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Q3 2016 Management's Discussion and Analysis

November 3, 2016

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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 nine months ended September 30, 2016, dated November 3, 2016, should be read in conjunction with the September 30, 2016 Condensed Consolidated Interim 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; adjusted free cash flow (FCF) 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.

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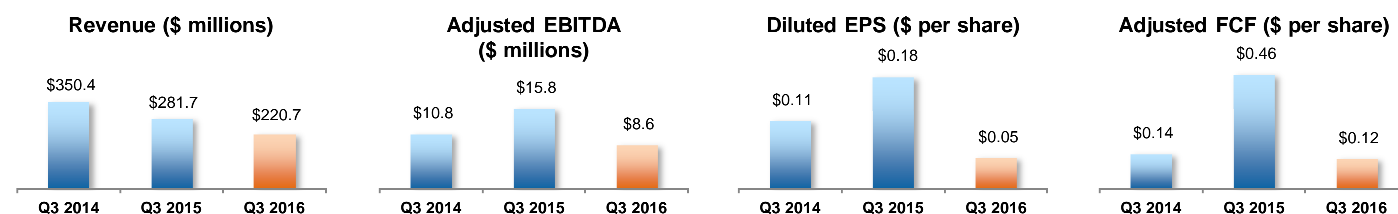
THIRD QUARTER 2016 OVERVIEW



- As at September 30, 2016, our backlog was $2.1 billion and included a diverse mix of public, private and industrial projects from Ontario to British Columbia. The backlog is predominantly made up of low-risk contract arrangements.
  - During the third quarter, we announced $185.0 million of awards for our Buildings and Industrial Groups. These new contracts include a major mining project for our Industrial Group in Ontario, as well as several infrastructure projects for our Buildings Group funded by the most recent Federal and Alberta capital budgets.
  - Subsequent to the quarter end, on November 3, 2016, we announced $130.0 million in long-term maintenance, repair and operations ("MRO") contracts related to new oil and gas facilities transitioning from project phase to operations.
- Revenue for the third quarter declined to $220.7 million, from $281.7 million in Q3 of 2015. The year-over-year change reflects continued challenges for our Industrial Group in Alberta, including the impact of low oil prices and the lingering effects of the Northern Alberta wildfires on the oil and gas industry. In addition, revenue results for the Buildings Group reflect delays in the rollout of new infrastructure opportunities, as well as a change in project stage of completion, with a greater proportion of new projects currently in pre-construction.
- Contract income margin of 10.7%, compares to 12.2% in the third quarter of 2015. Contract income was $23.6 million compared to $34.4 million last year. The reduction in contract income reflects the lower revenue combined with a lower contract income margin. Prior-year contract income also included the benefit of $1.3 million in positive intersegment eliminations, while Q3 2016 included a reversal of intersegment profit of $1.3 million.
- In response to challenging market conditions, we continued to assess our cost structure with a focus on reducing overhead. Restructuring and cost-cutting initiatives undertaken year-to-date contributed to the third quarter year-over-year reduction in administrative costs, partially mitigated the year-over-year decline in contract income and are expected to deliver additional permanent expense reductions going forward. Restructuring costs of $0.4 million related to third quarter initiatives were recognized during the period. We expect to continue to assess and aggressively match our cost structure to the activity of the business through the balance of 2016.
- We generated third quarter adjusted EBITDA of $8.6 million (adjusted EBITDA margin of 3.9%), compared to $15.8 million (adjusted EBITDA margin of 5.6%) in Q3 2015. Our adjusted EBITDA results reflect lower contract income, partially offset by the reduction in administrative costs achieved through our cost-containment initiatives.
- We reported third quarter net earnings of $1.4 million (diluted earnings per share of $0.05), compared to net earnings of $6.4 million (diluted earnings per share of $0.18) in Q3 2015. The decrease in net earnings reflects the lower adjusted EBITDA and a Q3 2015 recovery related to marking-to-market of an earn-out liability recognized as part of an acquisition, partially offset by lower depreciation expense and a one-time impairment charge incurred in Q3 2015 that did not repeat.
- We ended the third quarter with a cash balance of $28.3 million and additional borrowing capacity of approximately $55.9 million at September 30, 2016.
- On July 13, 2016, we successfully amended our revolving credit facility ("Revolver"), extending the maturity by one year to 2021 and negotiating improved terms. This amendment maintains our maximum borrowing capacity of $175.0 million.
- On November 3, 2016, 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 January 17, 2017 to shareholders of record on December 31, 2016.

OUTLOOK

Based on results for the first nine months and our expectations for the balance of the year, we anticipate that 2016 consolidated revenue will remain substantially below the level achieved in 2015. Our revenue outlook reflects the negative impact of the Northern Alberta wildfires on Industrial Group activity in the oil sands, the continuation of challenging market conditions in Alberta related to the “lower-for-longer” oil price environment, and the slow roll out of new infrastructure project opportunities. On a longer term basis, our $2.1 billion backlog provides line of sight to activity levels for 2017 and into 2018, and reflects our access to many different segments and geographic markets within the Canadian construction market. Both the Buildings Group and Commercial Systems Group are executing backlogs dominated by public projects across multiple provinces. 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.

Adjusted EBITDA and adjusted EBITDA margin are expected to be lower in 2016, reflecting the impact of the wildfires on our Industrial Group’s operations, the continuation of challenging economic conditions in the Alberta market as a whole, and an increased proportion of lower-risk, and correspondingly lower-margin, MRO projects within our Industrial Group. Adjusted EBITDA results for 2016 are also expected to include the reversal of intersegment eliminations that favourably impacted 2015 results.

Industrial Group Outlook

We expect 2016 revenue for the Industrial Group to be materially below 2015 levels as a result of the uniquely challenging conditions faced by oil sands customers this year. We expect these impacts will be partially offset by our execution of industrial projects outside of Alberta, including initial work on a large power distribution project in Manitoba and the 2016 completion of the mining project in the Northwest Territories.

Industrial Group adjusted EBITDA and adjusted EBITDA margin as a percentage of revenue are expected to be significantly lower year-over-year as a result of the productivity challenges and additional costs incurred during, and following, the wildfire crisis. Competitive market pressures in Alberta and an increased proportion of revenue coming from lower-risk cost-reimbursable MRO projects are also expected to negatively impact adjusted EBITDA and adjusted EBITDA margin from the group.

We expect to execute approximately $61.6 million of the Industrial Group’s September 30, 2016 backlog in the balance of 2016. New contract awards and scope changes are expected to supplement the Industrial Group’s 2016 revenue from backlog.

Buildings Group Outlook

We expect the Buildings Group to achieve moderately higher adjusted EBITDA and adjusted EBITDA margin in 2016 on lower revenue compared to 2015. This outlook reflects the strategic shift undertaken in 2015 by the Buildings Group to discontinue industrial sector projects and to re-focus efforts on the group’s core strengths in the public and private construction markets. In addition, the lower revenue expectation reflects delays in the rollout of new infrastructure opportunities, as well as delays in the commencement of new projects currently in pre-construction. Buildings Group revenue as a whole will continue to be supported by predominantly public projects in multiple provinces, including the group’s growing activity in Ontario. The higher adjusted EBITDA expectations primarily reflect the favourable shift in project mix, and to a lesser extent, a change in project stage of completion with several larger public projects scheduled to reach completion in 2016.

We expect to execute approximately $121.6 million of the Buildings Group’s September 30, 2016 backlog during the remainder of 2016. 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 2016 revenue is expected to be lower than in 2015, reflecting the completion in 2015 of a number of significant projects and a slower-than-expected rollout of new projects in 2016. Adjusted EBITDA and adjusted EBITDA margins are expected to be materially lower than in 2015, reflecting the competitive market environment in Alberta and customer-driven productivity challenges on a large project that reached substantial completion in Q3 2016.

During 2016, the Commercial Systems Group expects to execute approximately $34.7 million of its September 30, 2016 backlog. New awards, short-duration projects, building maintenance and tenant improvement work on existing projects are expected to supplement the secured revenue in backlog to be executed in the year.

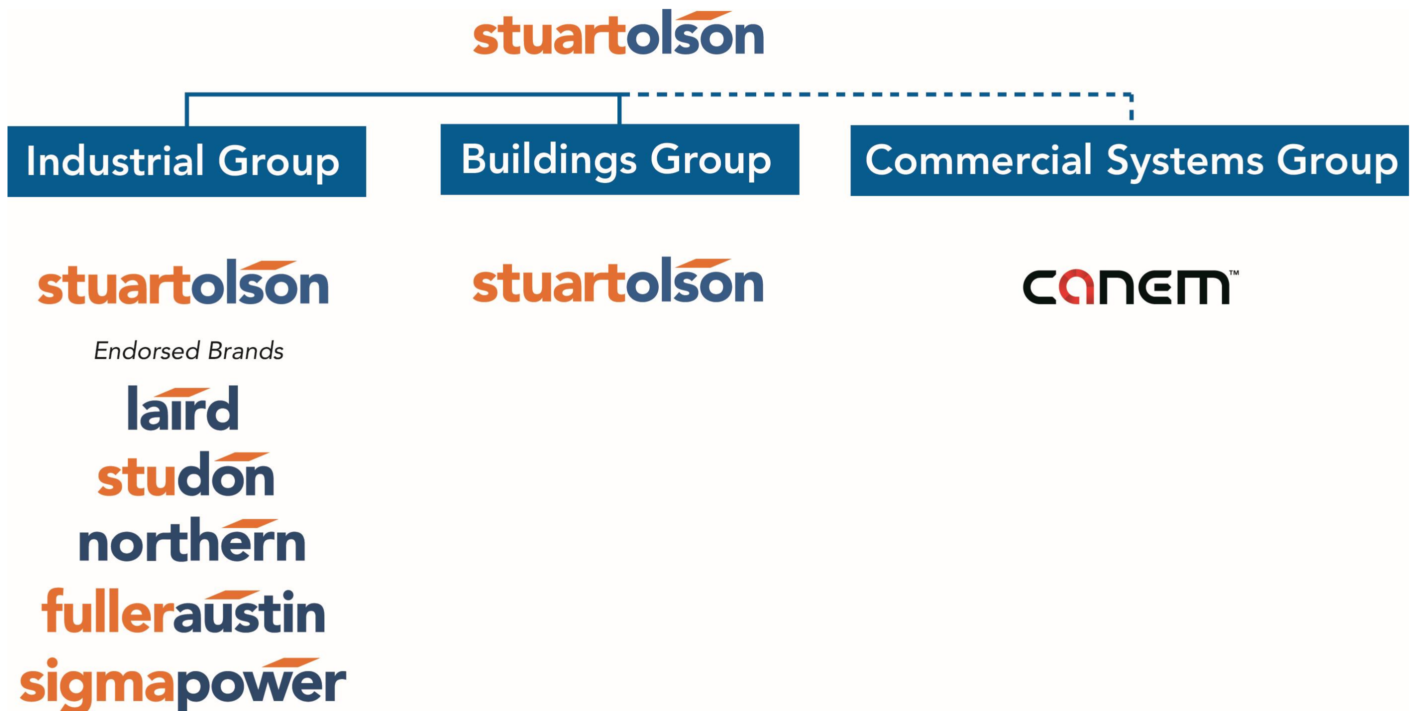
RISKS

Various factors could cause our actual results to differ materially from the results anticipated by management. The 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 serves clients in a wide range of industrial sectors including oil and gas, petrochemical, refining, 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 Western Canada and Ontario.

