoba.

The Industrial Group reported fourth quarter 2016 contract income of $5.1 million, a $7.2 million or 58.5% decline from the $12.3 million achieved during the same period in 2015. As a percentage of revenue, fourth quarter contract income margin decreased to 8.3% from 11.2%. The year-over-year change in contract income and contract income margin in the fourth quarter of 2016 reflects an increased proportion of lower-risk cost reimbursable work in the current project mix and a decline in benefits associated with economies of scale as a result of the lower revenue level in 2016.

Fourth quarter administrative costs declined by $1.1 million or 16.2% to $5.7 million, from $6.8 million during the same period in 2015. This improvement was driven primarily by the group's 2016 cost realignment initiatives, partially offset by the recognition of administrative restructuring costs related to vacating leased facility space.

Adjusted EBITDA generated by the Industrial Group was $1.2 million (2.0% adjusted EBITDA margin) in the fourth quarter of 2016, compared to $7.3 million (6.6% adjusted EBITDA margin) during the same period in 2015. The $6.1 million or 83.6% decrease primarily reflects the lower contract income, partially offset by lower core administrative costs (administrative costs excluding depreciation, amortization and administrative restructuring costs).

The Industrial Group reported a fourth quarter loss before tax of $0.7 million, a decrease of $6.3 million from earnings before tax of $5.6 million in 2015. The year-over-year change was primarily due to the lower adjusted EBITDA and the recognition of administrative restructuring costs in the current quarter.

Twelve-Month Results

For the year ended December 31, 2016, the Industrial Group generated revenue of $296.4 million, a decrease of $110.3 million or 27.1% from $406.7 million in 2015. The change in revenue reflects the negative impact of the Northern Alberta wildfires, including the loss of MRO revenue, scope decreases on active projects and revenue impacts from projects that have been deferred. Revenue was also negatively impacted by the year-over-year reduction in new oil sands construction activity related to the "lower-for-longer" oil price environment. These impacts were partially offset by increased activity on a mining project in the Northwest Territories and initial work on a power project in Manitoba.

The Industrial Group generated 2016 contract income of $30.1 million, a decrease of $18.4 million or 37.9% from the $48.5 million achieved in 2015. Contract income margin was 10.2% in 2016 compared to 11.9% last year, reflecting additional costs associated with demobilizing and remobilizing on oil sands sites as a result of the wildfire crisis, project owners seeking supplier cost reductions, a greater proportion of lower-risk cost reimbursable MRO work in this year's project mix and $0.9 million in operational restructuring costs incurred in 2016 that were recognized as part of contract costs. These negative impacts were partially offset by the one-time release of project contingencies on two projects in 2016.

Administrative costs in 2016 decreased by $4.1 million or 14.4% to $24.4 million, from $28.5 million in 2015. This improvement primarily reflects the benefit of cost realignment initiatives undertaken in response to the economic environment in Alberta. It also reflects the absence in 2016 of impairment charges that negatively impacted 2015 results. These improvements were partially offset by administrative restructuring costs of $1.4 million in 2016 and a one-time recovery recognized in 2015 on marking-to-market of an earn-out liability recognized as part of an acquisition.

Adjusted EBITDA from the Industrial Group decreased by $15.9 million or 53.2% to $14.0 million (4.7% adjusted EBITDA margin) in 2016, from $29.9 million (7.4% adjusted EBITDA margin) in 2015. The year-over-year decrease relates primarily to the decline in contract income, partially offset by savings in core administrative costs (excluding depreciation, amortization, restructuring costs, impairment charges and recoveries related to investing decisions).

Industrial Group earnings before tax declined by $14.2 million or 71.0% to $5.8 million in 2016, from $20.0 million last year. The decrease in earnings before tax primarily reflects the decline in contract income, partially offset by the administrative cost savings.

Backlog

As at December 31, 2016, Industrial Group backlog increased to $822.9 million, from a backlog of $493.5 million at December 31, 2015. The $329.4 million or 66.7% increase was primarily due to the addition of $400.0 million of backlog related to a $500.0 million five-year MSA award in the first quarter of 2016 to provide MRO services to a longstanding oil sands customer in Alberta. The remaining $100.0 million of this $500.0 million award was subject to client renewal commitments issued to us in the previous year for work to be undertaken in 2016, and was included in backlog at the end of 2015. As at December 31, 2016, 82.0% of the Industrial Group's backlog was composed of cost-plus projects and 18.0% was tendered (hard-bid) projects. The December 31, 2016 backlog consisted of $334.2 million of work-in-hand and $488.7 million of active backlog, compared to $328.2 million of work-in-hand and $165.3 million of active backlog at December 31, 2015. With respect to work-in-hand, the Industrial Group contracted $314.1 million of new awards during the year and executed $296.4 million of contract revenue.

Buildings Group Results

$millions, except percentages	Three months ended December 31 2016	Three months ended December 31 2015[2]	Year ended December 31 2016	Year ended December 31 2015[2]
Contract revenue	**124.9**	121.2	**439.2**	548.5
Contract income	**10.5**	11.1	**39.0**	38.2
Contract income margin[1]	**8.4%**	9.2%	**8.9%**	7.0%
Administrative costs	**6.6**	7.9	**28.0**	25.3
Adjusted EBITDA[1]	**4.8**	6.2	**17.3**	17.5
Adjusted EBITDA margin[1]	**3.8%**	5.1%	**3.9%**	3.2%
EBT[1]	**4.0**	3.5	**11.2**	13.4
Backlog[1][2]			**1,048.5**	1,334.0

Notes: (1) "Contract income margin", "adjusted EBITDA", "adjusted EBITDA margin", "EBT" and "backlog" are non-IFRS measures. Refer to "Non-IFRS Measures" for definitions of these terms.
(2) Adjusted EBITDA for the three months and year ended December 31, 2015 is presented as calculated based on our current definition. Please refer to the "Non-IFRS Measures" section for more information on our definition and the calculation.

