



**ANNUAL INFORMATION FORM**

**March 7, 2017**

**For the Financial Year Ended December 31, 2016**

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This Annual Information Form (“AIF”) for Stuart Olson Inc. (“Stuart Olson” or the “Corporation”) contains certain statements that may constitute forward-looking information within the meaning of applicable securities laws. This forward-looking information relates to, among other things:

1. management’s expectations and intentions regarding the Industrial Services Group (as defined herein), including its ability to meet the needs of its clients, its pursuit of larger projects and its capacity to lead new business origination in the industrial environment;
2. management’s expectations that the Buildings Group (as defined herein) will be able to convert pre-construction activities into full construction management projects;
3. whether or not backlog can be converted into revenue and what the expected margin on such revenue might be;
4. the elements necessary for Stuart Olson and its businesses to be successful;
5. the enhancement, predictability and sustainability of Stuart Olson’s earnings or revenues through any means whatsoever including, without limitation, project and market diversity;
6. the future business prospects of any of Stuart Olson’s Operating Groups (as defined herein) and the industries in which they operate;
7. the financial and operational effects on Stuart Olson and its businesses as a result of compliance with environmental protection requirements;
8. the Corporation’s estimate of the value of various contracts; and
9. the payment of future dividends.

Often, but not always, forward-looking information can be identified by the use of such words as “may”, “will”, “expect”, “believe”, “plan”, “intend”, “estimate”, “outlook”, “forecast”, “should”, “anticipate” and other similar terminology, including statements concerning possible or assumed future results. Forward-looking information is based on management’s reasonable assumptions, analysis and estimates in respect of its experience and perception of trends, current economic conditions and expected developments, as well as other material factors that it considers to be relevant at the time of making such statements.

The forward-looking statements contained in this AIF are based on certain assumptions, including, among other things: the expected performance of the global and Canadian economies and the effects thereof on the Corporation’s businesses; the continuation of challenging market conditions in Alberta due to the “lower-for-longer” oil price environment; the global demand for oil and natural gas, its impact on commodity prices and its related effect on capital investment projects in Western Canada; the ability of counterparties with whom the Corporation invests cash and equivalents to meet their obligations; that interest rates are relatively stable; the Corporation’s estimates about the projects and the markets in which the Corporation operates remain unchanged; the stability of market conditions and currency exchange rates; the impact of competition; and government policies.

The forward-looking information in this AIF is included solely for the purpose of assisting Stuart Olson’s security holders in understanding Stuart Olson’s financial position and the results of its operations as at the date hereof. By its nature, forward-looking information involves known and unknown risks and uncertainties, which give rise to the possibility that management’s assumptions, analysis and estimates will be incorrect and that Stuart Olson’s anticipated results will not be achieved. Although Stuart Olson believes that the statements with respect to forward-looking information are reasonable and current, such statements should not be interpreted as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. Forward-looking information is necessarily subject to a number of factors that may cause actual results to differ materially from those results implied by the expectations suggested by such information. Those factors include, without limitation, those other risks and uncertainties described in this AIF in the section entitled “*Risk Factors*”.

When relying on the forward-looking information to make decisions with respect to Stuart Olson, security holders and others should carefully consider the foregoing factors, although readers are strongly cautioned that the foregoing list of factors is not exhaustive and other factors could adversely affect Stuart Olson’s performance. Investors and other readers are encouraged to consider the foregoing risks and other factors carefully when evaluating the forward-looking information and are cautioned not to place undue reliance upon such information when making investment decisions.

The forward-looking information in this AIF is current to the date hereof, and is subject to change following such date. While Stuart Olson may elect to do so, unless required by applicable law, it undertakes no obligation to update this information to reflect new information or circumstances at any particular time.

## **NON-IFRS MEASURES**

Throughout this AIF certain measures are used that, while common in the construction industry, are not recognized measures under IFRS. The measures used include “backlog” and “adjusted EBITDA”. These measures are used by management to assist in making operating decisions and assessing performance. They are presented in this AIF to assist readers to assess the performance of Stuart Olson and its Operating Groups. While the Corporation calculates 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.

### **Backlog**

Backlog means the total value of work, including work-in-hand, that has not yet been completed that (a) is assessed by the Corporation as having high certainty of being performed by the Corporation or its subsidiaries by either the existence of a contract or work order specifying job scope, value and timing, or (b) has been awarded to the Corporation or its 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 the Corporation as being reasonably assured.

### **Adjusted EBITDA**

The Corporation defines 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. The Corporation’s calculation of adjusted EBITDA excludes items that do not reflect our ongoing operations, including restructuring charges and charges related to investing decisions, and that the Corporation believes 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. EBITDA and adjusted EBITDA are reconciled to net earnings/loss in the Corporation’s Management’s Discussion and Analysis for the year ended December 31, 2016, a copy of which can be found under the Corporation’s profile on the System for Electronic Document Analysis and Retrieval (“**SEDAR**”) at [www.sedar.com](http://www.sedar.com).

## INTRODUCTION

This AIF is dated March 7, 2017. Except where otherwise indicated, the information in this AIF is provided as of December 31, 2016 and all dollar amounts are expressed in Canadian dollars.