Projects undertaken by the Buildings Group include the construction, expansion and renovation of buildings ranging from schools, hospitals and sports arenas, to high-rise office towers, retail 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-type contracts rather than hard-bid projects. The Buildings Group subcontracts approximately 85% of its project work to subcontractors and suppliers and closely manages the construction process to deliver on commitments.

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 Manitoba, Alberta and British Columbia. 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 Results

	Three months ended September 30		Nine months ended September 30	
$millions, except percentages and per share amounts	**2016**	**2015[2]**	**2016**	**2015[2]**
Contract revenue	**220.7**	281.7	**690.8**	868.3
Contract income	**23.6**	34.4	**68.6**	91.0
Contract income margin[1]	***10.7%***	*12.2%*	***9.9%***	*10.5%*
Administrative costs	**19.7**	24.8	**66.5**	68.9
Adjusted EBITDA[1]	**8.6**	15.8	**22.1**	39.2
Adjusted EBITDA margin[1]	***3.9%***	*5.6%*	***3.2%***	*4.5%*
Net earnings (loss)	**1.4**	6.4	**(3.0)**	9.1
Earnings (loss) per share				
Basic earnings (loss) per share	**0.05**	0.24	**(0.11)**	0.35
Diluted earnings (loss) per share	**0.05**	0.18	**(0.11)**	0.30
Dividends declared per share	**0.12**	0.12	**0.36**	0.36
Adjusted free cash flow[1]	**3.2**	12.1	**(4.8)**	22.4
Adjusted free cash flow per share[1]	**0.12**	0.46	**(0.18)**	0.85

$millions	**Sep. 30, 2016**	**Dec. 31, 2015**
Backlog[1]	**2,050.9**	1,960.9
Working capital[1]	**54.1**	64.4
Long-term debt (excluding current portion)	**42.9**	46.6
Convertible debentures (excluding equity portion)	**73.8**	72.5
Total assets	**623.9**	646.8

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 and nine months ended September 30, 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 September 30, 2016, we generated consolidated contract revenue of $220.7 million, 21.7% lower than the $281.7 million recorded in the same period in 2015. Revenue decreased by $39.4 million or 36.6% year-over-year in the Industrial Group, by $22.5 million or 17.2% in the Buildings Group and by $2.4 million or 4.5% in the Commercial Systems Group. Partially offsetting these decreases was a $3.3 million or 32.4% reduction in intersegment revenue eliminated on consolidation, reflecting lower levels of intersegment activity in the Q3 2016 period.

Third quarter contract income of $23.6 million decreased by $10.8 million or 31.4%, from $34.4 million last year. The change in contract income included a $4.3 million or 29.3% decrease from the Industrial Group, a $3.0 million or 39.0% decrease from the Commercial Systems Group, and a $0.9 million or 8.5% decrease from the Buildings Group. The timing of intersegment eliminations further reduced contract income by $2.6 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 as a percentage of revenue decreased to 10.7% from 12.2% year-over-year.

Third quarter 2016 administrative costs decreased to $19.7 million, compared to $24.8 million last year primarily as a result of cost containment measures. Administrative cost savings of $2.6 million in the Industrial Group, $2.5 million in the Corporate Group and $0.2 million in the Buildings Group were partially offset by increased costs of $0.3 million in the Commercial Systems Group.

For the three months ended September 30, 2016, adjusted EBITDA decreased by $7.2 million or 45.6% to $8.6 million, from $15.8 million in Q3 2015. Adjusted EBITDA margin decreased to 3.9% from 5.6% year-over-year. The change in adjusted EBITDA primarily reflects the lower contract income, partially offset by lower administrative costs.

We recorded consolidated net earnings of $1.4 million (diluted earnings per share of $0.05) in the third quarter of 2016. This compares to net earnings of $6.4 million (diluted earnings per share of $0.18) in the third quarter of 2015. The $5.0 million year-over-year decline in net earnings reflects the lower adjusted EBITDA and a Q3 2015 recovery related to marking-to-market an earn-out liability recognized as part of an acquisition, partially offset by lower depreciation expense and one-time impairment charges incurred in Q3 2015 that did not repeat.

Adjusted free cash flow in the third quarter of 2016 was an inflow of $3.2 million (inflow of $0.12 per share), a decline of $8.9 million from an inflow of $12.1 million (inflow of $0.46 per share) in the third 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.

Nine-Month Results

For the nine months ended September 30, 2016, consolidated contract revenue decreased by $177.5 million or 20.4% to $690.8 million, from $868.3 million in the same period in 2015. On a segmented basis, year-to-date revenue decreased by $113.1 million or 26.5% in the Buildings Group, by $61.8 million or 20.8% in the Industrial Group, and by $14.0 million or 8.0% in the Commercial Systems Group. We recorded intersegment revenue eliminations of $18.5 million during the first nine months of 2016, a decrease of $11.4 million or 38.1% from the same period in 2015. This decrease reflects reduced intersegment activity between our business groups.

Contract income was $68.6 million in the first nine months of 2016, a decline of $22.4 million or 24.6% from $91.0 million in 2015. While contract income generated by the Buildings Group increased by $1.5 million or 5.6%, this was offset by an $11.2 million or 30.9% decrease in contract income from the Industrial Group and a $3.8 million or 16.8% decrease from the Commercial Systems Group. The timing of intersegment eliminations further reduced contract income by $8.9 million year-over-year. Contract income margin decreased slightly to 9.9% from 10.5% in the same period of last year.

Administrative costs declined by $2.4 million or 3.5% to $66.5 million in the first nine months of 2016. Administrative expenses were down by $4.0 million or 20.8% in the Corporate Group and by $3.1 million or 14.2% in the Industrial Group. These savings were partially offset by an increase of $4.0 million or 23.0% in the Buildings Group and $0.7 million or 6.7% in the Commercial Systems Group.

Adjusted EBITDA for the first nine months of 2016 declined 43.6% to $22.1 million, from $39.2 million in the same period of 2015. The $17.1 million change primarily reflects the lower contract income, partially offset by lower core administrative costs (excluding restructuring charges). Year-to-date adjusted EBITDA margin decreased to 3.2% from 4.5% in 2015.

We reported a consolidated net loss of $3.0 million for the nine months ended September 30, 2016 (diluted loss per share of $0.11), compared to consolidated net earnings of $9.1 million (diluted earnings per share of $0.30) in 2015. The year-over-year reduction reflects the lower adjusted EBITDA, restructuring charges incurred in the first nine months of 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, lower amortization and impairment from intangible assets recorded as part of an acquisition, as well as lower income tax expense.

Adjusted free cash flow in the first nine months of 2016 was an outflow of $4.8 million (outflow of $0.18 per share), a decline of $27.2 million from an inflow of $22.4 million (inflow of $0.85 per share) in the first nine months of 2015. The year-over-year change reflects the decline in adjusted EBITDA, 2016 restructuring costs, the settlement of a provision in 2016, an increase in cash payments in 2016 to settle final 2015 tax balances, as well as an increase in capital expenditures related to the acquisition of property, equipment and intangibles.

Consolidated Backlog

$millions, except percentages	**Sep. 30, 2016**	**Dec. 31, 2015**
Industrial Group	**754.1**	493.5
Buildings Group	**1,156.2**	1,334.0
Commercial Systems Group	**140.7**	133.4
Consolidated backlog	**2,050.9**	1,960.9
Construction management	**45.3%**	57.9%
Cost-plus	**34.2%**	28.2%
Design-build	**5.8%**	5.3%
Tendered (hard bid)	**14.7%**	8.6%

Consolidated backlog as at September 30, 2016 was $2,050.9 million, an increase of $64.1 million or 3.2% from backlog of $1,960.9 million as at December 31, 2015. As at September 30, 2016, backlog consisted of work-in-hand of $1,016.3 million (December 31, 2015 - $897.2 million) and active backlog of $1,034.6 million (December 31, 2015 - $1,063.7 million). Approximately 45.3% of the backlog consists of construction management ("CM") contracts, 34.2% cost-plus arrangements, 5.8% design-build contracts and 14.7% tendered (hard-bid) work. New contract awards and net increases in contract value of $315.9 million were added to work-in-hand in the third quarter of 2016.

Our book-to-bill ratio for the third quarter and first nine months of 2016 was 0.80 to 1.0 and 1.13 to 1.0, respectively. Revenue exceeded backlog additions in the third quarter of 2016 primarily due to delays in the rollout of new infrastructure project opportunities. Backlog additions exceeded revenue in the first three quarters of the year primarily as a result of a large five-year master services agreement ("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 September 30		Nine months ended September 30	
$millions, except percentages	**2016**	**2015[3]**	**2016**	**2015[3]**
Contract revenue	**68.2**	107.6	**235.0**	296.8
Contract income	**10.4**	14.7	**25.0**	36.2
Contract income margin[1]	**15.2%**	13.7%	**10.6%**	12.2%
Administrative costs	**5.4**	8.0	**18.7**	21.8
Adjusted EBITDA[1]	**6.3**	10.0	**12.7**	22.7
Adjusted EBITDA margin[1]	**9.2%**	9.3%	**5.4%**	7.6%
EBT[1]	**5.0**	6.6	**6.4**	14.4
Backlog[1][2]			**754.1**	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) Comparative backlog is as at December 31, 2015.
(3) Adjusted EBITDA for the three and nine months ended September 30, 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 September 30, 2016, Industrial Group revenue decreased by 36.6% to $68.2 million, from $107.6 million during the same period in 2015. The $39.4 million decline reflects the year-over-year reduction in new construction activity in the Alberta oil sands relating to the "lower-for-longer" oil price environment and the carryover impact of the Northern Alberta wildfires. These impacts were partially offset by increased activity on power generation and transmission projects in Manitoba and Ontario.

The Industrial Group reported third quarter 2016 contract income of $10.4 million, a $4.3 million or 29.3% decline from the $14.7 million achieved during the same period in 2015. As a percentage of revenue, third quarter contract income margin increased to 15.2% from 13.7% last year. The higher margin on lower contract income reflects the one-time release of project contingencies on two projects during the period in 2016, partially offset by an increased proportion of lower-risk cost reimbursable work in the current project mix.

Third quarter administrative costs declined by $2.6 million or 32.5% to $5.4 million, from $8.0 million during the same period in 2015. This improvement was driven primarily by the group's 2016 cost containment initiatives and the absence of impairment charges, partially offset by a one-time recovery recognized in Q3 2015 on marking-to-market of an earn-out liability recognized as part of an acquisition.