Three-Month Results

For the three months ended December 31, 2016, the Buildings Group generated revenue of $124.9 million, an increase of $3.7 million or 3.1% from $121.2 million in the same period in 2015. The primary factor in this increase was increased activity in Alberta and Ontario, partially offset by the completion of projects in Manitoba that provided significant revenue in the fourth quarter of 2015.

Contract income decreased slightly to $10.5 million in the fourth quarter of 2016, a decline of $0.6 million from $11.1 million during the same period in 2015. Contract income margin decreased to 8.4% from 9.2% year-over-year, reflecting the change in project mix and project stage of completion between the two periods, partially offset by the move away from higher-risk industrial projects that generated negative margins during the fourth quarter of 2015.

Fourth quarter 2016 administrative costs decreased by $1.3 million or 16.5% to $6.6 million, from $7.9 million in Q4 2015. The decrease in administrative costs was driven by benefits realized from our strategic cost realignment measures and the significant impairment and restructuring costs recognized in the 2015 period relating to subleasing excess office space.

The Buildings Group generated fourth quarter adjusted EBITDA of $4.8 million, a $1.4 million or 22.6% decrease from $6.2 million the previous year. The year-over-year change relates primarily to the lower contract income, partially offset by administrative cost savings (excluding depreciation, impairment and restructuring charges). Adjusted EBITDA margin decreased to 3.8% from 5.1% year-over-year.

The Buildings Group increased fourth quarter earnings before tax by 14.3% to $4.0 million, from $3.5 million in Q4 2015. The $0.5 million year-over-year increase reflects the positive impact of lower administrative costs, partially offset by the decrease in contract income.

Twelve-Month Results

For the year ended December 31, 2016, the Buildings Group generated revenue of $439.2 million, a decrease of $109.3 million or 19.9% from revenue of $548.5 million in 2015. The year-over-year change reflects lower activity levels due to delays in the rollout of new infrastructure opportunities, delays in the commencement of new projects currently in pre-construction and the planned reduction in Buildings Group industrial site project activity. These impacts were partially offset by the group's increased activity levels in Ontario and Saskatchewan.

Full-year Buildings Group contract income increased by 2.1% to $39.0 million, from $38.2 million in 2015. The $0.8 million increase reflects a contract income margin of 8.9% in 2016, compared to 7.0% in 2015. The higher contract income margin was principally driven by a change in project mix and project stage of completion in the two years and the move away from the higher-risk industrial projects that generated negative margins during 2015.

Buildings Group administrative costs increased $2.7 million or 10.7% to $28.0 million in 2016, from $25.3 million in 2015. The increase is primarily due to a $4.2 million onerous lease, restructuring and impairment costs recognized in 2016, of which $3.8 million was non-cash, compared to restructuring and impairment costs of $1.8 million in 2015.

Adjusted EBITDA for the year ended December 31, 2016 decreased by 1.1% to $17.3 million (3.9% adjusted EBITDA margin), from $17.5 million (3.2% adjusted EBITDA margin) in 2015. This $0.2 million change was driven by the higher administrative costs (excluding restructuring and impairment charges), partially offset by the improvement in contract income.

The Buildings Group generated fiscal 2016 earnings before tax of $11.2 million, compared to $13.4 million in 2015. The $2.2 million or 16.4% year-over-year change primarily reflects the lower adjusted EBITDA and higher administrative restructuring costs recognized in 2016.

Backlog

As at December 31, 2016, the Buildings Group's backlog was $1,048.5 million, compared to $1,334.0 million at December 31, 2015. The $285.5 million or 21.4% decrease primarily reflects reductions in both public and private backlog in Alberta and British Columbia as a result of delays in the rollout of new infrastructure opportunities. As at December 31, 2016, 80.6% of the Buildings Group's backlog was composed of CM assignments, 8.4% was cost-plus projects, 9.5% was design-build contracts and 1.4% was tendered (hard-bid) projects. The December 31, 2016 backlog consisted of $536.6 million of work-in-hand and $511.9 million of active backlog, compared to $447.6 million of work-in-hand and $886.3 million of active backlog as at December 31, 2015. With respect to work-in-hand, the Buildings Group contracted $528.2 million of new awards during the year and executed $439.2 million of contract revenue.

Commercial Systems Group Results

$millions, except percentages	Three months ended December 31 2016	Three months ended December 31 2015[2]	Year ended December 31 2016	Year ended December 31 2015[2]
Contract revenue	**38.6**	59.4	**198.8**	233.5
Contract income	**4.5**	8.8	**23.3**	31.4
Contract income margin[1]	**11.7%**	14.8%	**11.7%**	13.4%
Administrative costs	**3.2**	3.6	**14.3**	14.0
Adjusted EBITDA[1]	**2.0**	5.6	**12.1**	19.4
Adjusted EBITDA margin[1]	**5.2%**	9.4%	**6.1%**	8.3%
EBT[1]	**1.4**	5.2	**9.3**	17.7
Backlog[1][2]			**123.7**	133.4

Notes: (1) "Contract income margin", "adjusted EBITDA", "adjusted EBITDA margin", "EBT" and "backlog" are non-IFRS measures. Refer to "Non-IFRS Measures" for definitions of these terms.
(2) Adjusted EBITDA for the three months and year ended December 31, 2015 is presented as calculated based on our current definition. Please refer to the "Non-IFRS Measures" section for more information on our definition and the calculation.

Three-Month Results

For the three months ended December 31, 2016, the Commercial Systems Group generated revenue of $38.6 million, compared to $59.4 million in Q4 2015. The $20.8 million or 35.0% decline reflects lower activity levels due to delays in the rollout of new infrastructure opportunities, as well as the wrap up of a number of projects in Alberta and Manitoba that contributed significant revenue to the same period in 2015.

Fourth quarter contract income from the Commercial Systems Group decreased $4.3 million or 48.9% to $4.5 million, from $8.8 million in Q4 2015. As a percentage of revenue, fourth quarter contract income margin was 11.7% compared to 14.8% in Q4 2015, reflecting changes in project mix and stage of completion, competitive pricing pressures on new projects and operational restructuring costs incurred in the fourth quarter.