## CORPORATE STRUCTURE

### Name, Address and Incorporation

The Corporation was incorporated as “Churchill Development Corporation Ltd.” on August 31, 1981, under the *Companies Act* of Alberta and was continued under the *Business Corporations Act* (Alberta) (the “**ABCA**”) on July 30, 1985. The name of the Corporation was changed to “The Churchill Corporation” by Certificate of Amendment dated July 30, 1985. On June 30, 1987, the Corporation acquired Alberta Investments Ltd. (“**AIL**”), and became a reporting issuer pursuant to an order of the Alberta Securities Commission. The Corporation amalgamated with AIL on December 31, 1987 and the Common Shares (as defined herein) were listed for trading on the Alberta Stock Exchange on December 1, 1987. On December 8, 1999, the Common Shares were listed for trading on the Toronto Stock Exchange (the “**TSX**”). On January 30, 2000, the Corporation consolidated its trading on the TSX and dropped its listing on the Alberta Stock Exchange, which was by then the Canadian Venture Exchange (now the TSX Venture Exchange). The Corporation changed its name from “The Churchill Corporation” to “Stuart Olson Inc.” by Certificate of Amendment filed on May 22, 2014.

The Corporation’s head office is located at 600, 4820 Richard Road SW, Calgary, Alberta. The Corporation’s registered office is located at 400, 3rd Avenue SW, Suite 3700, Calgary, Alberta.

### Material Amendments to the Constatting Documents of the Corporation

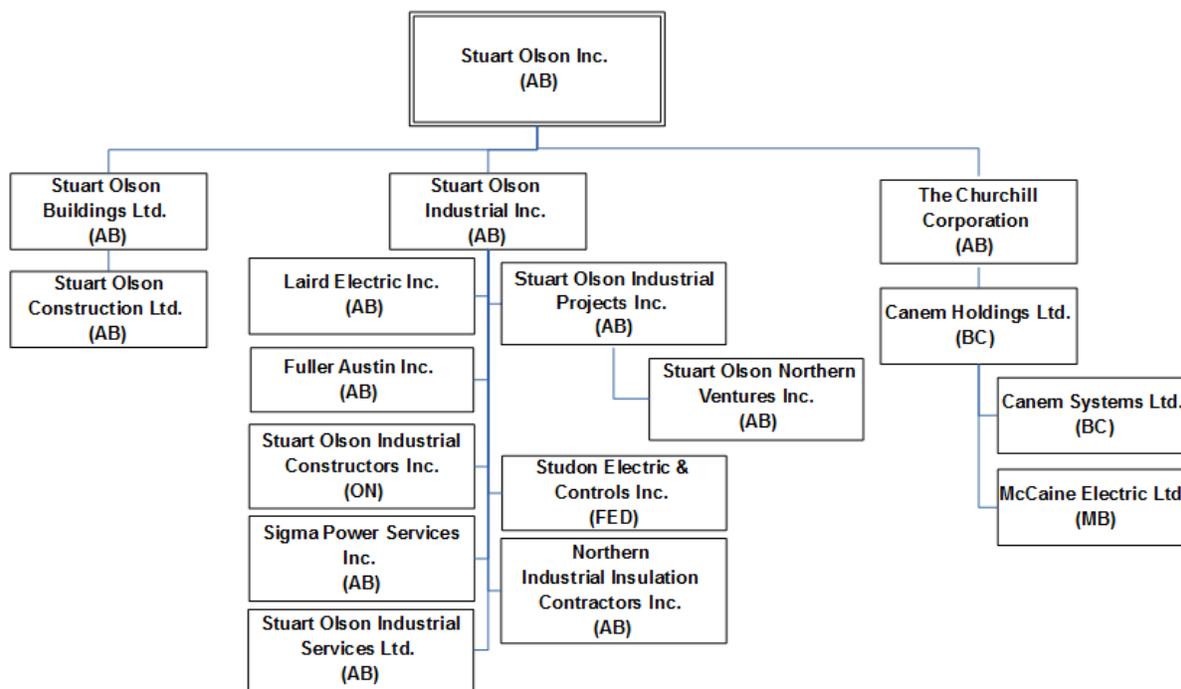
The following material amendments have been made to the articles and other constating documents of the Corporation:

1. Certificate and Special Resolution filed June 28, 1985 to: (i) reorganize the Corporation’s share capital to consolidate the class “A” common shares and the class “B” common shares; (ii) modify the Memorandum of Association of the Corporation; (iii) authorize the issuance of up to 110,000,000 class “A” common shares; and (iv) convert all issued and outstanding class “A” common shares and all issued and outstanding class “B” common shares into Class A Common Shares on a one-for-one basis.
2. Articles of Amendment filed July 30, 1985 to change the name of the Corporation from “Churchill Development Corporation Ltd.” to “The Churchill Corporation”.
3. Articles of Amalgamation filed December 31, 1987 to amalgamate the Corporation and AIL.
4. Amended By laws approved by the Board of Directors of the Corporation (the “**Board**” or the “**Board of Directors**”) and ratified by the Corporation’s shareholders at the annual and special meeting of shareholders held May 19, 1999 to reduce the quorum requirement for meetings of shareholders from 30% to 10% of the Common Shares.
5. Articles of Amendment filed June 13, 2000 to:
  - (a) change the authorized share capital of the Corporation as follows: (i) change the designation of the authorized and issued “Class A Common Shares” to “Common Shares” (the “**Common Shares**”); (ii) change the maximum number of Common Shares that may be issued to an unlimited number; (iii) cancel the authorized classes and series of preferred shares; and (iv) create an unlimited number of a new class of shares designated as “Preferred Shares”, issuable in series (the “**Preferred Shares**”);
  - (b) provide that meetings of shareholders of the Corporation may be held inside or outside of Alberta, at any place in Canada; and

- (c) permit the Board to appoint one or more additional directors between annual meetings of shareholders, with the number of additional directors not to exceed one-third of the number of directors who held office at the expiration of the last annual meeting of shareholders of the Corporation.
- 6. A new By-Law No. 2 of the Corporation was approved by the Board on March 15, 2013 and ratified by the Corporation's shareholders on May 23, 2013 to provide that advance notice must be given to the Corporation in circumstances where nominations of persons for election to the Board are made by a shareholder of the Corporation, other than pursuant to a proposal or a requisition of a shareholder made in accordance with the provisions of the ABCA.
- 7. Articles of Amendment filed May 22, 2014 to change the name of the Corporation from "The Churchill Corporation" to "Stuart Olson Inc."