Adjusted EBITDA generated by the Industrial Group was $6.3 million (9.2% adjusted EBITDA margin) in the third quarter of 2016, compared to $10.0 million (9.3% adjusted EBITDA margin) during the same period in 2015. The $3.7 million or 37.0% decrease primarily reflects the lower contract income, partially offset by lower core administrative costs (excluding depreciation, amortization, impairment charges and recoveries related to investing decisions).

The Industrial Group reported third quarter earnings before tax of $5.0 million, a decrease of $1.6 million from $6.6 million in 2015. The year-over-year change was primarily due to the lower contract income, partially offset by lower administrative costs.

Nine-Month Results

For the nine months ended September 30, 2016, the Industrial Group generated revenue of $235.0 million, a decrease of $61.8 million or 20.8% from $296.8 million in the first nine months of 2015. The decrease in revenue reflects the 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 the mining project in the Northwest Territories and initial work on power generation and transmission projects in Manitoba and Ontario.

The Industrial Group generated year-to-date contract income of $25.0 million, a decrease of $11.2 million or 30.9% from the $36.2 million achieved during the same period in 2015. Year-to-date contract income margin was 10.6% compared to 12.2%, 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 restructuring costs incurred in 2016 that were partly recognized as part of contract costs. These negative impacts were partially offset by the one-time release of project contingencies on two projects in the first nine months of 2016.

Year-to-date 2016 administrative costs decreased by $3.1 million or 14.2% to $18.7 million, from $21.8 million during the same period in 2015. This improvement primarily reflects the benefit of cost containment initiatives undertaken in response to the economic environment in Alberta and the absence in 2016 of impairment charges that negatively impacted 2015 results. These improvements were partially offset by administrative restructuring costs of $1.9 million in 2016 and a one-time recovery recognized in Q3 2015 on marking-to-market of an earn-out liability recognized as part of an acquisition.

Adjusted EBITDA from the Industrial Group decreased by $10.0 million or 44.1% to $12.7 million (5.4% adjusted EBITDA margin) in the first nine months of 2016, from $22.7 million (7.6% adjusted EBITDA margin) during the same period 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, impairment charges and recoveries related to investing decisions).

Year-to-date Industrial Group earnings before tax declined by $8.0 million or 55.6% to $6.4 million in 2016, from $14.4 million last year. The decrease in earnings before tax primarily reflects the decline in contract income, partially offset by lower administrative costs.

Backlog

As at September 30, 2016, Industrial Group backlog increased to $754.1 million, from a backlog of $493.5 million at December 31, 2015. The $260.6 million or 52.8% 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 the year 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 a purchase order 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 September 30, 2016, 78.8% of the Industrial Group’s backlog was composed of cost-plus projects and 21.2% was tendered (hard-bid) projects. The September 30, 2016 backlog consisted of $338.0 million of work-in-hand and $416.1 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 $83.4 million of new awards during the quarter and executed $68.2 million of contract revenue.

Buildings Group Results

$millions, except percentages	Three months ended September 30 2016	Three months ended September 30 2015[3]	Nine months ended September 30 2016	Nine months ended September 30 2015[3]
Contract revenue	**108.6**	131.1	**314.2**	427.3
Contract income	**9.7**	10.6	**28.5**	27.0
Contract income margin[1]	**8.9%**	8.1%	**9.1%**	6.3%
Administrative costs	**5.4**	5.6	**21.4**	17.4
Adjusted EBITDA[1]	**4.7**	5.5	**12.5**	11.2
Adjusted EBITDA margin[1]	**4.3%**	4.2%	**4.0%**	2.6%
EBT[1]	**4.3**	5.0	**7.3**	10.0
Backlog[1][2]			**1,156.2**	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) Comparative backlog is as at December 31, 2015.
(3) Adjusted EBITDA for the three and nine months ended September 30, 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 September 30, 2016, the Buildings Group generated revenue of $108.6 million, a decrease of $22.5 million or 17.2% from $131.1 million in the same period in 2015. The primary factors in this decrease were the planned wind-down of the Buildings Group's industrial project activity, the completion of projects in Manitoba and Alberta that provided significant revenue in the third quarter of 2015, delays in the rollout of new infrastructure opportunities, and delays in the commencement of new projects currently in pre-construction. These impacts were partially offset by the Buildings Group's increased activity levels in Ontario and British Columbia.

Contract income decreased to $9.7 million in the third quarter of 2016, a decline of $0.9 million from $10.6 million during the same period in 2015. Contract income margin climbed to 8.9% from 8.1% year-over-year, reflects the change in project mix and project stage of completion between the two periods and the move away from the higher-risk industrial projects that generated negative margin during Q3 2015.

The Buildings Group generated third quarter adjusted EBITDA of $4.7 million, a $0.8 million or 14.5% decrease from $5.5 million last year. The year-over-year decline relates primarily to the lower contract income, partially offset by administrative cost savings. Adjusted EBITDA margin increased slightly to 4.3% from 4.2% year-over-year.

The Buildings Group generated third quarter earnings before tax of $4.3 million, compared to earnings before tax of $5.0 million in Q3 2015. The $0.7 million year-over-year decrease reflects the decrease in EBITDA.

Nine-Month Results

For the nine months ended September 30, 2016, the Buildings Group generated revenue of $314.2 million, a decrease of $113.1 million or 26.5% from revenue of $427.3 million during the same period 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, partially offset by the group's increased activity levels in Ontario and Saskatchewan.

Nine-month Buildings Group contract income increased by 5.6% to $28.5 million, from $27.0 million during the same period in 2015. The $1.5 million increase was principally driven by a contract income margin of 9.1% in the first nine months of 2016, compared to 6.3% during the same period in 2015. The higher contract income margin reflects the change in project mix and project stage of completion between the two periods and the move away from the higher-risk industrial projects that generated negative margin during the first nine months of 2015.

Buildings Group administrative costs increased $4.0 million or 23.0% to $21.4 million in the first nine months of 2016, from $17.4 million in the same period last year. The increase is primarily due to the recognition of $3.9 million in non-cash onerous lease restructuring and impairment costs during the first nine months of 2016.

Adjusted EBITDA for the nine months ended September 30, 2016 increased 11.6% to $12.5 million (4.0% adjusted EBITDA margin), from $11.2 million (2.6% adjusted EBITDA margin) in the first nine months of 2015. This $1.3 million improvement was driven by the improvement in contract income.

Year-to-date earnings before tax declined to $7.3 million, from $10.0 million in 2015. The $2.7 million or 27.0% year-over-year decline reflects the restructuring costs recognized in 2016, partially offset by higher adjusted EBITDA.

Backlog

As at September 30, 2016, the Buildings Group's backlog was $1,156.2 million, compared to $1,334.0 million at December 31, 2015. The $177.8 million or 13.3% 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 September 30, 2016, 80.3% of the Buildings Group's backlog was composed of CM assignments, 9.1% was cost-plus projects, 9.7% was design-build contracts and 0.9% was tendered (hard-bid) projects. The September 30, 2016 backlog consisted of $567.0 million of work-in-hand and $589.2 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 segment secured $170.9 million of new awards and project scope increases during the quarter, and executed $108.6 million of contract revenue.

Commercial Systems Group Results

	Three months ended September 30		Nine months ended September 30	
$millions, except percentages	**2016**	**2015[3]**	**2016**	**2015[3]**
Contract revenue	**50.8**	53.2	**160.1**	174.1
Contract income	**4.7**	7.7	**18.8**	22.6
Contract income margin[1]	**9.3%**	14.5%	**11.7%**	13.0%
Administrative costs	**3.6**	3.3	**11.1**	10.4
Adjusted EBITDA[1]	**2.0**	4.9	**10.2**	13.8
Adjusted EBITDA margin[1]	**3.9%**	9.2%	**6.4%**	7.9%
EBT[1]	**1.2**	4.5	**7.9**	12.5
Backlog[1][2]			**140.7**	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) Comparative backlog is as at December 31, 2015.
(3) Adjusted EBITDA for the three and nine months ended September 30, 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 September 30, 2016, the Commercial Systems Group generated revenue of $50.8 million, compared to $53.2 million in Q3 2015. The $2.4 million or 4.5% decline reflects year-over-year changes in project stage of completion, as well as the wrap-up of a number of projects in British Columbia and Manitoba that contributed significant revenue to last year's results.

Third quarter contract income from the Commercial Systems Group decreased $3.0 million or 39.0% to $4.7 million, from $7.7 million in Q3 2015. As a percentage of revenue, contract income margin decreased to 9.3% from 14.5%, reflecting customer-driven productivity challenges on a large project that reached substantial completion during the quarter. The decrease in contract income margin also reflects changes in project mix and stage of completion, together with competitive pricing pressure.

Third quarter administrative costs increased to $3.6 million, from $3.3 million last year. This $0.3 million or 9.1% increase relates to restructuring costs incurred in conjunction with this group's effort to increase operating efficiencies and respond to the current economic environment.

Adjusted EBITDA from the Commercial Systems Group decreased to $2.0 million (3.9% adjusted EBITDA margin) in the third quarter of 2016, from $4.9 million (9.2% adjusted EBITDA margin) last year. The year-over-year changes in adjusted EBITDA and adjusted EBITDA margin reflect the decrease in contract income.

The group generated earnings before tax of $1.2 million in the third quarter of 2016. This was $3.3 million or 73.3% lower than the $4.5 million achieved during the same period in 2015. The year-over-year decrease is mainly due to the lower adjusted EBITDA and restructuring costs recognized during the 2016 period.

Nine-Month Results

For the nine months ended September 30, 2016, revenue from the Commercial Systems Group decreased to $160.1 million, from $174.1 million during the same period in 2015. The $14.0 million or 8.0% reduction reflects changes in project stage of completion and the 2015 wrap up of a number of projects in British Columbia and Manitoba that contributed significant revenue to last year's results.

Nine-month contract income decreased by $3.8 million, or 16.8%, to $18.8 million, from $22.6 million during the same period in 2015. Year-to-date contract income margin decreased to 11.7% from 13.0%, 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 Q3 2016.

Year-to-date 2016 administrative costs increased to $11.1 million or by 6.7%, from $10.4 million in 2015. The increase primarily reflects restructuring costs recognized in 2016 as we realigned the group's cost structure to better match expected activity levels in the current challenging economic environment.

Adjusted EBITDA from the Commercial Systems Group was $10.2 million (6.4% adjusted EBITDA margin) in the first nine months of 2016, compared to $13.8 million (7.9% adjusted EBITDA margin) last year. The $3.6 million or 26.1% decrease primarily reflects the lower contract income.