Administrative costs in the fourth quarter decreased to $3.2 million, from $3.6 million in Q4 2015. This $0.4 million or 11.1% decrease relates to cost savings associated with administrative restructuring activities undertaken during 2016.

Adjusted EBITDA from the Commercial Systems Group was $2.0 million (5.2% adjusted EBITDA margin) in the fourth quarter of 2016, compared to $5.6 million (9.4% adjusted EBITDA margin) in Q4 2015. The year-over-year decline in adjusted EBITDA and adjusted EBITDA margin primarily reflect the decrease in contract income, partially offset by the administrative cost savings.

The group generated earnings before tax of $1.4 million in the fourth quarter of 2016. This was $3.8 million or 73.1% lower than the $5.2 million achieved during the same period in 2015. The year-over-year decrease is mainly due to the lower adjusted EBITDA.

Twelve-Month Results

For the year ended December 31, 2016, revenue from the Commercial Systems Group decreased to $198.8 million, from $233.5 million in 2015. The $34.7 million or 14.9% reduction reflects the 2015 wrap up of a number of projects in British Columbia and Manitoba that contributed significant revenue to that year's results.

Full-year contract income decreased by $8.1 million, or 25.8%, to $23.3 million, from $31.4 million in 2015. Contract income margin decreased to 11.7% in 2016 from 13.4% in 2015, reflecting changes in project mix and project stage of completion, as well as customer-driven productivity issues on a large project that reached substantial completion in 2016.

Administrative costs increased by 2.1% to $14.3 million in 2016, from $14.0 million in 2015. The increase primarily reflects administrative restructuring costs recognized in 2016 as we realigned the group's cost structure to better match activity levels.

Adjusted EBITDA from the Commercial Systems Group was $12.1 million (6.1% adjusted EBITDA margin) in 2016, compared to $19.4 million (8.3% adjusted EBITDA margin) in 2015. The $7.3 million or 37.6% decrease primarily reflects the lower contract income.

The group generated 2016 earnings before tax of $9.3 million. This was $8.4 million or 47.5% lower than the $17.7 million achieved in 2015. The year-over-year decline is attributable to a combination of the lower adjusted EBITDA and the restructuring charges recognized in 2016.

Backlog

Commercial Systems Group backlog was $123.7 million at December 31, 2016, compared to $133.4 million at December 31, 2015, a decrease of $9.7 million or 7.3%. As at December 31, 2016, the group's backlog was composed of 24.8% CM and cost-plus projects, 5.1% design-build projects, and 70.0% tendered projects. The December 31, 2016 backlog consisted of $116.1 million of work-in-hand and $7.6 million of active backlog compared to $121.4 million of work-in-hand and $12.1 million of active backlog at December 31, 2015. With respect to work-in-hand, the group contracted $193.5 million of new awards during the year and executed $198.8 million of construction activity.

Corporate Group Results

	Three months ended December 31		Year ended December 31	
$millions	**2016**	**2015(2)**	**2016**	**2015(2)**
Administrative costs	**4.5**	7.3	**19.7**	26.5
Finance costs	**2.1**	2.1	**8.5**	12.4
Adjusted EBITDA(1)	**(2.4)**	(5.8)	**(12.0)**	(19.3)
EBT(1)	**(6.7)**	(9.4)	**(28.0)**	(38.6)

Note: (1) "Adjusted EBITDA" and "EBT" are non-IFRS measures. Refer to "Non-IFRS Measures" for the definition of the term.
(2) Adjusted EBITDA for the three months and year ended December 31, 2015 is presented as calculated based on our current definition. Please refer to the "Non-IFRS Measures" section for more information on our definition and the calculation.

Three-Month Results

For the three months ended December 31, 2016, Corporate Group administrative costs decreased by 38.4% to $4.5 million, from $7.3 million in the fourth quarter of 2015. The $2.8 million decrease is primarily related to a year-over-year reduction in incentive plan accruals as a result of the decline in consolidated financial results and a decrease in share-based compensation expense due to a 3.2% decrease in our share price in the quarter. This compares to a 2.3% appreciation in our share price in Q4 2015, and the corresponding impact of marking-to-market our share-based incentive plans.

The Corporate Group's finance costs were similar year-over-year in the fourth quarter of 2016 at $2.1 million, reflecting a comparable year-over-year average balance drawn on our revolving credit facility.

Corporate Group adjusted EBITDA improved to a loss of $2.4 million in Q4 2016, from a loss of $5.8 million in Q4 2015. The $3.4 million or 58.6% improvement primarily reflects the decrease in administrative costs (excluding depreciation, amortization and administrative restructuring costs). The Corporate Group incurred a fourth quarter 2016 loss before tax of $6.7 million, compared to a loss before tax of $9.4 million in the comparable period in 2015. The year-over-year decline was due to the decrease in administrative costs.

Twelve-Month Results

For the year ended December 31, 2016, Corporate Group administrative expenses declined by 25.7% to $19.7 million, from $26.5 million in 2015. The $6.8 million decrease is primarily related to a year-over-year reduction in the amount of incentive plan accruals as a result of the decline in consolidated financial results. This change was partially offset by an increase in share-based compensation expenses due to a 2.5% increase in our share price in 2016. This compares to a 25.5% decrease in our share price in 2015, and the corresponding impact of marking-to-market our share-based compensation plans.

The Corporate Group's finance costs were $8.5 million in 2016, compared to $12.4 million last year. The $3.9 million or 31.5% decrease reflects having just one set of higher interest convertible debentures outstanding in 2016, as compared to two sets for the first half of 2015.

Corporate Group adjusted EBITDA in 2016 improved by 37.8% to a loss of $12.0 million, from a loss of $19.3 million in 2015. The $7.3 million improvement reflects the decrease in administrative costs. For the year ended December 31, 2016, the Corporate Group incurred a loss before tax of $28.0 million, an improvement of $10.6 million or 27.5% compared to the loss before tax of $38.6 million in 2015. This year-over-year improvement reflects the decrease in administrative and finance costs.