**Intercorporate Relationships**

The chart below shows Stuart Olson's principal operating subsidiaries as at December 31, 2016 and their respective jurisdictions of incorporation or existence, as applicable. The assets or sales and operating revenues of each of the other subsidiaries of the Corporation do not constitute more than 10%, individually, of the consolidated assets or the consolidated sales and operating revenues of Stuart Olson as at and for the year ended December 31, 2015, nor do they constitute more than 20%, in the aggregate, of the consolidated assets or consolidated sales and operating revenues of Stuart Olson as at and for the year ended December 31, 2016. The Corporation beneficially owns, controls and directs, directly or indirectly, 100% of the votes attaching to all voting securities of each principal operating subsidiary.



**GENERAL DEVELOPMENT OF THE BUSINESS**

**Overview**

Stuart Olson is one of the larger publicly traded construction and industrial services companies in Canada. The Corporation provides 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 both the public and private sectors.

The Corporation has elected to group its operations into four segments for financial statement reporting purposes in accordance with International Financial Reporting Standards 8 (“**IFRS 8**”). Those reporting segments now include General Contracting, Commercial Systems, Industrial Services and Corporate and Other. Of those reporting segments, only the General Contracting, Commercial Systems and Industrial Services segments constitute the operational segments of the Corporation.

The General Contracting segment is comprised of Stuart Olson Buildings Ltd. and all of its operating subsidiaries (collectively, the “**Buildings Group**”). The Commercial Systems segment is comprised of Canem Holdings Ltd. (“**Canem**”), and its operating subsidiaries (collectively, the “**Commercial Systems Group**”). The Industrial Services segment is comprised of Stuart Olson Industrial Inc. (“**Stuart Olson Industrial**”) and its operating subsidiaries (collectively, the “**Industrial Services Group**” and, together with the Buildings Group and the Commercial Systems Group, the “**Operating Groups**”).

Each of the Buildings Group, the Commercial Systems Group and the Industrial Services Group operates independently, provides different products and services to different classes of customers and has revenues and earnings in excess of 10% of the consolidated revenue and earnings of the Corporation, thus justifying separate disclosure under IFRS 8. Similarly, the Corporation regularly analyzes the results of the Operating Groups independently as they generate different gross margin yields and have different risk profiles. The evaluation of results by group and by individual operating entity is consistent with the way in which management performance is assessed.

The three Operating Groups and the Corporate and Other reporting segment are briefly described in the following paragraphs.

### **Buildings Group**

In 2010, following the Corporation’s acquisition of The Dominion Company Inc. (“**Dominion**”), Stuart Olson Constructors Inc. (the “**Original Stuart Olson**”) and Dominion were operationally combined to form what is now the Buildings Group. The Original Stuart Olson and Dominion had been general contractors since 1939 and 1911, respectively. The Buildings Group provides general contracting services, including integrated project delivery, construction management and design-build services in various market sectors. It specializes in integrated project delivery which involves, at a minimum, tight collaboration from early design to handover among the owner, architect, engineer and builder ultimately responsible for construction of the project. The Buildings Group’s work in the area has ranged from schools to high-rise buildings and includes both new construction and renovation projects. The Buildings Group also offers clients design-build construction services, which involves both design and construction services. The Buildings Group also provides other general contracting services, which include the provision of management, estimating, accounting, site management, field workers and equipment in order to complete projects. The Buildings Group operates through branch offices in Richmond, British Columbia; Calgary and Edmonton, Alberta; Winnipeg, Manitoba; and Mississauga, Ontario.

### **Commercial Systems Group**

Commercial Systems is comprised Canem which was acquired in July 2010, and its operating subsidiaries. Canem designs, builds, maintains and services critical building systems including electrical and life safety systems, voice, data and communications networks, security infrastructure and other related building technology systems. Canem’s primary markets include commercial, institutional and multi-tenant residential buildings. With its head office located in Richmond, British Columbia, its services include: (a) design and installation of various building systems (electrical, voice/data, security, building maintenance systems, life-safety, etc.); (b) on-call service for building systems maintenance and troubleshooting; (c) preventative and scheduled maintenance for critical component installations; (d) budgeting and pre-construction services; and (e) management of regional and national contracts for multi-site installations. Canem’s acquisition of McCaine Electric Ltd. (“**McCaine**”) in 2011 expanded Canem’s footprint into Manitoba.