The group generated year-to-date earnings before tax of $7.9 million. This was $4.6 million or 36.8% lower than the $12.5 million achieved during the same period 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 $140.7 million at September 30, 2016, compared to $133.4 million at December 31, 2015, an increase of $7.3 million or 5.4%. As at September 30, 2016, the group's backlog was composed of 1.5% CM and cost-plus projects, 4.9% design-build projects, and 93.6% tendered projects. The September 30, 2016 backlog consisted of $111.3 million of work-in-hand and $29.4 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 secured $61.6 million of new awards and increases in contract value during the quarter and executed $50.8 million of construction activity.

Corporate Group Results

	Three months ended September 30		Nine months ended September 30	
$millions	**2016**	**2015[2]**	**2016**	**2015[2]**
Administrative costs	**5.2**	7.7	**15.2**	19.2
Finance costs	**2.1**	2.3	**6.4**	10.3
Adjusted EBITDA[1]	**(3.2)**	(5.8)	**(9.5)**	(13.5)
EBT[1]	**(7.2)**	(10.0)	**(21.3)**	(29.3)

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 and nine months ended September 30, 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 September 30, 2016, Corporate Group administrative costs decreased to $5.2 million, from $7.7 million in the third quarter of 2015. The $2.5 million or 32.5% decrease is primarily related to a year-over-year reduction in incentive plan accruals, partially offset by an increase in share-based compensation expenses due to a 1.7% appreciation in our share price in the quarter, as compared to a 19.0% decrease in our share price in Q3 2015, and the corresponding impact of marking-to-market our share-based incentive plans.

The Corporate Group's finance costs decreased slightly by $0.2 million to $2.1 million in the third quarter of 2016, from $2.3 million during the same period last year, reflecting a lower year-over-year average balance drawn on our revolving credit facility.

Corporate Group adjusted EBITDA improved to a loss of $3.2 million in Q3 2016, from a loss of $5.8 million in Q3 2015. The $2.6 million or 44.8% improvement primarily reflects the decrease in administrative costs. The Corporate Group incurred a third quarter 2016 loss before tax of $7.2 million, compared to a loss before tax of $10.0 million in the comparable period in 2015. The year-over-year decline was due to the decrease in administrative and finance costs.

Nine-Month Results

For the nine months ended September 30, 2016, Corporate Group administrative expenses decreased to $15.2 million, from $19.2 million in the same period of 2015. The $4.0 million or 20.8% decrease is primarily related to a year-over-year reduction in the amount of incentive plan accruals. This change was partially offset by an increase in share-based compensation expenses due to a 5.8% increase in our share price in the first nine months of 2016, as compared to a 27.2% decrease in our share price in the same period of 2015, and the corresponding impact of marking-to-market our share-based compensation plans.

The Corporate Group's finance costs were $6.4 million in the first nine months of 2016, compared to $10.3 million during the same period last year. The $3.9 million or 37.9% decrease reflects having just one set of higher interest convertible debentures outstanding in the period in 2016, as compared to two sets for the majority of the period in 2015.

Year-to-date Corporate Group adjusted EBITDA improved to a loss of $9.5 million, from a loss of $13.5 million in the 2015 period. The $4.0 million or 20.8% improvement reflects the decrease in administrative costs. For the nine months ended September 30, 2016, the Corporate Group incurred a loss before tax of $21.3 million, an improvement of $8.0 million or 27.3% compared to the loss before tax of $29.3 million in the comparable period 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 revolving credit facility.

Current cash and cash equivalents at September 30, 2016 were $28.3 million, compared to $33.7 million held at December 31, 2015. This $5.4 million decrease reflects the application of excess cash held to reduce amounts drawn under our revolving credit facility and seasonal differences in activity levels impacting working capital requirements.

As at September 30, 2016, we had additional borrowing capacity under our Revolver of $55.9 million, as compared to available capacity of $106.2 million at December 31, 2015. The $50.3 million reduction primarily reflects the 2016 impact of restructuring charges, the Northern Alberta wildfires and the challenging economic environment in Alberta on our last-twelve-month EBITDA (calculated in accordance with the definition of EBITDA as set out in the Revolver agreement) for the period ending September 30, 2016.

Debt and Capital Structure

Long-term indebtedness, including the current portion of long-term debt and convertible debentures, decreased to $127.3 million at September 30, 2016, from $131.7 million 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 $46.8 million (December 31, 2015 - $51.2 million) before the deduction of deferred financing fees.

The current portion of long-term debt was $1.5 million as at September 30, 2016 (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 at September 30, 2016 was 37.4%, which is consistent with 36.9% as at December 31, 2015 and is in line with our long-term targeted range of 20.0% to 40.0%.

As at September 30, 2016, our net long-term indebtedness to adjusted EBITDA ratio was 2.9x, which is higher than the 2.0x presented at September 30, 2015, but is within the targeted three-to-five year planning range of 2.0x to 3.0x.

As at September 30, 2016, we were in full compliance with our Revolver covenants.

Ratio	**Covenant**	**Actual as at Sep. 30, 2016**
Interest coverage	**>3.00:1.00**	**3.91**
Total debt to EBITDA[1]	**<3.00:1.00**	**1.34**

Notes: (1) 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.

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

Summary of Cash Flows

	Nine months ended September 30	
$millions	**2016**	**2015**
Operating activities	**9.5**	46.6
Investing activities	**(4.6)**	(64.4)
Financing activities	**(14.4)**	(47.5)
Increase (decrease) in cash	**(9.5)**	(65.3)
Cash and cash equivalents, beginning of period[(1)]	**37.8**	104.1
Cash and cash equivalents, end of period[(1)]	**28.3**	38.8

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

For the nine months ended September 30, 2016, cash generated from operating activities was $9.5 million as compared to cash generated of $46.6 million in 2015, a year-over-year decrease of $37.1 million. The decrease was driven primarily by lower operating performance, the settlement of a provision during the period in 2016, an increase in income tax paid to settle final 2015 tax balances in 2016 and by a $12.6 million decline in the “change in non-cash working capital balances” year-over-year. This decline is due to the conversion of significant non-cash working capital to cash in the first nine months of 2015 corresponding with a drop in Industrial Group activity level and the wind-up in 2015 of the Buildings Group industrial site projects.

Cash used by investing activities amounted to $4.6 million in the first nine months of 2016, compared to $64.4 million in 2015, a net change of $59.8 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 $14.4 million in the first nine months of 2016, as compared to $47.5 million of cash used by financing activities in the prior year period. The $33.1 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” of Stuart Olson’s Annual Information Form for a description of circumstances that could affect our sources of funding.

CAPITAL RESOURCES

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

Capital is 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 2016 to be within a range of $6.5 million to $7.5 million. Cash capital expenditures, net of tenant inducement cash receipts, are expected to be $5.0 million to $6.0 million in 2016.

Working Capital

As at September 30, 2016, we had working capital of $54.1 million, compared to $64.4 million at December 31, 2015. The $10.3 million decrease primarily reflects a reduction in non-cash working capital as we resolved and collected a number of aged receivables and applied these funds to the repayment of balances drawn under the Revolver, as well as by payments made in 2016 to settle our final 2015 tax balances.

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 13* of the September 30, 2016 Condensed Consolidated Interim Financial Statements.

Contractual Obligations

The following are our contractual financial obligations as at September 30, 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 12(b)(iii)* of the September 30, 2016 Condensed Consolidated Interim Financial Statements.

$thousands	**Carrying amount**	Contractual cash flows	Not later than 1 year	Later than 1 year and less than 3 years	Later than 3 years and less than 5 years	Later than 5 years
Trade and other payables	**$ 173,399**	$ 173,399	$ 173,399	$ nil	$ nil	$ nil
Provisions including current portion	**9,330**	12,343	5,338	2,021	1,393	3,591
Convertible debentures (debt portion)	**73,835**	97,405	4,830	9,660	82,915	nil
Long-term debt including current portion	**44,454**	46,917	1,599	159	45,159	nil
Operating lease commitments	**nil**	56,916	8,139	13,413	13,413	21,951
	$ 301,018	$ 386,980	$ 193,305	$ 25,253	$ 142,880	$ 25,542

Scheduled long-term debt principal repayments due within one year of September 30, 2016 were $1.5 million (December 31, 2015 - $2.4 million).

Share Data

As at September 30, 2016, we had 26,821,117 common shares issued and outstanding and 2,025,134 options convertible into common shares (December 31, 2015 - 26,532,482 common shares and 1,715,118 options). Please refer to *Note 9* and *Note 10* of the September 30, 2016 Condensed Consolidated Interim Financial Statements for further details. On October 13, 2016, we issued 100,254 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 November 3, 2016, we had 26,921,371 common shares issued and outstanding and 2,025,134 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.

At September 30, 2016, shareholders' equity was $212.7 million, compared to $225.0 million at December 31, 2015. This $12.3 million decrease reflects $9.6 million of dividends declared, a third quarter net loss of $3.0 million and a $1.8 million year-to-date defined benefit plan actuarial loss, net of tax. This was partially offset by $1.7 million related to shares issued pursuant to the DRIP and $0.5 million related to share-based compensation expense.

DIVIDENDS

Declaration of Common Share Dividend

On November 3, 2016, 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 January 17, 2017 to shareholders of record on December 31, 2016. 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 at September 30, 2016.

RELATED PARTY TRANSACTIONS

For the three and nine-month periods ended September 30, 2016, we incurred facility costs of $0.1 million and $0.4 million, respectively (September 30, 2015 - $0.1 million and $0.3 million, respectively) for the rental of buildings that are partially owned indirectly by Don Sutherland, the President of Studon. No amounts are included in trade payables as at September 30, 2016 and 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]:				2014 Quarter Ended:
$millions, except per share amounts	**Sep. 30**	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31
Contract revenue	**220.7**	227.2	243.0	283.1	281.7	303.7	282.9	364.5
Adjusted EBITDA[1]	**8.6**	7.2	6.4	12.0	15.8	12.9	10.5	13.4
Net earnings (loss) from continuing operations	**1.4**	(3.4)	(0.9)	2.1	6.4	1.7	1.0	1.2
Net loss from discontinued operations	**nil**	nil	nil	nil	nil	nil	nil	(0.7)
Net earnings (loss)	**1.4**	(3.4)	(0.9)	2.1	6.4	1.7	1.0	0.5
Net earnings (loss) per common share								
Basic from continuing operations	**0.05**	(0.13)	(0.03)	0.08	0.24	0.06	0.04	0.05
Basic earnings (loss) per share	**0.05**	(0.13)	(0.03)	0.08	0.24	0.06	0.04	0.02
Diluted from continuing operations	**0.05**	(0.13)	(0.03)	0.08	0.18	0.06	0.04	0.05
Diluted earnings (loss) per share	**0.05**	(0.13)	(0.03)	0.08	0.18	0.06	0.04	0.02

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 first quarter of 2015 declined relative to the fourth quarter of 2014, with our business groups experiencing seasonal activity declines quarter-over-quarter. Notwithstanding the seasonal activity decline, net earnings improved in the first quarter of 2015 as a result of a Q4 2014 loss from discontinued operations that did not repeat in the first quarter of 2015.