LIQUIDITY

Cash and Borrowing Capacity

We monitor our liquidity principally through cash and cash equivalents and available borrowing capacity under our Revolver.

Current cash and cash equivalents as at December 31, 2016 were $31.5 million, compared to $33.7 million held at December 31, 2015. This $2.2 million decrease reflects the application of excess cash held to reduce amounts drawn under our Revolver.

As at December 31, 2016, we had additional borrowing capacity under our Revolver of $42.9 million, as compared to available capacity of $106.2 million at December 31, 2015. The $63.3 million reduction primarily reflects the impact of the reduction in our last-twelve-month adjusted EBITDA (calculated in accordance with the definition of EBITDA as set out in the Revolver Agreement) for the year ending December 31, 2016 as a result of the Northern Alberta wildfires, Alberta's challenging economic environment, the year-over-year negative impact of intersegment eliminations and the incurrence of significant restructuring costs in 2016.

Debt and Capital Structure

Long-term indebtedness, including the current portion of long-term debt and convertible debentures, decreased to $116.9 million at December 31, 2016, from $131.7 million as at December 31, 2015. Long-term indebtedness consists of $80.5 million (December 31, 2015 - $80.5 million) principal value at maturity of outstanding convertible debentures and the principal value of long-term debt of $36.4 million (December 31, 2015 - $51.2 million) before the deduction of deferred financing fees.

The current portion of long-term debt as at December 31, 2016 was $1.2 million (December 31, 2015 - $2.4 million).

We monitor our capital structure through the use of indebtedness to capitalization and net long-term indebtedness to adjusted EBITDA metrics. Indebtedness to capitalization as at December 31, 2016 was 35.7%, which is consistent with the 36.9% ratio as at December 31, 2015 and is in line with our long-term targeted range of 20.0% to 40.0%.

As at December 31, 2016, our net long-term indebtedness to adjusted EBITDA ("net debt to adjusted EBITDA") ratio was 3.1x, which is higher than the 1.8x presented as at December 31, 2015. This reflects the year-over-year decline in adjusted EBITDA. Notwithstanding this higher net debt to adjusted EBITDA level at December 31, 2016, management remains committed to its targeted three-to-five year planning range of 2.0x to 3.0x.

As at December 31, 2016, we were in full compliance with our Revolver covenants.

Ratio	Covenant	Actual as at Dec. 31, 2016
Interest coverage[(1)]	**>2.25:1.00**	**3.01**
Total debt to EBITDA[(2)]	**<3.00:1.00**	**1.35**

Notes: (1) The interest coverage covenant ratio requirement was amended on December 23, 2016, please refer to the next section of this document for further details.
(2) Total debt and EBITDA are calculated in accordance with their definitions in our Revolver agreement.

The outstanding balance under the Revolver fluctuates from quarter-to-quarter as it is drawn to finance working capital requirements, capital expenditures and acquisitions, and is repaid with funds from operations, dispositions or financing activities.

Revolver Amendments

On July 13, 2016, we completed the negotiation of improved terms and an extension to our Revolver, which now consists of a $150.0 million credit facility and a $25.0 million operating facility. The combination of these two facilities maintains our maximum available borrowing capacity of $175.0 million. The syndicated portion of the facility continues to include a $75.0 million accordion feature. The maturity date of the Revolver was extended to July 16, 2021.

On December 23, 2016, we negotiated an additional amendment to the Revolver Agreement to reduce the interest coverage ratio as we work through the negative factors impacting 2016 last-twelve month Revolver EBITDA. The interest coverage ratio must be:

- Not less than 2.25 to 1.0 for fiscal quarters ending December 31, 2016, March 31, 2017 and June 30, 2017,
- Not less than 2.50 to 1.0 for fiscal quarters ending September 30, 2017, December 31, 2017 and March 31, 2018, and
- Not less than 3.00 to 1.0 for fiscal quarters ending after March 31, 2018.

These amending agreements to the Revolver containing all of the foregoing changes and certain other non-material changes are available under our SEDAR profile at www.sedar.com.

Summary of Cash Flows

	Year ended December 31	
$millions	**2016**	**2015**
Operating activities	**24.8**	62.2
Investing activities	**(5.6)**	(65.7)
Financing activities	**(25.6)**	(62.8)
(Decrease) increase in cash	**(6.4)**	(66.3)
Cash and cash equivalents, beginning of period(1)	**37.8**	104.1
Cash and cash equivalents, end of period(1)	**31.5**	37.8

Note: (1) Cash and cash equivalents includes restricted cash.

For the year ended December 31, 2016, cash generated from operating activities was $24.8 million as compared to cash generated of $62.2 million in 2015, a year-over-year decrease of $37.4 million. The decrease was driven primarily by lower operating performance, the settlement of a provision during the period in 2016 and by a decline in the "change in non-cash working capital balances" year-over-year.

Cash used by investing activities amounted to $5.6 million in 2016, compared to $65.7 million in 2015, a net change of $60.1 million. This decline in cash used by investing activities primarily reflects the $62.3 million of cash consideration paid to complete the Studon acquisition in 2015, partially offset by increased capital expenditures in 2016 related to property, equipment and intangibles.

Cash used by financing activities totalled $25.6 million in 2016, as compared to $62.8 million of cash used by financing activities in the prior-year period. The $37.2 million decrease in cash used by financing activities primarily reflects the repayment of $86.3 million of our 2010 convertible debentures in the second quarter of 2015, partially offset by a draw on our Revolver in 2015 to assist in the repayment of the debentures.

External Factors Impacting Liquidity

Please refer to the section entitled “Risk Factors” contained in the Stuart Olson 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 comprised 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.

Capital expenditures, including property, equipment and intangible assets, are associated with our need to maintain and support existing operations. We expect capital expenditures for 2017 to be approximately $5.0 million, moderately below the $6.6 million of expenditures in 2016.