### **Industrial Services Group**

In December of 2011, the Corporation announced a realignment of its Industrial Services Group whereby Insulation Holdings Inc. and Churchill Industrial Services Group Inc. were amalgamated to form the entity currently known as Stuart Olson Industrial which, prior to its name change in May of 2014, had been formerly known as “Churchill Services Group Inc.” The primary purpose for the realignment was to integrate the existing industrial businesses in

order to create a central and coordinated interface through which industrial customers could access the various industrial construction and maintenance service offerings available within the Industrial Services Group. In early 2015, the Corporation acquired Studon Electric & Controls Inc. (“**Studon**”), which became part of the Industrial Services Group. Management of the Corporation believes that a fully integrated industrial service offering will lead to new business origination by facilitating the pursuit of larger projects and contracts within the industrial environment.

As at December 31, 2016, the Industrial Services Group was organized into two divisions. The maintenance, repair and operations division (the “**MRO Division**”) is comprised of Laird Electric Inc. (“**Laird Electric**”) and Studon which are electrical contractors, and Fuller Austin Inc. (“**Fuller Austin**”), Northern Industrial Insulation Contractors Inc. (“**Northern**”), which provide specialty services, and Sigma Power Services Inc. (“**Sigma Power**”). The general contracting and construction division (the “**Construction Division**”) is made up of Stuart Olson Industrial Constructors Inc. (formerly, Laird Constructors Inc.) (“**Stuart Olson Industrial Constructors**”). The companies within the Industrial Services Group have similar economic characteristics and are similar in terms of services provided, production processes, customers, methods of service delivery and the regulatory environment in which they operate. The businesses of the five primary operating companies in the Industrial Services Group as at December 31, 2016 can be summarized as follows:

1. Laird Electric is a full service electrical contractor headquartered in Edmonton, Alberta and provides industrial electrical and instrumentation construction and maintenance services. It serves the resource and industrial sectors, including oil sands, oil and gas, petrochemical and mining markets, primarily within the Fort McMurray and greater Edmonton regions.
2. Studon is headquartered in Red Deer, Alberta, and is an electrical and instrumentation services provider offering construction, maintenance and turnaround services to the oil and gas, pipeline and petrochemical industries in western Canada. Studon became a part of the Industrial Services Group on January 6, 2015.
3. Fuller Austin and Northern are headquartered in Edmonton, Alberta. They serve industrial clients with mechanical process insulation, scaffolding, asbestos abatement, building siding, heating, ventilation and air conditioning (“**HVAC**”), fire-stopping, heat trace tubing, fabrication of flexible removable insulated covers and plant maintenance services. Their clients are in the oil sands, oil and natural gas, petrochemical, fertilizer, forest products, power utilities and mining industries.
4. Sigma Power is headquartered in Edmonton, Alberta and provides a full range of technical services on high voltage equipment ranging from 480V to 500KV, including project planning, acceptance testing, start-up and commissioning, maintenance, maintenance testing, infrared scanning, transformer assembly and repair, cable terminations and reliability studies. Sigma Power focusses its services primarily in northern Alberta serving a broad client base in various industries, including oil and gas, mining, refining, power generation/delivery, petrochemical and pulp and paper.
5. Stuart Olson Industrial Constructors is headquartered in Sudbury, Ontario and is a multi-trade general contractor providing industrial electrical, instrumentation, power line, millwrighting, structural steel, equipment installation, civil construction, mechanical and structural construction and maintenance services to resource and industrial clients, primarily in the mining and power generation industries in Ontario, Manitoba and the Northwest Territories.

Prior to September 1, 2014, the Industrial Services Group also included Broda Construction Group Ltd. (“**Broda**”), a heavy construction company specializing in aggregate processing, earthwork, civil construction and concrete production. Broda, had been acquired in 2010, and was sold to TriWest Capital Partners on September 1, 2014. See the section entitled “*Three Year History of the Business -2014*” for further details relating to the sale of Broda.

#### **Corporate and Other**

The Corporate and Other reportable group includes Stuart Olson’s corporate officers and staff functions of accounting, treasury, human resources, marketing, information technology services, corporate development, legal, internal audit, payroll, marketing and business development. The costs of some functions, such as information services and certain centralized payroll and accounting services, are allocated directly to the other business groups, and others remain in Corporate and Other. The corporate office provides strategic direction, operating oversight, legal and human resources services, financing, infrastructure services and management of public company requirements to each of Stuart Olson’s Operating Groups.

## THREE YEAR HISTORY OF THE BUSINESS

### 2014

On March 25, 2014, the Corporation announced new contract awards totaling \$250 million within its Buildings Group and Commercial Systems Group. The Buildings Group secured \$135 million in new projects, including the Mount Royal University Library in Calgary. The awards also included hospital projects in British Columbia and a residential building in Manitoba. The Commercial Systems Group secured new awards totalling \$115 million, including a major sport and entertainment centre and two significant health care facility projects.

On May 22, 2014, the Corporation announced that it was rebranding its businesses under one common “Stuart Olson” brand in order to increase its overall competitiveness and help customers recognize the Corporation’s size and scope as an integrated solutions provider in the Canadian construction services sector. As part of the rebranding, the Corporation changed its name from “The Churchill Corporation” to “Stuart Olson Inc.” and its trading symbol from “CUQ” to “SOX”.

On June 5, 2014, Stuart Olson announced that it had renegotiated the terms and conditions of its Credit Facility (as defined herein) in order to provide it with greater financial flexibility to support its operations. The material changes to the Credit Facility included additional flexibility in the borrowing covenants such that senior debt to earnings before interest, taxes, depreciation and amortization (“**EBITDA**”) and debt to EBITDA ratios were both permanently increased by 0.25 times to 2.75 times and 3.25 times, respectively, with an additional increase of 0.25 times for a period of two quarters following the completion of a material acquisition.