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 and by restructuring costs 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.

For a more detailed discussion and analysis of quarterly results prior to September 30, 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;
- Revenue recognition;
- Estimates used to determine costs in excess of billings and contract advances;
- Estimates in impairment of property and equipment, goodwill and intangible assets;
- Estimates related to the useful lives and residual value of property and equipment;
- Income taxes;
- Provisions for warranty work and legal contingencies;
- Assumptions used in share-based payment arrangements;
- Accounts receivable collectability; and
- Measurement of defined benefit pension obligations.

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 2015 Annual Report, Management's Discussion and Analysis.

CHANGES IN ACCOUNTING POLICIES

Future Changes in Accounting Standards

We have reviewed new and revised accounting pronouncements that have been issued, but are not yet effective. See *Note 4* of the December 31, 2015 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 September 30, 2016 Condensed Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss), and is net of any recoveries that were provided for in a prior period. Allowance for doubtful accounts as at September 30, 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 September 30, 2016, we had $15.3 million of trade receivables (December 31, 2015 - $27.4 million) which were greater than 90 days past due, with $14.3 million not provided for as at September 30, 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 in the first quarter of a number of significant balances that were outstanding at December 31, 2015. Trade receivables are included in trade and other receivables on the Condensed 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. At September 30, 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 $0.3 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 12* of the September 30, 2016 Condensed Consolidated Interim Financial Statements for further detail.

Disclosure Controls & Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including our 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 September 30, 2016. Based on this evaluation, our CEO and CFO have concluded that the design of our disclosure controls and procedures as defined in NI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings was effective as at September 30, 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 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 September 30, 2016, our CEO and CFO have concluded that the design of the internal controls over financial reporting as defined in NI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings was effective.

Material Changes to Internal Controls over Financial Reporting

There were no changes to our internal controls over financial reporting and the environment in which they operated during the period beginning on January 1, 2016 and ending on September 30, 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	**Sep. 30, 2016**	**Dec. 31, 2015**
Work-in-hand	**1,016.3**	897.2
Active backlog	**1,034.6**	1,063.7
Consolidated backlog	**2,050.9**	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.

	Nine months ended	Three months ended
$millions, except book-to-bill ratio	**Sep. 30, 2016**	**Sep. 30, 2016**
Ending backlog	**2,050.9**	2,050.9
Less: Opening backlog	**(1,960.9)**	(2,096.1)
Plus: Contract revenue	**690.9**	220.7
Net backlog additions	**780.9**	175.5
Divided by: Contract revenue	**690.9**	220.7
Book-to-bill ratio	**1.13**	0.80

Working Capital

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

$millions	**Sep. 30, 2016**	**Dec. 31, 2015**
Current assets	**308.0**	319.8
Current liabilities	**(253.9)**	(255.4)
Working capital	**54.1**	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:				2014 Quarter Ended:
$millions	**Sep. 30**	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31
Net earnings (loss) from continuing operations	**1.4**	(3.4)	(0.9)	2.1	6.4	1.7	1.0	1.2
Add: Income tax (recovery) expense	**0.6**	(1.2)	(0.2)	1.4	0.9	2.2	0.4	1.2
EBT	**2.0**	(4.6)	(1.1)	3.5	7.3	3.9	1.4	2.4
Add: Depreciation and amortization	**4.1**	4.1	4.3	4.7	5.1	5.2	5.2	3.5
Impairment	**nil**	0.2	nil	1.2	4.0	nil	nil	2.3
Finance costs	**2.1**	2.2	2.2	2.1	2.4	4.0	4.1	3.8
Finance income	**nil**	nil	nil	nil	nil	(0.3)	(0.1)	(0.2)
(Recovery) cost relating to investing activities	**nil**	nil	nil	nil	(2.9)	nil	nil	1.7
Restructuring costs	**0.4**	5.3	1.0	0.6	nil	nil	nil	nil
(Loss) gain on disposal of assets	**nil**	nil	nil	(0.1)	(0.1)	0.1	(0.1)	(0.1)
Adjusted EBITDA	**8.6**	7.2	6.4	12.0	15.8	12.9	10.5	13.4

	Nine months ended September 30	
$millions	**2016**	**2015**
Net (loss) earnings	**(3.0)**	9.1
Add: Income tax (recovery) expense	**(0.6)**	3.4
EBT	**(3.6)**	12.5
Add: Depreciation and amortization	**12.5**	15.5
Impairment	**0.2**	4.0
Finance costs	**6.5**	10.5
Finance income	**(0.1)**	(0.4)
(Recovery) cost relating to investing activities	**nil**	(2.9)
Restructuring costs	**6.7**	nil
(Loss) gain on disposal of assets	**(0.1)**	nil
Adjusted EBITDA	**22.1**	39.2

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 September 30		**Nine months ended September 30**	
$millions, except per share data and number of shares	**2016**	**2015**	**2016**	**2015**
Net cash generated in operating activities	**7.7**	18.4	**9.5**	46.6
Less: Cash additions to intangible assets	**(0.8)**	(0.2)	**(1.3)**	(0.6)
Cash additions to property and equipment	**(1.4)**	(0.6)	**(3.8)**	(1.8)
Cash generated by changes in non-cash working capital balances	**(2.3)**	(5.5)	**(9.2)**	(21.8)
Adjusted free cash flow	**3.2**	12.1	**(4.8)**	22.4
Adjusted free cash flow per share	**0.12**	0.46	**(0.18)**	0.85
Basic shares outstanding	**26,806,172**	26,425,681	**26,712,870**	26,312,739

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 include 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 the remainder of 2016;
- 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, decreased overall revenues in 2016 compared to 2015, decreases in overall adjusted EBITDA and adjusted EBITDA margins for 2016, increases in Buildings Group adjusted EBITDA and adjusted EBITDA margins for 2016, new contract awards and industrial MRO work;
- 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 match our cost structure to the activity of the business through the balance of 2016;
- 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 decrease 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 due to the “lower-for-longer” oil price environment;
- 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.

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Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2016 and 2015
(unaudited)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation is disclosing that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the three and nine month periods ended September 30, 2016 and 2015.

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STUART OLSON INC.
Condensed Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)
For the three and nine month periods ended September 30, 2016 and 2015
(in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

	Note	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Contract revenue		**$ 220,659**	$ 281,701	**$ 690,809**	$ 868,267
Contract costs		**197,058**	247,323	**622,244**	777,277
Contract income		**23,601**	34,378	**68,565**	90,990
Other income		**251**	75	**702**	543
Finance income		**16**	13	**62**	391
Administrative costs		**(19,716)**	(24,799)	**(66,462)**	(68,888)
Finance costs		**(2,105)**	(2,361)	**(6,458)**	(10,497)
Earnings (loss) before tax		**2,047**	7,306	**(3,591)**	12,539
Income tax recovery (expense)					
Current income tax		**1,295**	(11,424)	**(7,681)**	(18,892)
Deferred income tax		**(1,986)**	10,549	**8,300**	15,436
		(691)	(875)	**619**	(3,456)
Net earnings (loss)		**1,356**	6,431	**(2,972)**	9,083
Other comprehensive (loss) earnings					
Items that will not be reclassified to net earnings (loss)					
Defined benefit plan actuarial (loss) gain		**(508)**	69	**(2,406)**	273
Deferred tax recovery (expense) on other comprehensive (loss) earnings		**136**	(19)	**644**	(74)
		(372)	50	**(1,762)**	199
Total comprehensive earnings (loss)		**$ 984**	$ 6,481	**$ (4,734)**	$ 9,282
Earnings (loss) per share:					
Basic earnings (loss) per share	5	**$ 0.05**	$ 0.24	**$ (0.11)**	$ 0.35
Diluted earnings (loss) per share	5	**$ 0.05**	$ 0.18	**$ (0.11)**	$ 0.30
Weighted average common shares:					
Basic	5	**26,806,172**	26,425,681	**26,712,870**	26,312,739
Diluted	5	**26,881,993**	41,898,748	**26,712,870**	42,212,658

See accompanying notes to the condensed consolidated financial statements.

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STUART OLSON INC.
Condensed Consolidated Statements of Financial Position
As at September 30, 2016 and December 31, 2015
(in thousands of Canadian dollars)
(unaudited)

	Note		September 30, 2016		December 31, 2015
ASSETS					
Current assets					
Cash and cash equivalents		$	28,330	$	33,667
Trade and other receivables			235,891		215,937
Inventory			944		1,638
Prepaid expenses			4,089		3,263
Costs in excess of billings	6		35,553		58,988
Income taxes recoverable			3,150		6,264
Current portion of long-term receivable			30		30
			307,987		319,787
Restricted cash			-		4,172
Service provider deposit			8,381		6,799
Long-term receivable and prepaid expenses			1,831		1,944
Deferred tax asset			23,731		24,085
Property and equipment			20,356		22,281
Goodwill			214,024		214,024
Intangible assets			47,595		53,708
		$	623,905	$	646,800
LIABILITIES					
Current liabilities					
Trade and other payables		$	173,399	$	178,373
Contract advances and unearned income	6		69,964		59,698
Current portion of provisions	7		5,069		7,705
Income taxes payable			3,918		7,278
Current portion of long-term debt	8		1,539		2,369
			253,889		255,423
Employee benefits			6,488		4,680
Provisions	7		4,261		5,670
Long-term debt	8		42,915		46,565
Convertible debentures			73,835		72,529
Deferred tax liability			21,485		30,782
Share-based payments	9(d)		5,409		4,652
Other liabilities			2,881		1,517
			411,163		421,818
EQUITY					
Share capital	10(a)		142,112		140,457
Convertible debentures			4,589		4,589
Share-based payment reserve	9(a)		10,637		10,176
Contributed surplus			12,228		12,228
Retained earnings			43,176		57,532
			212,742		224,982
		$	623,905	$	646,800

See accompanying notes to the condensed consolidated financial statements.

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STUART OLSON INC.
Condensed Consolidated Statements of Changes in Equity
For the nine month periods ended September 30, 2016 and 2015
(in thousands of Canadian dollars)
(unaudited)

	Note	Share Capital	Convertible Debentures	Share-Based Payment Reserve	Contributed Surplus	Retained Earnings	Total Equity
Balance at December 31, 2015		**$ 140,457**	**$ 4,589**	**$ 10,176**	**$ 12,228**	**$ 57,532**	**$ 224,982**
Net loss						**(2,972)**	**(2,972)**
Other comprehensive loss:							
Defined benefit plan actuarial loss, net of tax						**(1,762)**	**(1,762)**
Total comprehensive loss						**(4,734)**	**(4,734)**
Transactions recorded directly to equity							
Share-based compensation expense under stock option plan	9(a)			**461**			**461**
Dividends	10(a,b)	**1,655**				**(9,622)**	**(7,967)**
Balance at September 30, 2016		**$ 142,112**	**$ 4,589**	**$ 10,637**	**$ 12,228**	**$ 43,176**	**$ 212,742**
Balance at December 31, 2014		$ 131,724	$ 11,689	$ 9,341	$ 5,128	$ 58,739	$ 216,621
Net earnings						9,083	9,083
Other comprehensive earnings:							
Defined benefit plan actuarial gain, net of tax						199	199
Total comprehensive earnings						9,282	9,282
Transactions recorded directly to equity							
Share-based compensation expense under stock option plan				620			620
Common shares issued related to acquisition		6,631					6,631
Dividends		1,597				(9,485)	(7,888)
Balance at September 30, 2015		$ 139,952	$ 11,689	$ 9,961	$ 5,128	$ 58,536	$ 225,266

See accompanying notes to the condensed consolidated financial statements.