Working Capital

As at December 31, 2016, we had working capital of $41.4 million, compared to $64.4 million at December 31, 2015. The $23.0 million decrease primarily reflects a reduction in non-cash working capital as we resolved and collected a number of aged receivables, combined with lower activity levels in 2016 resulting in the conversion of non-cash working capital to cash in the year. Cash proceeds from the collection of non-cash working capital were used to repay amounts drawn under the Revolver.

On the basis of our current cash and cash equivalents, our ability to generate cash from operations and the undrawn portion of our Revolver, 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 30* of the December 31, 2016 Audited Consolidated Annual Financial Statements.

Contractual Obligations

The following are our contractual financial obligations as at December 31, 2016. Interest payments on the Revolver have not been included in the table below as they are subject to variability based upon outstanding balances at various points throughout the year. Further information is included in *Note 29(c)(iii)* of the December 31, 2016 Audited Consolidated Annual Financial Statements.

$thousands	**Carrying amount**	Contractual cash flows	Not later than 1 year	Later than 1 year and less than 3 years	Later than 3 years and less than 5 years	Later than 5 years
Trade and other payables	**$ 165,997**	$ 165,997	$ 165,997	$ nil	$ nil	$ nil
Provisions including current portion	**9,739**	12,708	5,730	2,195	1,361	3,422
Convertible debentures (debt portion)	**74,270**	94,990	4,830	90,160	nil	nil
Long-term debt including current portion	**33,985**	36,439	1,255	92	35,092	nil
Operating lease commitments	**nil**	59,290	8,705	14,371	14,370	21,844
	$ 283,991	$ 369,424	$ 186,517	$ 106,818	$ 50,823	$ 25,266

Scheduled long-term debt principal repayments due within one year of December 31, 2016 were $1.2 million (December 31, 2015 - $2.4 million).

Share Data

As at December 31, 2016, we had 26,921,371 common shares issued and outstanding and 1,995,134 options convertible into common shares (December 31, 2015 - 26,532,482 common shares and 1,715,118 options). Please refer to *Note 26* and *Note 27* of the December 31, 2016 Audited Consolidated Annual Financial Statements for further details. On January 17, 2017, we issued 106,777 shares pursuant to our Dividend Reinvestment Plan (“DRIP”). The details pertaining to our DRIP are available on our website at www.stuartolson.com. As at March 7, 2017, we had 27,028,148 common shares issued and outstanding and 1,995,134 options convertible into common shares.

The $80.5 million of 6.0% convertible debentures issued in September 2014 are convertible into 5,689,046 common shares, based on a conversion price of $14.15 per share.

As at December 31, 2016, shareholders’ equity was $210.8 million, compared to $225.0 million as at December 31, 2015. This $14.2 million decrease reflects $12.9 million of dividends declared and a net loss of $4.9 million in 2016. These effects were partially offset by a $0.7 million defined benefit plan actuarial gain, net of tax, $2.2 million related to shares issued pursuant to the DRIP and $0.6 million related to share-based compensation expense.

DIVIDENDS

Declaration of Common Share Dividend

On March 7, 2017, 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 13, 2017 to shareholders of record on March 31, 2017. The declaration of this dividend reflects the Board’s 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 as at December 31, 2016.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2016, Don Sutherland, the former President of Studon, was no longer considered a related party. Stuart Olson incurred facility costs during the year ended December 31, 2015 of $0.5 million for the rental of buildings that were partially owned indirectly by Mr. Sutherland. No amounts were included in trade payables as at December 31, 2015.

During the year ended December 31, 2016, George Schneider, a former Director of Stuart Olson and owner of Schneider Investments Inc., was no longer considered a related party. We incurred facility costs during the year ended December 31, 2015 of $0.3 million for the rental of a building that is 50% owned by Schneider Investments Inc. No amounts were included in trade payables as at December 31, 2015.

QUARTERLY FINANCIAL INFORMATION

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

	2016 Quarter Ended:				**2015 Quarter Ended(2):**			
$millions, except per share amounts	**Dec. 31**	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Contract revenue	**218.8**	220.7	227.2	243.0	283.1	281.7	303.7	282.9
Adjusted EBITDA(1)	**5.4**	8.6	7.2	6.4	12.0	15.8	12.9	10.5
Net (loss) earnings	**(1.9)**	1.4	(3.4)	(0.9)	2.1	6.4	1.7	1.0
Net (loss) earnings per common share								
Basic (loss) earnings per share	**(0.07)**	0.05	(0.13)	(0.03)	0.08	0.24	0.06	0.04
Diluted (loss) earnings per share	**(0.07)**	0.05	(0.13)	(0.03)	0.08	0.18	0.06	0.04

Note: (1) Adjusted EBITDA is a non-IFRS measure, please refer to the "Non-IFRS Measures" section for the definition.
(2) On January 6, 2015, we acquired all of the issued and outstanding shares of Studon. Our reported results include Studon's results from the acquisition date.

Financial results for the second quarter of 2015 increased compared to the first quarter of 2015, principally due to seasonal increases in revenue and margin for the Industrial Group, margin improvement for the Buildings Group and an increase in profit associated with intersegment eliminations.

Third quarter 2015 revenue declined compared to the second quarter of 2015 due to lower activity levels for our Commercial Systems Group and Buildings Group related to project timing and weaker market conditions in Alberta. Notwithstanding the decline in revenue, adjusted EBITDA and earnings improved quarter-over-quarter as a result of improved margin earned by each of our groups.

Modest revenue increases for our Industrial Group and Commercial Systems Group in the fourth quarter of 2015 as compared to the third quarter were partially offset by a reduction in Buildings Group activity. Fourth quarter adjusted EBITDA and contract income declined primarily as a result of a shift in intersegment eliminations. Profit recorded in Q3 2015 as a result of intersegment projects reversed in the fourth quarter as these projects moved into later stages of completion.