On September 1, 2014, the Corporation announced the sale of Broda to TriWest Capital Partners for gross cash proceeds of \$39.0 million (the “**Broda Disposition**”). Broda is a heavy construction company specializing in aggregate processing, earthwork, civil construction and concrete production. Prior to the Broda Disposition, Broda was included in the Corporation's Industrial Services Group. The Broda Disposition closed on September 1, 2014 and was subject to normal and customary post-closing balance sheet adjustments. Net proceeds of the Broda Disposition were used to repay outstanding indebtedness under the Credit Facility.

On September 19, 2014, Stuart Olson announced that it had closed a bought deal financing (the “**2014 Debenture Offering**”) of \$70.0 million aggregate principal amount of 6% convertible unsecured subordinated debentures (the “**2014 Debentures**”). On September 29, 2014, Stuart Olson announced that in connection with the 2014 Debenture Offering the underwriters had fully exercised their over-allotment option to purchase an additional \$10.5 million aggregate principal amount of the 2014 Debentures on the same terms and conditions as the 2014 Debenture Offering.

On November 5, 2014, the Corporation announced that for the third quarter of 2014 it had revenue of \$350.4 million, EBITDA of \$10.9 million and net earnings from continuing operations of \$2.8 million, compared to revenue of \$274.8 million, EBITDA of \$8.5 million and net earnings from continuing operations of \$1.0 million in the third quarter of 2013. The Corporation also announced that it had recorded a third quarter net loss of \$12.9 million, compared to net income of \$2.6 million in the third quarter of 2013, primarily reflecting the non-cash loss of \$16.4 million incurred on the sale of Broda. At the same time, the Corporation confirmed its backlog of \$1.9 billion, reflecting \$183.7 million in new contract awards and net increases in project scope awarded during the quarter.

On November 20, 2014, Stuart Olson announced new contract awards totaling \$130 million for its Industrial Services Group and Buildings Group. The Industrial Services Group was awarded a one year extension on an existing maintenance and turnaround contract to provide electrical, instrumentation and insulation services to a major oil sands owner. The Buildings Group secured a significant construction management project to construct a new building and retrofit an existing facility for a major university in southern Ontario.

On November 26, 2014, Stuart Olson announced that it had signed a definitive agreement to acquire all of the issued and outstanding common shares of Studon. Headquartered in Red Deer, Alberta, Studon is an electrical and instrumentation services provider offering construction, maintenance and turnaround services to the oil and gas, pipeline and petrochemical industries in western Canada. Studon employs between 500 and 1,000 highly skilled electricians and instrumentation trades people at any given time. The purchase price of \$77.8 million (the “**Purchase Price**”) consisted of an equity purchase price of \$67.7 million (the “**Equity Purchase Price**”) plus the assumption of net debt and a working capital adjustment. The Equity Purchase Price consisted of \$59.9 million in cash (the “**Cash**”

**Consideration**”) and \$7.8 million in Common Shares (the “**Share Consideration**”). The Cash Consideration was funded by a combination of cash on hand and a draw on the Credit Facility. The Share Consideration consisted of 1,103,081 Common Shares at a deemed price of \$7.05 per share, calculated using the 20-day volume weighted average trading price of the Common Shares on the TSX as at November 25, 2014. The Share Consideration is subject to a lockup period of up to 720 days, with one-third of such shares being released from lockup every 240 days. The Purchase Price may be increased by a maximum of \$24.2 million through earn-out payments over the three years following the closing of the transaction in the event that Studon exceeds certain financial performance targets. The purchase of Studon was completed on January 6, 2015, at which time Studon became part of the Industrial Services Group.

On December 17, 2014, Stuart Olson announced that its Industrial Services Group had been awarded approximately \$100 million in new contracts, including a project involving the provision of complete mechanical, electrical and instrumentation services to a major mining company operating in the Northwest Territories and a second large electrical contract with an established client for work at an oil sands site in Northern Alberta.

## 2015

On January 6, 2015, Stuart Olson announced that it had completed the acquisition of Studon. The details of the acquisition are described above in the section entitled “*Three Year History of the Business – 2014*”. Studon was integrated into Stuart Olson’s Industrial Services Group immediately after the closing of the acquisition.

On February 4, 2015, Stuart Olson announced that its Buildings Group had been awarded approximately \$120 million in new contract awards, including a \$90 million construction management contract for a leisure centre complex in Southern Alberta and a \$30 million construction management services contract for a regional healthcare provider in Saskatchewan.

On May 19, 2015, Stuart Olson announced that its Industrial Services Group had been awarded approximately \$105 million in new contracts, including a project where Stuart Olson is acting as a consortium partner to construct and commission four synchronous condensers for Manitoba Hydro. The Stuart Olson proportion of the work is estimated at \$80 million. The Industrial Services Group also signed a three year extension to its master service agreement pursuant to which it provides maintenance services to a major oil sands owner, with an estimated value of \$25 million over the three year period.

On June 30, 2015, Stuart Olson’s Series 1 6.00% convertible debentures originally issued on June 15, 2010 in the aggregate amount of \$86,250,000 (the “**2010 Debentures**”) matured. Stuart Olson paid out the 2010 Debentures in full on the maturity date.