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STUART OLSON INC.
Condensed Consolidated Statements of Cash Flow
For the nine month periods ended September 30, 2016 and 2015
(in thousands of Canadian dollars)
(unaudited)

	Note	**September 30, 2016**	September 30, 2015
OPERATING ACTIVITIES			
Net (loss) earnings		**$ (2,972)**	$ 9,083
Gain on disposal of assets		**(23)**	(33)
Depreciation and amortization		**12,477**	15,534
Impairment loss on property and equipment		**177**	-
Impairment loss on intangible assets		**-**	4,000
Change in fair value of contingent consideration		**-**	(2,935)
Share-based compensation expense	9(e)	**3,356**	950
Defined benefit pension plan expense		**945**	970
Finance costs		**6,458**	10,497
Income tax (recovery) expense		**(619)**	3,456
Change in long-term receivable and prepaid expenses		**113**	(1,193)
Change in provisions		**(4,045)**	291
Change in other long-term liabilities		**1,364**	-
Change in non-cash working capital balances	11	**9,192**	21,763
Cash generated in operating activities		**26,423**	62,383
Payment of share-based payment liability		**(2,724)**	(999)
Contributions to defined benefit pension plan		**(1,543)**	(1,842)
Interest paid		**(4,775)**	(7,379)
Income taxes paid		**(7,925)**	(5,576)
Net cash generated in operating activities		**9,456**	46,587
INVESTING ACTIVITIES			
Acquisition of Studon		**-**	(62,335)
Proceeds on disposal of assets		**447**	387
Additions to intangible assets		**(1,252)**	(630)
Additions to property and equipment		**(3,773)**	(1,776)
Net cash used in investing activities		**(4,578)**	(64,354)
FINANCING ACTIVITIES			
Change in service provider deposit		**(1,582)**	(970)
Proceeds of long-term debt		**252,500**	141,000
Repayment of long-term debt		**(257,373)**	(93,624)
Repayment of 2010 convertible debentures		**-**	(86,250)
Dividend paid	10(b)	**(7,932)**	(7,722)
Net cash used in financing activities		**(14,387)**	(47,566)
Decrease in cash and cash equivalents during the period		**(9,509)**	(65,333)
Cash and cash equivalents, beginning of the period		**37,839**	104,113
Cash and cash equivalents, end of the period		**$ 28,330**	$ 38,780

See accompanying notes to the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the three and nine month periods ended September 30, 2016 and 2015
(in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

1. REPORTING ENTITY

Stuart Olson Inc. was incorporated on August 31, 1981 under the Companies Act of Alberta and was continued under the Business Corporations Act (Alberta) on July 30, 1985. The principal activities of Stuart Olson Inc. and its subsidiaries (collectively, the Corporation) are to provide general contracting and electrical building systems contracting in the institutional and commercial construction markets, as well as electrical, mechanical and specialty trades, such as insulation, cladding and asbestos abatement, in the industrial construction and services market. The Corporation provides its services to a wide array of clients in the public, private and industrial sectors within Canada.

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

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

These unaudited condensed consolidated interim financial statements were approved by the Corporation's Board of Directors on November 3, 2016.

(b) Summary of Significant Accounting Policies

These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Corporation for the year ended December 31, 2015. The disclosure contained in these condensed consolidated interim financial statements does not include all of the requirements in IAS 1, "Presentation of Financial Statements." Accordingly, these interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2015.

Notes to the Condensed Consolidated Financial Statements

For the three and nine month periods ended September 30, 2016 and 2015
(in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

3. SEGMENTS

The Corporation operates as a construction and maintenance services provider, primarily in Western Canada. The Corporation divides its operations into four reporting segments and reports its results under the categories of: Industrial Group, Buildings Group, Commercial Systems Group and Corporate Group. The accounting policies and practices for each of the segments are the same as those described in Note 3 of the audited annual consolidated financial statements for the year ended December 31, 2015. Segment capital expenditures are the total costs incurred during the period to acquire property and equipment and intangible assets.

A significant customer is one that represents 10% or more of contract revenue earned during the period. For the nine month period ended September 30, 2016, the Corporation had revenue of $69,192 from one significant customer of the Industrial Group (September 30, 2015 – no significant customers), and revenue of $78,688 from one significant customer of the Buildings Group (September 30, 2015 – $130,774 from one significant customer).

Three month period ended September 30, 2016	**Industrial Group**	**Buildings Group**	**Commercial Systems Group**	**Corporate Group**	**Intersegment Eliminations**	**Total**
Contract revenue	**$ 68,183**	**$ 108,594**	**$ 50,805**	**$ -**	**$ (6,923)**	**$ 220,659**
Adjusted EBITDA [1] [2]	**6,335**	**4,733**	**2,034**	**(3,229)**	**(1,258)**	**8,615**
Finance income	**-**	**(8)**	**(1)**	**(7)**	**-**	**(16)**
Finance costs	**6**	**-**	**2**	**2,097**	**-**	**2,105**
Depreciation and amortization	**1,383**	**375**	**405**	**1,850**	**51**	**4,064**
Restructuring costs [3]	**-**	**-**	**416**	**-**	**-**	**416**
(Gain) loss on sale of assets	**(15)**	**18**	**(4)**	**-**	**-**	**(1)**
Earnings (loss) before tax	**$ 4,961**	**$ 4,348**	**$ 1,216**	**$ (7,169)**	**$ (1,309)**	**$ 2,047**
Income tax expense						**(691)**
Net earnings						**$ 1,356**
Goodwill and intangible assets	**$ 55,604**	**$ 120,970**	**$ 69,306**	**$ 15,739**	**$ -**	**$ 261,619**
Capital and intangible expenditures	**$ 407**	**$ 42**	**$ 871**	**$ 882**	**$ -**	**$ 2,202**
Total assets	**$ 203,551**	**$ 319,834**	**$ 133,114**	**$ 319,515**	**$ (352,109)**	**$ 623,905**
Total liabilities	**$ 49,399**	**$ 196,291**	**$ 45,750**	**$ 140,886**	**$ (21,163)**	**$ 411,163**

Three month period ended September 30, 2015	**Industrial Group**	**Buildings Group**	**Commercial Systems Group**	**Corporate Group**	**Intersegment Eliminations**	**Total**
Contract revenue	$ 107,602	$ 131,129	$ 53,220	$ -	$ (10,250)	$ 281,701
Adjusted EBITDA [1] [2]	10,029	5,460	4,867	(5,829)	1,310	15,837
Finance income	-	(7)	-	(6)	-	(13)
Finance costs	66	2	-	2,293	-	2,361
Depreciation and amortization	2,294	450	420	1,931	53	5,148
Impairment loss on intangible assets [4]	4,000	-	-	-	-	4,000
Recovery relating to investing activities [4]	(2,935)	-	-	-	-	(2,935)
(Gain) loss on sale of assets	(29)	3	(4)	-	-	(30)
Earnings (loss) before tax	6,633	5,012	4,451	(10,047)	1,257	$ 7,306
Income tax expense						(875)
Net earnings						$ 6,431
Goodwill and intangible assets	$ 57,907	$ 122,797	$ 72,328	$ 16,694	$ -	$ 269,726
Capital and intangible expenditures	$ 50	$ 170	$ 561	$ 193	$ -	$ 974
Total assets	$ 194,730	$ 374,252	$ 149,392	$ 372,930	$ (356,439)	$ 734,865
Total liabilities	$ 64,969	$ 248,261	$ 61,155	$ 160,469	$ (25,255)	$ 509,599

[1] While adjusted EBITDA is a common financial measure widely used by investors to facilitate an "enterprise level" valuation of an entity, it does not have a standardized definition prescribed by IFRS, and therefore other issuers may calculate adjusted EBITDA differently.

[2] In Q1 2016, the use of adjusted EBITDA was adopted and certain comparative amounts have been restated. The Corporation defines adjusted EBITDA as net earnings/loss from continuing operations before finance income, finance costs, 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.

[3] Refer to Note 7 for more information on restructuring costs.

[4] In Q3 2015, adjustments were made to the Studon acquisition purchase price allocation to reflect new information obtained by management with respect to facts and circumstances that existed as of the acquisition date. Due to the change in economic conditions subsequent to the acquisition, management assessed and reduced its estimate of the contingent consideration payable by $2,935 and recognized an impairment loss of $4,000 with respect to specific intangible assets acquired.

Notes to the Condensed Consolidated Financial Statements

For the three and nine month periods ended September 30, 2016 and 2015
(in thousands of Canadian dollars, except share and per share amounts)
(unaudited)

Nine month period ended September 30, 2016	Industrial Group	Buildings Group	Commercial Systems Group	Corporate Group	Intersegment Eliminations	Total
Contract revenue	$ 234,979	$ 314,238	$ 160,140	$ -	$ (18,548)	$ 690,809
Adjusted EBITDA [1] [2]	12,741	12,529	10,170	(9,546)	(3,758)	22,136
Finance income	(10)	(21)	-	(31)	-	(62)
Finance costs	86	-	2	6,370	-	6,458
Depreciation and amortization	4,347	1,355	1,155	5,461	159	12,477
Impairment loss on property and equipment	-	177	-	-	-	177
Restructuring costs [3]	1,898	3,686	1,116	-	-	6,700
(Gain) loss on sale of assets	(28)	41	(36)	-	-	(23)
Earnings (loss) before tax	$ 6,448	$ 7,291	$ 7,933	$ (21,346)	$ (3,917)	$ (3,591)
Income tax recovery						619
Net loss						$ (2,972)
Goodwill and intangible assets	$ 55,604	$ 120,970	$ 69,306	$ 15,739	$ -	$ 261,619
Capital and intangible expenditures	$ 652	$ 132	$ 2,617	$ 1,640	$ -	$ 5,041
Total assets	$ 203,551	$ 319,834	$ 133,114	$ 319,515	$ (352,109)	$ 623,905
Total liabilities	$ 49,399	$ 196,291	$ 45,750	$ 140,886	$ (21,163)	$ 411,163

Nine month period ended September 30, 2015	Industrial Group	Buildings Group	Commercial Systems Group	Corporate Group	Intersegment Eliminations	Total
Contract revenue	$ 296,774	$ 427,264	$ 174,101	$ -	$ (29,872)	$ 868,267
Adjusted EBITDA [1] [2]	22,684	11,214	13,757	(13,552)	5,108	39,211
Finance income	-	(229)	-	(162)	-	(391)
Finance costs	212	3	-	10,282	-	10,497
Depreciation and amortization	7,129	1,354	1,302	5,592	157	15,534
Impairment loss on intangible assets [4]	4,000	-	-	-	-	4,000
Recovery relating to investing activities [4]	(2,935)	-	-	-	-	(2,935)
(Gain) loss on sale of assets	(126)	113	(20)	-	-	(33)
Earnings (loss) before tax	$ 14,404	$ 9,973	$ 12,475	$ (29,264)	$ 4,951	$ 12,539
Income tax expense						(3,456)
Net earnings						$ 9,083
Goodwill and intangible assets	$ 57,907	$ 122,797	$ 72,328	$ 16,694	$ -	$ 269,726
Capital and intangible expenditures	$ 1,455	$ 216	$ 840	$ 628	$ -	$ 3,139
Total assets	$ 194,730	$ 374,252	$ 149,392	$ 372,930	$ (356,439)	$ 734,865
Total liabilities	$ 64,969	$ 248,261	$ 61,155	$ 160,469	$ (25,255)	$ 509,599

[1] While adjusted EBITDA is a common financial measure widely used by investors to facilitate an "enterprise level" valuation of an entity, it does not have a standardized definition prescribed by IFRS, and therefore other issuers may calculate adjusted EBITDA differently.