Revenue decreased in the first quarter of 2016 compared to the fourth quarter of 2015, driven primarily by seasonal declines in activity levels for our Industrial Group and the completion of a major project for our Buildings Group in Manitoba that provided significant revenue in Q4 2015. First quarter adjusted EBITDA and contract income results were negatively affected by the timing of intersegment eliminations, and adjusted EBITDA was further impacted by the increase in our share price and the associated effect on share-based compensation expense (quarter-over-quarter net impact of $1.2 million).

Second quarter 2016 results were negatively impacted by the Northern Alberta wildfires which disrupted Industrial Group operations. Restructuring costs were also recognized in all of our groups as we aligned our cost structure for the current economic environment. Notwithstanding these negative impacts, adjusted EBITDA improved as a result of an increase in Buildings Group activity, a reversal of intersegment eliminations in the first quarter that did not repeat in the second quarter, and a decrease in share-based compensation expense. The latter reflects the impact of a decrease in our share price in the second quarter of 2016, compared to share price appreciation in the first quarter of 2016.

Adjusted EBITDA and net earnings improved in the third quarter of 2016 on stable revenues, as compared to the second quarter. The improvement was driven by a lessened impact of the Northern Alberta wildfires on our third quarter results, as well as significant restructuring costs reflected in the second quarter results that did not repeat to the same extent in the third quarter. Partially offsetting these impacts was a share-based compensation recovery recognized in the second quarter of 2016 as a result of a decline in our share price, as compared to slight share price appreciation in the third quarter of 2016.

Financial results for the fourth quarter of 2016 declined compared to the third quarter of 2016 primarily reflecting the release in the third quarter of 2016 of one-time project contingencies on two Industrial Group projects that did not repeat in Q4. This impact was partially offset by the neutral impact of intersegment eliminations on the quarter, as compared to a negative impact in Q3. Share-based compensation expense was also lower in the fourth quarter than in the third quarter. This reflects a decline in our share price in the fourth quarter of 2016, as compared to slight share price appreciation in the third quarter.

For a more detailed discussion and analysis of quarterly results prior to December 31, 2016, please review our 2015 and 2014 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;
- Income taxes;
- Revenue recognition;
- Estimates used to determine costs in excess of billings and contract advances;
- Estimates used to determine allowance for doubtful accounts;
- Measurement of defined benefit pension obligations;
- Estimates related to the useful lives and residual value of property and equipment;
- Estimates in impairment of property and equipment, goodwill and intangible assets;
- Estimates in amounts and timing of provisions;
- Assumptions used in share-based payment arrangements; and
- Assumptions and estimates surrounding the fair value of assets and liabilities recognized through business combinations.

The key assumptions and basis for the estimates that management has made under IFRS and their impact on the amounts reported in the Audited Consolidated Annual Financial Statements and notes thereto, are contained in the 2016 Annual Report, Management's Discussion and Analysis.

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 re-measured 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.

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.

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 us 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.

We recognize 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 consolidated statements of financial position.

Estimates Used to Determine Allowance for Doubtful Accounts

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

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

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 Note 13* 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.

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 and any other costs directly attributable to bringing the assets to working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets 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 consolidated statements of (loss) earnings 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 of each class of property and equipment 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 4 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.

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 as a result of multiple past acquisitions. The Industrial Group's goodwill stems from the Laird Electric Inc. acquisition in 2003 and the Studon acquisition in 2015. Goodwill associated with the Buildings Group and the Commercial Systems Group arose from the Seacliff Construction Corp. acquisition in 2010. Additional goodwill was attributed to the Commercial Systems Group through the McCaine Electric Ltd. acquisition in 2011. Goodwill recognized on all of these acquisitions was attributable mainly to revenue growth, future market development, the assembled workforce and the synergies achieved from the integration of acquired companies into existing construction, commercial and industrial services.

During the fourth quarter of 2016, the Company performed its annual goodwill impairment test. The calculated Business Enterprise Value for each of the Cash Generating Units ("CGUs") incorporated the financial projections set out in the respective CGU's strategic plans. The annual impairment review resulted in no impairment charge in the current year.

The recoverable amounts of the CGUs' assets were 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. We use our 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 the December 2016 update of the Company's Strategic Plan.

A four-year period for the discounted cash flow analysis was used since financial projections beyond a four year time period are generally best represented by a terminal value. This period is appropriate given the timing of the project backlog 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 time frame. 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 an after-tax discount rate of 11% (2015 – 11%) and a steady annual growth rate of 2% (2015 – 2%) 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. They take 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

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

Estimates Associated with Amounts and Timing of Provisions

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.

Restructuring provisions relate to both ongoing operations and acquisitions and are accrued when we demonstrate our commitment to implement a detailed restructuring plan. The amounts provided represent management's best estimate of the costs for restructuring.

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 nature uncertain and the amounts recorded reflect the best estimate of the expenditure required to settle the obligations.

Subcontractor default provision relates to management's best estimate of exposures and costs associated with prior or existing subcontractor performance and the risk of potential default. We conduct a thorough review of the liability every reporting period and take into consideration our experience to date with those subcontractors, some of which are enrolled in our subcontractor default insurance program, and the changes to factors that tend to affect the construction sector. The current portion of the subcontractor default liability represents the risk related to payments not covered by the insurance deductible.

A provision for onerous contracts is recognized when the expected benefit from a contract is lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Impairment losses on assets associated with the onerous contract are recognized prior to the provision being established.

Assumptions Used in Share-Based Payment Arrangements

The grant date fair value of share-based payment awards, or 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.

The fair value of the amount payable to employees and Directors in respect of Medium Term Incentive Plans ("MTIPs") and Deferred Share Units ("DSUs"), for which the participants are eligible to receive an equivalent cash value of the common shares at a future date, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees provide the related service and Directors become entitled to payment. The liability is re-measured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as compensation expense in profit or loss.

Bridging Restricted Share Units ("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.

Restricted Share Units ("RSUs") 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.

Performance Share Units ("PSUs") 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 and the payout can be 0% to 200% of the vested units, subject to the achievement of certain corporate objectives as approved by the Board of Directors. Each grant of PSUs is individually evaluated regularly with regard to vesting and payout assumptions.