On July 16, 2015, Stuart Olson announced that it had negotiated improved terms and conditions and a three year extension to its Credit Facility. The new terms and conditions allowed for a maximum borrowing capacity of \$175 million, up from \$167.4 million, as well as a new maturity date of July 16, 2020. Further, material changes to the Credit Facility included the elimination of the former Working Capital ratio and the Senior Debt to EBITDA ratio financial covenants. The Credit Facility continued to include existing financial covenants related to interest coverage and total debt to EBITDA. The Interest Coverage ratio covenant remained the same at not less than 3:1 and the Debt to EBITDA ratio covenant was reduced by 0.25 such that it shall not exceed 3:1, with a temporary increase to 3.25:1 for a period of two quarters following the completion of a material acquisition.

On September 1, 2015, Stuart Olson announced that its Industrial Services Group and Buildings Group had been awarded approximately \$250 million in new contracts. The Industrial Services Group renewed a master service agreement to provide maintenance and operations repair work to a longstanding oil sands customer, with an estimated value of \$90 million over the three year period. The Buildings Group secured multiple contracts in the Ontario and Alberta regions. In southern Ontario, the Buildings Group secured a \$90 million design-build project with the largest post-secondary institution in the province. In Alberta, the Buildings Groups secured two contracts with a total value of \$70 million, being a \$40 million construction management project for a seniors care centre and a \$30 million design-build project for a research and collections resource facility for a large post-secondary institution.

## 2016

On January 25, 2016, Stuart Olson announced the appointment of Bob Myles as Chief Operating Officer of the Industrial Services Group, giving him overall leadership responsibility for the Industrial Services Group.

On February 24, 2016, Stuart Olson announced that the Industrial Services Group had been awarded a five-year contract valued at an estimated \$500 million to provide maintenance, operation and repair services to a long standing customer in Alberta.

On May 6, 2016, Stuart Olson announced that it had responded to the Regional Municipality of Wood Buffalo Wildfire crisis (the “**Wildfire Crisis**”) which had affected over 90,000 individuals in the region, including many members of the Stuart Olson family. The Corporation made an initial donation of \$50,000 and committed to matching of any employee donations made in respect of the Wildfire Crisis. The Wildfire Crisis required a shutdown of the majority of Stuart Olson’s project sites in the affected region.

On June 16, 2016, Stuart Olson announced preliminary estimates for revenue and adjusted EBITDA of the Industrial Services Group for the second quarter of 2016. The estimates were provided to announce that the Wildfire Crisis and the resulting shutdowns and slowdowns amongst its oil sands customers would have a material impact on the Industrial Services Group in the form of lost maintenance revenue, scope decreases on active projects and revenue impacts from deferred projects. At the time Stuart Olson estimated expected revenues for the three months ended June 30, 2016 to be anywhere from \$26-\$36 million lower than the same period in the previous year.

On July 14, 2016, Stuart Olson announced that it had negotiated improved terms and an extension of the Credit Facility. After giving effect to the amendment and extension, the Credit Facility provided for a \$150 million revolving credit facility and a \$25 million operating facility resulting in a maximum borrowing capacity of \$175 million. The extension resulted in the maturity date of the Credit Facility being extended until July 16, 2021.

On July 20, 2016, Stuart Olson announced the retirement of Al Miller from his position as President and Chief Operating Officer of the Commercial Systems Group effective August 1, 2016 and that the leadership duties of the Commercial Systems Group would be assumed by Doug Hale in his role as Executive Vice President of the Commercial Systems Group.

On August 9, 2016, Stuart Olson announced that its Industrial Services Group had been awarded approximately \$80 million in new contracts including a contract to provide mechanical, electrical and instrumentation services to a mining company in Ontario, and a number of insulation services to western Canadian clients.

On September 15, 2016, Stuart Olson announced that its Buildings Group had been awarded approximately \$105 million in new contracts comprised of both public infrastructure and private commercial projects all in western Canada.

On November 3, 2016, Stuart Olson announced the award of two new maintenance and repair contracts to its Industrial Services Group totalling an estimated \$130 million including a \$100 million award to deliver integrated electrical, instrumentation and insulation services to newly constructed facility in Northern Alberta owned by a long standing oil sands customer.

On December 23, 2016, Stuart Olson announced that it had negotiated amendments to its Credit Facility providing for a change in its required covenant for the interest coverage ratio.

## MARKET CONDITIONS

Historically, the construction industry in western Canada has experienced significant periods of volatility relating to regional and industry sector market opportunities. The Corporation’s ability to manage revenue and cost levels, as well as efficiently execute on projects, despite cyclicity in geographical and customer markets, is critical to the Corporation’s success.

The majority of the Corporation’s operations are focused in western Canada. The Corporation’s customer and geographical markets improved significantly from 2005 to 2007, resulting in revenue growth as well as higher contract margins. However, in the second half of 2008, market conditions started to deteriorate as Canada’s economic

fundamentals were impacted by the global financial crisis. The impact of this crisis on the Corporation's markets was most severe in the energy sector, specifically the industrial construction and maintenance markets related to the oil sands. As part of a global slowdown, the Canadian economy was in recession during the early part of 2009. The federal government of Canada, as part of its effort to stimulate the economy and create jobs during this economic turmoil, committed \$12 billion of incremental infrastructure spending over two to three years. The stimulus program came to an end at the conclusion of the 2011 construction season. Markets stabilized and, in some cases, appeared somewhat positive in 2013 and most of 2014. However, towards the end of 2014, markets experienced significantly increased volatility in commodity values, specifically with oil prices declining to multi-year lows.

Oil prices further declined throughout 2015 causing slumping investment in the oil and gas sector. As a result, many of the oil and gas companies with operations in western Canada put large industrial capital spending plans on hold in order to reduce costs and conserve cash.