[2] In Q1 2016, the use of adjusted EBITDA was adopted and certain comparative amounts have been restated. The Corporation defines adjusted EBITDA as net earnings/loss from continuing operations before finance income, finance costs, 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.

[3] Refer to Note 7 for more information on restructuring costs.

[4] In Q3 2015, adjustments were made to the Studon acquisition purchase price allocation to reflect new information obtained by management with respect to facts and circumstances that existed as of the acquisition date. Due to the change in economic conditions subsequent to the acquisition, management assessed and reduced its estimate of the contingent consideration payable by $2,935 and recognized an impairment loss of $4,000 with respect to specific intangible assets acquired.

4. DEPRECIATION AND AMORTIZATION

Included within contract costs is depreciation of property and equipment in the amounts of $692 and $2,461 for the three and nine month periods ended September 30, 2016 (September 30, 2015 – $1,038 and $3,583), respectively.

5. EARNINGS PER SHARE

(a) Basic earnings (loss) per share

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Net earnings (loss) - basic	**$ 1,356**	$ 6,431	**$ (2,972)**	$ 9,083
Issued common shares, beginning of the period	**26,722,909**	26,355,785	**26,532,482**	25,054,310
Effect of shares issued related to Dividend Reinvestment Plan (DRIP)	**83,263**	69,896	**180,388**	175,551
Effect of shares issued related to acquisition	**-**	-	**-**	1,082,878
Weighted average number of common shares for the period - basic	**26,806,172**	26,425,681	**26,712,870**	26,312,739
Basic earnings (loss) per share	**$ 0.05**	$ 0.24	**$ (0.11)**	$ 0.35

(b) Diluted earnings (loss) per share

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Net earnings (loss) - basic	**$ 1,356**	$ 6,431	**$ (2,972)**	$ 9,083
Interest, accretion and amortization of deferred financing fees, net of tax	**-**	1,206	**-**	3,616
Net earnings (loss) - diluted	**$ 1,356**	$ 7,637	**$ (2,972)**	$ 12,699
Weighted average number of common shares - basic	**26,806,172**	26,425,681	**26,712,870**	26,312,739
Incremental shares - stock options	**75,821**	15,452	**-**	7,951
Incremental shares - convertible debentures	**-**	15,457,615	**-**	15,891,968
Weighted average number of common shares for the period - diluted	**26,881,993**	41,898,748	**26,712,870**	42,212,658
Diluted earnings (loss) per share	**$ 0.05**	$ 0.18	**$ (0.11)**	$ 0.30

For the three month period ended September 30, 2016, the number of stock options excluded from the diluted weighted average number of common share calculation was 1,107,881 (September 30, 2015 – 1,447,792), as their effect would have been anti-dilutive. There were no incremental shares related to convertible debentures included in the diluted weighted average number of common shares calculation, as the impact of the normalization of earnings (interest, accretion and amortization added back, net of tax) outweighed the effect of the related incremental shares and therefore the convertible debentures were anti-dilutive.

For the nine month period ended September 30, 2016, 2,025,134 stock options (September 30, 2015 – 1,376,363) were excluded and no incremental shares related to convertible debentures were included in the diluted weighted average number of common shares calculation, as the impact of potential common shares are considered anti-dilutive when the Corporation is in a net loss position. As such, the diluted weighted average number of common shares and resulting diluted loss per share are the same amounts as calculated under basic loss per share.

6. CONSTRUCTION AND NON-CONSTRUCTION CONTRACTS

Contracts in progress:

		September 30, 2016		December 31, 2015
Construction costs incurred plus recognized profits less recognized losses to date	**$**	**2,666,270**	$	4,277,440
Less: progress billings		**(2,704,438)**		(4,285,360)
Net over billings on construction contracts		**(38,168)**		(7,920)
Non-construction costs incurred plus recognized profits less recognized losses to date	**$**	**186,269**	$	276,184
Less: progress billings		**(182,512)**		(268,974)
Net under billings on non-construction contracts		**3,757**		7,210
Total net contract position	**$**	**(34,411)**	$	(710)

Recognized and included on the condensed consolidated statements of financial position:

		September 30, 2016		December 31, 2015
Costs in excess of billings - Construction contracts	**$**	**30,100**	$	51,049
Costs in excess of billings - Non-construction contracts		**5,453**		7,939
Total costs in excess of billings		**35,553**		58,988
Contract advances and unearned income - Construction contracts	**$**	**(68,268)**	$	(58,969)
Contract advances and unearned income - Non-construction contracts		**(1,696)**		(729)
Total contract advances and unearned income		**(69,964)**		(59,698)
Total net contract position	**$**	**(34,411)**	$	(710)

At September 30, 2016, holdbacks for contract work amounted to $78,246 (December 31, 2015 – $66,472).

7. PROVISIONS

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

	Warranties	Restructuring Costs	Claims and Disputes	Subcontractor Default	Onerous Contracts	Total
Balance at December 31, 2015	$ 6,147	$ 26	$ 1,607	$ 4,581	$ 1,014	$ 13,375
Provisions made during the period	1,274	725	110	2,130	3,686	7,925
Provisions used during the period	(237)	(735)	(15)	(6,711)	(323)	(8,021)
Provisions reversed in the period	(2,843)	-	(1,174)	-	-	(4,017)
Unwinding of discount	-	-	-	-	68	68
Balance at September 30, 2016	**$ 4,341**	**$ 16**	**$ 528**	**$ -**	**$ 4,445**	**$ 9,330**

During the period ended September 30, 2016, the Corporation continued to undertake restructuring initiatives to ensure it operates efficiently in a challenging economic environment. These restructuring initiatives include the realignment of the operating structure within the Industrial Group and Commercial Systems Group, as well as the termination and consolidation of leased office spaces within the three operating segments (Industrial Group, Buildings Group and Commercial Systems Group). The restructuring of leased office space resulted in the recognition of an onerous lease contract that represents the costs required to fulfill the contract, net of management's best estimate of any amounts that the Corporation will recover based on ongoing sublease negotiations.

The provisions are presented on the condensed consolidated statements of financial position as follows:

	September 30, 2016	December 31, 2015
Current portion of provisions	**$ 5,069**	$ 7,705
Long-term provisions	**4,261**	5,670
Total provisions	**$ 9,330**	$ 13,375

8. LONG-TERM DEBT

On July 13, 2016, the Corporation negotiated improved terms and conditions and a one year extension to its revolving credit facility (Revolver). The Revolver now consists of a $150,000 (previously $155,000) credit facility syndicated by six lenders from the existing facility and a $25,000 (previously $20,000) operating facility provided by one of the co-lead lenders. The combined Revolver maintains the Corporation's maximum available borrowing capacity of $175,000. The maturity date of the Revolver has been extended to July 16, 2021. The Revolver continues to include existing financial covenants related to interest coverage and total debt to EBITDA, as described in Note 32 of the audited annual consolidated financial statements for the year ended December 31, 2015.

9. SHARE-BASED PAYMENTS

(a) Stock options

Movement during the periods:

	September 30, 2016			December 31, 2015		
	Number of Stock Options		**Weighted Average Exercise Price**	Number of Stock Options		Weighted Average Exercise Price
Outstanding, beginning of the period	**1,715,118**	**$**	**10.33**	1,682,042	$	11.95
Granted	**563,498**		**5.80**	430,085		5.82
Forfeited	**(61,059)**		**11.42**	(244,401)		8.10
Expired	**(192,423)**		**19.32**	(152,608)		19.09
Outstanding, end of the period	**2,025,134**	**$**	**8.18**	1,715,118	$	10.33

The options outstanding for the nine month period ended September 30, 2016 have an exercise price in the range of $5.77 to $15.48 (December 31, 2015 – $5.77 to $19.32) and lives of between 5 and 10 years (December 31, 2015 – 5 and 10 years).

Compensation costs are recognized over the vesting period as share-based compensation expense and an increase to the share-based payment reserve. When options are exercised, the fair value amount in the share-based payment reserve is credited to share capital.

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

		September 30, 2016		December 31, 2015
Balance, beginning of the period	**$**	**10,176**	$	9,341
Share-based compensation expense		**461**		835
Balance, end of the period	**$**	**10,637**	$	10,176

(b) Medium Term Incentive Plan (MTIP)

Movement of units during the periods:

	Bridging Restricted Share Units (BRSUs)	**Restricted Share Units (RSUs)**	**Performance Share Units (PSUs)**
Outstanding at December 31, 2015	198,910	672,219	720,822
Granted	-	279,594	298,700
Forfeited	(10,278)	(71,512)	(47,677)
Vested and paid	(135,449)	(124,083)	(254,553)
Outstanding at September 30, 2016	**53,183**	**756,218**	**717,292**

(c) Deferred Share Units (DSUs)

Movement of units during the periods:

	September 30, 2016	December 31, 2015
Outstanding, beginning of the period	**472,573**	433,248
Granted	**111,547**	163,251
Settled	**(4,457)**	(123,926)
Outstanding, end of the period	**579,663**	472,573

(d) Share-based payment liability

	September 30, 2016	December 31, 2015
Carrying amount of liabilities for cash-settled arrangements		
Current portion	**$ 1,560**	$ 2,070
Long-term portion	**5,409**	4,652
Total carrying amount	**$ 6,969**	$ 6,722
Total intrinsic value of liability for vested benefits	**$ 3,508**	$ 2,812

Included in trade and other payables is the current portion of the MTIPs to be paid out within the next 12 months. The long-term portion of MTIPs and DSUs of $5,409 at September 30, 2016 (December 31, 2015 – $4,652) is classified as share-based payments on the condensed consolidated statements of financial position. The total intrinsic value reflects all of the outstanding DSUs and vested MTIPs as at September 30, 2016.