We will settle the BRSUs, RSUs and PSUs (collectively, the MTIPs) in cash within 20 business days after vesting. The original cost of the MTIPs 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 are recognized as a compensation expense in the period in which the changes occur.

Information about the vesting conditions for share-based payments is disclosed in *Note 26* of the Audited Consolidated Annual Financial Statements.

Assumptions and Estimates Surrounding the Fair Value of Assets and Liabilities Recognized through Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred to us, liabilities incurred by us to the former owners of the acquiree and the equity interests issued or cash paid by us in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred, unless related to the issuance of debt or equity.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12, Income Taxes, and IAS 19, Employee Benefits, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, Share-based Payment, at the acquisition date; and
- Assets that are classified as held-for-sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, are measured in accordance with that standard.

We measure goodwill as the excess of the sum of the fair value of the consideration transferred, the amount of any non-controlling interests and the fair value of the acquirer's previously held interest in the acquiree, if any, over the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

When the consideration transferred includes liabilities from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are those that arise from additional information obtained during the 'measurement period' about facts and circumstances that existed at the acquisition date.

Subsequent to the acquisition date, contingent consideration that is classified as a liability is re-measured at subsequent reporting dates, with the corresponding gain or loss being recognized in earnings or loss.

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* of the December 31, 2016 Audited Consolidated Annual Financial Statements 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 Revolver, 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 December 31, 2016 Audited Consolidated Annual 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, 2016 was $1.0 million (December 31, 2015 - $2.6 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, 2016, we had $14.0 million of trade receivables (December 31, 2015 - $27.4 million) which were greater than 90 days past due, with $13.0 million not provided for as at December 31, 2016 (December 31, 2015 - $24.9 million). Management is not concerned about the credit quality and collectability of these accounts as the concentration of credit risk is limited due to its large and unrelated customer base. The improvement from year-end 2015 is primarily the result of the resolution and collection of a number of significant balances that were outstanding at December 31, 2015. Trade receivables are included in trade and other receivables in the December 31, 2016 Audited Consolidated Statements 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. As at December 31, 2016, the increase or decrease in annual net earnings for each 100 basis point change in interest rates on floating rate debt would have been approximately $0.2 million (December 31, 2015 - $0.3 million) related to financial assets and $0.2 million (December 31, 2015 - $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 29* of the December 31, 2016 Audited Consolidated Annual Financial Statements for further detail.

Controls & Procedures

All of the controls and procedures set out below encompass all Stuart Olson companies.

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 Chief Executive Officer (“CEO”) and Chief Financial Officer (“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 comprised of members of our senior management team.

An evaluation of the effectiveness of the design of our disclosure controls and procedures was carried out under the supervision of our management, including our CEO and CFO, with oversight by the Board of Directors and Audit Committee, as of December 31, 2016. 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, 2016.

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. Absolute assurance cannot be provided that all misstatements have been detected because of inherent limitations in all control systems. 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, 2016, 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, 2016 and ending on December 31, 2016 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", "adjusted EBITDA", "adjusted EBITDA margin", "EBT", "adjusted free cash flow", "adjusted free cash flow per share", "Indebtedness", "Indebtedness to Capitalization" and "Net Long-Term Indebtedness to adjusted 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 MRO contracts during the shorter of: (a) 12 months, or (b) the remaining life of the contract.

Backlog and Active Backlog

Backlog means the total value of work, including work-in-hand, that has not yet been completed that: (a) is assessed by us as having high certainty of being performed by us or our subsidiaries by either the existence of a contract or work order specifying job scope, value and timing, or (b) has been awarded to us or our subsidiaries, as evidenced by an executed binding or non-binding letter of intent or agreement, describing the general job scope, value and timing of such work, and with the finalization of a formal contract respecting such work currently assessed by us as being reasonably assured.

Active backlog is the portion of backlog that is not work-in-hand (has not been contractually awarded to us). We provide no assurance that clients will not choose to defer or cancel their projects in the future.

$millions	**Dec. 31, 2016**	**Dec. 31, 2015**
Work-in-hand	**986.9**	897.2
Active backlog	**1,008.2**	1,063.7
Consolidated backlog	**1,995.1**	1,960.9

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 the impact of backlog additions from acquisitions and 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. The following outlines the calculation of our book-to-bill ratio for the current year periods.

	Year ended	**Three months ended**
$millions, except book-to-bill ratio	**Dec. 31, 2016**	**Dec. 31, 2016**
Ending backlog	**1,995.1**	1,995.1
Less: Opening backlog	**(1,960.9)**	(2,050.9)
Plus: Contract revenue	**909.6**	218.8
Net backlog additions	**943.8**	163.0
Divided by: Contract revenue	**909.6**	218.8
Book-to-bill ratio	**1.04**	0.74

Working Capital

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

$millions	**Dec. 31, 2016**	**Dec. 31, 2015**
Current assets	**289.6**	319.8
Current liabilities	**(248.2)**	(255.4)
Working capital	**41.4**	64.4

Adjusted EBITDA and EBT

We define EBT as earnings/loss from continuing operations before income taxes.

We define adjusted EBITDA as net earnings/loss from continuing operations before finance costs, finance income, income taxes, capital asset depreciation and amortization, impairment charges, restructuring costs, costs or recoveries relating to investing activities and gains/losses on assets, liabilities and investment dispositions.

EBITDA and adjusted EBITDA are common financial measures used by investors, analysts and lenders as an indicator of operating performance, as well as a valuation metric and as a measure of a company's ability to incur and service debt. Our calculation of adjusted EBITDA excludes items that do not reflect our ongoing operations, including restructuring charges and charges related to investing decisions, and that we believe should not be reflected in a metric used for valuation and debt servicing evaluation purposes.