In 2016, the Canadian economy saw mixed performance as oil and gas prices remained low for most of the year, with the price of oil showing some recovery in the fourth quarter. Also in 2016, the Canadian government announced its intention to increase infrastructure spending over the period from 2017-2019 by \$14.0 billion, but actual spending in 2016 continued to lag behind forecasts. Further political and regulatory developments, including the election of a new President in the United States, may result in policy changes that will affect the Canadian economy. The introduction of a tax on carbon emissions in the Province of Alberta may also affect the market, and investment activities of Stuart Olson's customers in Western Canada.

These developments, in turn, may result in an uncertain outlook for industrial expansion projects, tighter industrial sector maintenance and operating spending as well as an unpredictable roll out of commercial construction in western Canada, all of which could impact Stuart Olson and its businesses.

For further commentary as to the possible effects of low commodity prices on Stuart Olson's business see the section of this AIF entitled "*Risk Factors*".

## **DESCRIPTION OF THE BUSINESS**

### **General Information**

Stuart Olson provides general contracting and electrical building systems contracting in the institutional and commercial construction markets as well as electrical, mechanical and specialty services, such as insulation, cladding and asbestos abatement, in the industrial construction and services markets.

While Stuart Olson is active throughout western Canada, the Northwest Territories and Ontario, the vast majority of the Corporation's business activities are carried out in the four western Canadian provinces (British Columbia, Alberta, Saskatchewan and Manitoba).

The services provided by the companies within each of the Operating Groups are sold directly to clients, owner's engineers or architects, commercial general contractors, industrial general contractors or engineering, procurement and construction contractors. Sales and marketing activities include maintaining relationships with clients and prospecting for new opportunities through personal contact, submitting bids and proposals and limited advertising. Relationships with clients, subcontractors and suppliers, contracts with clients and the goodwill associated with trade names, demonstrated project capabilities and past relationships, all have an impact on the business.

The Corporation's business activity is largely driven by the decisions of businesses, institutions and governments to make capital investments and incur operating expenses. Each client type has unique factors that drive these capital investment and operating expense spending decisions. The following table outlines what the Corporation's management believes are the primary factors influencing the spending decisions of its clients:

<b>Client Type</b>	<b>Primary Factors Influencing Investment Decisions</b>
<b>Commercial/Institutional</b>	<ul style="list-style-type: none"> <li>· Market demand for facility use</li> <li>· Age of existing facilities and infrastructure</li> <li>· Prevailing construction costs and labour availability</li> <li>· Population growth and demographics</li> <li>· Federal and provincial government spending programs</li> </ul>

Client Type	Primary Factors Influencing Investment Decisions
<b>Industrial</b>	<ul style="list-style-type: none"> <li>· Budgetary constraints</li> <li>· Expected long-term price of commodities such as hydrocarbons, uranium and potash</li> <li>· Prevailing construction costs and labour availability</li> <li>· Pipeline and rail capacity</li> <li>· Public infrastructure to support labour migration and transportation</li> <li>· Royalty and taxation regimes</li> <li>· Environmental constraints</li> <li>· Risk and reward expectations</li> </ul>

Other than in regard to the exceptions described in this AIF, the sources, pricing and availability of raw materials, component parts or finished products are generally not a significant factor in any of the Corporation's Operating Groups as any additional costs are usually passed through by contract to the Corporation's clients. For several years prior to 2008 the rapidly expanding market in Alberta and British Columbia created shortages of tradesmen and management personnel as well as some shortages of construction materials. However, in 2009, the availability of skilled labour and management personnel improved and costs for construction materials decreased as a result of the global economic slowdown. In late 2010, labour shortages began to reappear in certain disciplines and the cost of construction materials began to rise. Those discipline specific labour shortages continued in 2014; however, with the falling oil prices towards the end of 2014 and throughout 2015, available discipline specific labour became more prevalent and less of a risk to the Corporation. Any future labour and construction materials shortages could result in cost escalation and lower or higher contract margins depending upon whether the Corporation's client specific commercial conditions allow it to absorb the additional costs associated with these shortages.

Given the nature of the construction business, the importance, duration and effect of identifiable intangible properties, such as copyrights, circulation lists, franchises, patents and trademarks is relatively limited. The Corporation does, however, rely upon the reputation of its brand names, the skills of its employees, proprietary processes and systems and enterprise resource planning software to efficiently manage its business.

### Contract Revenue by Operating Group

Comparative contract revenue from the three Operating Groups is set forth in the following table:

Year Ended December 31 (\$000s, except percentage amounts)	2016		2015		Increase (Decrease) 2016 over 2015
Buildings Group	439,168	48%	548,491	48%	(109,323)
Commercial Systems Group	198,759	22%	233,545	20%	(34,786)
Industrial Services Group	296,416	33%	406,730	35%	(110,314)
Inter Segment Adjustments	(24,721)	(3%)	(37,350)	(3%)	12,629
Total Contract Revenue	909,622	100%	1,151,416	100%	(241,794)

## BUSINESS, SERVICES, MARKETS AND COMPETITIVE ENVIRONMENT

The following sections of this AIF contain detailed descriptions of the business, services, markets and competitive environment of each of the Operating Groups of the Corporation.