(e) Share-based compensation expense

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Share-based compensation expense on stock options	**$ 156**	$ 218	**$ 461**	$ 620
Effects of changes in fair value and accretion of MTIP grants	**741**	(524)	**2,141**	615
Effects of changes in fair value and grants for DSUs	**257**	(445)	**754**	(285)
	$ 1,154	$ (751)	**$ 3,356**	$ 950

10. SHARE CAPITAL

(a) Common shares and preferred shares

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

	September 30, 2016		December 31, 2015	
	Shares	**Share Capital**	Shares	Share Capital
Common Shares				
Issued, beginning of the period	**26,532,482**	**$ 140,457**	25,054,310	$ 131,724
DRIP	**288,635**	**1,655**	375,091	2,102
Issued during the period	**-**	**-**	1,103,081	6,631
Issued, end of the period	**26,821,117**	**$ 142,112**	26,532,482	$ 140,457

On January 6, 2015, the Corporation issued 1,103,081 common shares at a share price of $6.01 as part of the Studon acquisition.

(b) Common shares and dividends

As at September 30, 2016, trade and other payables included $3,219 (December 31, 2015 – $3,184) related to the dividend payable on October 13, 2016, of which $575 (December 31, 2015 – $537) is to be reinvested in common shares under the DRIP and the remainder paid in cash.

	September 30, 2016		December 31, 2015	
	Per Share	**Total**	Per Share	Total
Dividend payable, beginning of the period	**$ 0.12**	**$ 3,184**	$ 0.12	$ 3,007
Total dividends declared during the period	**0.36**	**9,622**	0.48	12,668
Total dividends paid during the period [(1)]	**(0.36)**	**(9,587)**	(0.48)	(12,491)
Dividend payable, end of the period	**$ 0.12**	**$ 3,219**	$ 0.12	$ 3,184

[(1)] Includes DRIP non-cash payments totaling $1,655 (December 31, 2015 - $2,102) which are recorded through share capital.

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

	Nine months ended September 30,	
	2016	2015
Trade and other receivables	**$ (19,954)**	$ 31,612
Inventory	**694**	41
Prepaid expenses	**(826)**	(463)
Costs in excess of billings	**23,435**	29,277
Trade and other payables	**(4,423)**	(42,478)
Contract advances and unearned income	**10,266**	3,774
	$ 9,192	$ 21,763

12. FINANCIAL INSTRUMENTS

(a) Carrying values

	September 30, 2016	December 31, 2015
Financial assets:		
Cash and cash equivalents, including restricted cash	**$ 28,330**	$ 37,839
Trade and other receivables	**235,891**	215,937
Service provider deposit	**8,381**	6,799
Long-term receivable, including current portion	**306**	355
Financial liabilities:		
Trade and other payables	**$ 173,399**	$ 178,373
Long-term debt, including current portion	**44,454**	48,934
Convertible debentures - debt component	**73,835**	72,529

(b) Financial risk management

(i) Credit risk

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

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

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

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

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

	September 30, 2016	December 31, 2015
Balance, beginning of the period	**$ 2,558**	$ 2,140
Impairment losses recognized on receivables	**576**	1,005
Amounts written off during the period as uncollectible	**(762)**	(587)
Amounts recovered during the period	**(1,419)**	-
Balance, end of the period	**$ 953**	$ 2,558

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

	September 30, 2016	December 31, 2015
Current	$ 103,322	$ 67,647
1-60 days past due	32,390	48,810
61-90 days past due	3,222	4,224
More than 90 days past due	15,250	27,448
	$ 154,184	$ 148,129

In determining the quality of trade receivables, the Corporation considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The Corporation had $15,250 of trade receivables (December 31, 2015 – $27,448) which were greater than 90 days past due with $14,297 not provided for as at September 30, 2016 (December 31, 2015 – $24,890). 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. Trade receivables are included in trade and other receivables on the condensed consolidated statements of financial position.

(ii) Interest rate risk

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

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

	September 30, 2016	December 31, 2015
Fixed rate instruments		
Financial liabilities	$ 73,835	$ 72,529
Variable rate instruments		
Financial assets	$ 28,330	$ 37,839
Financial liabilities	$ 44,454	$ 48,934

Fixed rate sensitivity

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

Variable rate sensitivity

For the nine month period ended September 30, 2016, a change of 100 basis points in interest rates at the reporting date would have increased or decreased equity and profit or loss by $207 related to financial assets and by $325 related to financial liabilities (year ended December 31, 2015 – $280 and $362, respectively).

(iii) Liquidity risk

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

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

The following are the contractual obligations, including interest payments as at September 30, 2016, in respect of the financial obligations of the Corporation. Interest payments on the revolving credit facility have not been included in the table below since they are subject to variability based upon outstanding balances at various points throughout the period.

	Carrying amount	Contractual cash flows	Not later than 1 year	Later than 1 year and less than 3 years	Later than 3 years and less than 5 years	Later than 5 years
Trade and other payables	**$ 173,399**	$ 173,399	$ 173,399	$ -	$ -	$ -
Provisions, including current portion	**9,330**	12,343	5,338	2,021	1,393	3,591
Convertible debentures (debt portion)	**73,835**	97,405	4,830	9,660	82,915	-
Long-term debt, including current portion	**44,454**	46,917	1,599	159	45,159	-
Operating lease commitments	**-**	56,916	8,139	13,413	13,413	21,951
	$ 301,018	$ 386,980	$ 193,305	$ 25,253	$ 142,880	$ 25,542

13. CAPITAL MANAGEMENT

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

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

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

The primary non-IFRS measures used by the Corporation to monitor its financial leverage are its ratios of long-term indebtedness to capitalization and net long-term indebtedness to adjusted EBITDA. Adjusted EBITDA is described in further detail in Note 3.

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

		September 30, 2016		December 31, 2015
Long-term indebtedness:				
Long-term debt, principal amount [1]	**$**	**46,843**	$	51,237
Convertible debentures, principal amount [2]		**80,500**		80,500
Total long-term indebtedness		**127,343**		131,737
Total equity		**212,742**		224,982
Total capitalization	**$**	**340,085**	$	356,719
Indebtedness to capitalization percentage		**37%**		37%

[1] Principal amount of current and non-current long-term debt before the deduction of deferred financing fees.

[2] Includes the maturity value of the convertible debentures issued in 2014.

The Corporation targets a net long-term indebtedness to adjusted EBITDA ratio of 2.0 to 3.0 over a three to five-year planning horizon. At September 30, 2016, the net long-term indebtedness to adjusted EBITDA was 2.9 (September 30, 2015 – 2.0), calculated on a last twelve month basis as follows:

		September 30, 2016		September 30, 2015
Total long-term indebtedness [1]	**$**	**127,343**	$	143,201
Less: Cash on hand [2]		**(28,330)**		(38,780)
Net long-term indebtedness for the last twelve months	**$**	**99,013**	$	104,421
Net (loss) earnings	**$**	**(860)**	$	10,265
Add:				
Finance income		**(185)**		(628)
Finance costs		**8,599**		14,320
Depreciation and amortization		**17,243**		19,056
Income tax expense		**771**		4,640
Impairment loss on property and equipment		**1,347**		2,294
Impairment loss on intangible assets		**-**		4,000
Recovery relating to investing activities		**-**		(1,255)
Restructuring costs		**7,331**		-
Gain on sale of assets		**(139)**		(64)
Adjusted EBITDA for the last twelve months [3]	**$**	**34,107**	$	52,628
Net long-term indebtedness to adjusted EBITDA ratio		**2.9**		2.0

[1] As per the calculation in the indebtedness to capitalization percentage.

[2] Cash on hand includes restricted cash.

[3] While adjusted EBITDA is a common financial measure widely used by investors to facilitate an “enterprise level” valuation of an entity, it does not have a standardized definition prescribed by IFRS, and therefore other issuers may calculate adjusted EBITDA differently.

The Corporation monitors its capital requirements through a rolling forecast of operating results and the related financial position. In addition, the Corporation establishes and reviews operating and capital budgets and cash flow forecasts in order to manage overall capital with respect to financial covenants. The Corporation's revolving credit facility is subject to the covenants described in Note 32 of the Corporation's annual audited consolidated financial statements for the year ended December 31, 2015. The covenants are measured each quarter on March 31, June 30, September 30 and December 31. The Corporation was in full compliance with its covenants at September 30, 2016 and December 31, 2015.

14. RELATED PARTY TRANSACTIONS

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

The Corporation incurred facility costs during the three and nine month periods ended September 30, 2016 of $103 and $393 (September 30, 2015 – $112 and $336), respectively, for the rental of buildings that are partially owned indirectly by Don Sutherland, the President of Studon. No amounts are included in trade payables as at September 30, 2016 and 2015.

15. CONTINGENCIES, COMMITMENTS AND GUARANTEES

The Corporation has made various donations in support of local communities. Over the next three years the Corporation has committed to pay $258 (September 30, 2015 – $618), of which $61 (September 30, 2015 – $556) is to be paid in the upcoming 12 month period.

The Corporation has provided several letters of credit in the amount of $3,636 in connection with various projects and joint arrangements (December 31, 2015 – $3,690), of which $nil are financial letters of credit (December 31, 2015 – $nil).

16. EVENTS AFTER THE REPORTING PERIOD

On November 3, 2016, the Corporation's Board of Directors 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 January 17, 2017 to shareholders of record on December 31, 2016.

Corporate & Shareholder Information

Officers

David LeMay, MBA
President and Chief Executive Officer

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

Arthur Atkinson, PQS
Chief Operating Officer
Buildings Group

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

Bob Myles, P.Eng.
Chief Operating Officer
Industrial Group

Bill Pohl, B Mgmt., CA
Vice President, Finance

Directors

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

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

Chad Danard (1) (2)

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

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

David LeMay, MBA

Carmen R. Loberg (1) (3)

Ian M. Reid, B.Comm. (2) (3) (4)

(1) Member of the Audit Committee
(2) Member of the Human Resources & Compensation Committee
(3) Member of the Corporate Governance & Nominating Committee
(4) Member of the Health, Safety & Environment Committee

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Calgary, Alberta

Principal Bank

The Toronto-Dominion Bank

Bonding and Insurance

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

Registrars and Transfer Agents

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

Common Shares

CST Trust Company
600 The Dome Tower
333 – 7th Avenue SW
Calgary, Alberta T2P 2Z1
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Fax: (403) 776-3916
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Website: www.canstockta.com
Answerline: 1-800-387-0825

Convertible Debentures

Valiant Trust Company
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