While EBITDA and adjusted EBITDA are common financial measures widely used by investors to facilitate an "enterprise level" valuation of an entity, they do not have a standardized definition prescribed by IFRS and therefore, other issuers may calculate EBITDA or adjusted EBITDA differently. The following is a reconciliation of our net earnings to EBT and adjusted EBITDA for each of the periods presented in this MD&A.

	2016 Quarter Ended:				**2015 Quarter Ended:**			
$millions	**Dec. 31**	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Net (loss) earnings	**(1.9)**	1.4	(3.4)	(0.9)	2.1	6.4	1.7	1.0
Add: Income tax (recovery) expense	**(0.3)**	0.6	(1.2)	(0.2)	1.4	0.9	2.2	0.4
EBT	**(2.2)**	2.0	(4.6)	(1.1)	3.5	7.3	3.9	1.4
Add: Depreciation and amortization	**4.0**	4.1	4.1	4.3	4.7	5.1	5.2	5.2
Impairment	**nil**	nil	0.2	nil	1.2	4.0	nil	nil
Finance costs	**2.2**	2.1	2.2	2.2	2.1	2.4	4.0	4.1
Finance income	**nil**	nil	nil	nil	nil	nil	(0.3)	(0.1)
Recovery relating to investing activities	**nil**	nil	nil	nil	nil	(2.9)	nil	nil
Restructuring costs	**1.4**	0.4	5.3	1.0	0.6	nil	nil	nil
(Loss) gain on disposal of assets	**nil**	nil	nil	nil	(0.1)	(0.1)	0.1	(0.1)
Adjusted EBITDA	**5.4**	8.6	7.2	6.4	12.0	15.8	12.9	10.5

	Year ended December 31	
$millions	**2016**	**2015**
Net (loss) earnings	**(4.9)**	11.2
Add: Income tax (recovery) expense	**(0.9)**	4.8
EBT	**(5.8)**	16.0
Add: Depreciation and amortization	**16.5**	20.3
Impairment	**0.2**	5.2
Finance costs	**8.6**	12.6
Finance income	**(0.1)**	(0.5)
Recovery relating to investing activities	**nil**	(2.9)
Restructuring costs	**8.1**	0.6
Loss on disposal of assets	**nil**	(0.1)
Adjusted EBITDA	**27.5**	51.2

Adjusted EBITDA Margin

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

Adjusted Free Cash Flow

We define adjusted free cash flow as cash generated/used in operating activities less cash expenditures of intangible, property and equipment assets (excluding business acquisitions), adjusted to exclude the impact of changes in non-cash working capital balances. Adjusted free cash flow per share is calculated as adjusted free cash flow divided by the basic weighted average number of shares outstanding for each period.

Management uses adjusted free cash flow as a measure of our operating performance, reflecting the amount of cash flow from operations that is available, after capital expenditures that is available to pay dividends, repay debt, repurchase shares or reinvest in the business. Adjusted free cash flow is particularly useful to management because it isolates both non-cash working capital invested during periods of growth and working capital converted to cash during seasonal declines in activity.

The following is a reconciliation of adjusted free cash flow and per share amounts for each of the periods presented in this MD&A.

	Three months ended December 31		Year ended December 31	
$millions, except per share data and number of shares	**2016**	**2015**	**2016**	**2015**
Net cash generated in operating activities	**15.4**	15.6	**24.8**	62.2
Less: Cash additions to intangible assets	**(1.0)**	(0.3)	**(2.3)**	(0.9)
Cash additions to property and equipment	**(0.5)**	(1.8)	**(4.3)**	(3.6)
Cash generated by changes in non-cash working capital balances	**(13.2)**	(2.3)	**(22.4)**	(24.0)
Adjusted free cash flow	**0.6**	11.2	**(4.2)**	33.7
Adjusted free cash flow per share	**0.02**	0.42	**(0.16)**	1.28
Basic shares outstanding	**26,908,294**	26,518,139	**26,761,994**	26,364,511

Long-term Indebtedness

Long-term indebtedness is the gross value of our indebtedness. It is calculated as the principal value of long-term debt (current and non-current amounts before the deduction of deferred financing fees) and principal value at maturity 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 divided by the sum of long-term indebtedness and total equity.

Net Long-Term Indebtedness to Adjusted EBITDA

Net long-term indebtedness to adjusted 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 is divided by last-twelve-month adjusted EBITDA.

FORWARD-LOOKING INFORMATION

Certain information contained in this MD&A may constitute forward-looking information. All statements, other than statements of historical fact, may be forward-looking information. This information relates to future events or our future performance and includes financial outlook or future-oriented financial information. Any financial outlook or future oriented financial information in the MD&A has been approved by management of Stuart Olson. Such financial outlook or future oriented financial information is provided for the purpose of providing information about management's current expectations and plans relating to the future. 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 the information will prove to be correct and such information should not be unduly relied upon by investors as actual results may vary significantly. 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 2017;
- 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;
- Our outlook on the business generally and by business group, including, without limitation, those statements in the section entitled "Outlook" relating to backlog execution, project mix and timing, earnings visibility, meaningfully higher revenue in 2017 compared to 2016, higher overall adjusted EBITDA and adjusted EBITDA margins for 2017, increases in Industrial Group and Buildings Group revenue, adjusted EBITDA and adjusted EBITDA margin, similar Commercial Systems Group revenue and higher adjusted EBITDA and adjusted EBITDA margin in 2017 as compared to 2016;
- 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;
- Our estimate of the value of the five-year MSA to provide MRO services to a longstanding oil sands customer;
- Our expectation that restructuring and cost cutting initiatives will deliver permanent expense reductions going forward;
- Our plans to assess and, if necessary, adjust our cost structure against the activity of the business in 2017;
- Our expectations as to future general economic conditions and the impact those conditions may have on the company and our businesses including, without limitation, the reaction of oil sands owners to the recent changes in oil prices; 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 continuation of challenging market conditions in Alberta;
- An increased percentage of our Industrial Group revenue coming from lower-risk cost-reimbursable MRO projects;
- The ability of counterparties with whom we invest cash and equivalents to meet their obligations;
- 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.