### Buildings Group

#### *Overview*

The Original Stuart Olson was founded by Mr. Stuart Olson in 1939 in Edmonton, Alberta. Dominion (including its predecessor companies) had provided construction services since 1911. The Corporation purchased the Original Stuart Olson from the Olson family in 1989. The Corporation then purchased Dominion in July 2010 and combined the

operations of the two companies to form Stuart Olson Dominion Construction Ltd., which changed its name to “Stuart Olson Construction Ltd.” in 2014 and rebranded to form the Buildings Group. The Buildings Group provides general contracting services including, integrated project delivery, construction management and design build services, to private and public sector clients in the commercial, industrial and institutional sectors. Its projects generally entail the construction, expansion or renovation of buildings. The Buildings Group operates through its offices in Richmond, British Columbia; Calgary and Edmonton, Alberta; Winnipeg, Manitoba; and Mississauga, Ontario.

Most of the revenue generated by the Buildings Group is from repeat clients or arises through pre-qualification processes and select invitational tenders. The Buildings Group’s business model is to pursue larger projects, and preferably, negotiated construction management type contracts rather than lump-sum, hard bid contracts. The Buildings Group subcontracts approximately 85% of its project work to subcontractors and suppliers and manages the construction process to deliver on its commitments. The high degree of subcontracting can have the effect of reducing the amount of capital required to operate and grow the business.

The Buildings Group uses alternative methods of project delivery as part of its general contracting scope of services, including integrated project delivery, construction management and design build approaches. These methods can provide cost reductions for clients flowing from project re-engineering efficiencies via pre-construction services and increased certainty of on-time and on-budget project completion. These alternative delivery methods have assisted the Buildings Group in building long-term relationships with clients while also optimizing the Corporation’s project execution risk and improving contract margins.

The Buildings Group has targeted to expand its participation in the larger projects market during the last five years by leveraging its large project experience. These larger projects have sometimes involved the participation in public-private partnership consortiums, although that market is not currently a priority for the Buildings Group. Larger projects also generally have a greater duration with longer mobilization periods, which can enhance the predictability and sustainability of the Corporation’s revenues and earnings and spreads risk as the economy rises and falls in the medium term.

### *Services*

The Buildings Group provides general contracting services, including construction management and design-build services in various market sectors. It specializes in construction management which involves, at a minimum, tight collaboration from early design to handover among the owner, architect, engineer and builder ultimately responsible for construction of the project. The Buildings Group’s work in the area has ranged from schools to high-rise buildings and includes both new construction and renovation projects. The Buildings Group also offers clients design-build construction services. The Buildings Group also provides other general contracting services, which include the provision of management, estimating, accounting, site management, field workers and equipment in order to complete projects. The Buildings Group also provides life cycle and energy modeling services including virtual design and construction (“VDC”).

### *Market Sectors*

The Buildings Group has experience in a wide range of projects in the public and private sectors, including education, recreation, multi-unit residential, retail, hospitality, high technology office, biotechnology and laboratory facilities, office buildings, health and seniors care, public sector construction management and food processing, cold storage and distribution facilities. It is intended that the predictability and sustainability of revenue will be enhanced through project and market diversity.

### *Competition*

The building construction market is highly competitive, with varying degrees of barriers to entry existing in the small-to-medium size project segment of the market, whereas significantly higher barriers to entry exist in the large project segment where bonding capacity, working capital availability and internal organizational capabilities restrict competitors. Competitive factors among the various market participants include: price and approach philosophies to project execution; risk management; relevant project experience; client relationships; quality of service; record in completing similar projects on time and on budget; subcontractor relationships; strength of project team; and performance bonding capability and overall financial strength.

## *Competitive Strengths*

**People** – The Buildings Group views its people as its greatest competitive advantage and, in that regard, it attempts to provide them with the systems, processes, training and development opportunities to be successful.

**Experience** – The Buildings Group’s detailed integrated project delivery methodology is based on years of successful construction management experience. The company was one of the first general contractors in western Canada to introduce construction management, as far back as 1983, and has used that experience to refine its current business model.

**Strong relationships with subcontractors** – The Buildings Group enjoys strong relationships with a variety of different subcontracting firms who have gone through Stuart Olson’s selection process, which facilitates the submission of competitive bids and also allows projects to be completed competitively and on a timely basis with an appropriately skilled labour force.

**Value engineering and constructability evaluation** – The Buildings Group has the ability to assist design consultants with design co-ordination review. The Buildings Group’s team is technically proficient and motivated to make an impact on the projects that the company undertakes. Working with the project team, the Buildings Group reviews the design with respect to “constructability” from the earliest phases of design through to completion of working drawings. The Buildings Group’s review extends beyond bricks and mortar issues and considers elements such as energy modeling and end of life cost analysis, labour and materials, environmental impact, people and processes.

**Insurance coverage** – The Buildings Group has entered into an innovative, yet well-tested sub-contractor risk management strategy provided by a leading commercial property-casualty insurance provider serving the global corporate market. Under this strategy, a portion of sub-contractor performance risk is retained by the Buildings Group, with the balance being transferred to the insurance provider. This risk management program is intended to provide extensive control over the subcontractor pre-qualification and credit risk evaluation processes, an ability to manage project risk more effectively and cost efficiencies for the Buildings Group.

**Safety** – The Buildings Group is continuously improving its safety programs as it develops and strengthens internal safety cultures. The commitment of the Buildings Group to safety and its proven track record is seen by management as a key competitive advantage in earning the trust of customers.

**Geographic sector diversity** – The Buildings Group has operations in each of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. By operating in five geographically diverse markets, the Buildings Group reduces its dependence upon any one client base and spreads its overall business exposure across provinces with different economic drivers.

## *Seasonality*

The Buildings Group’s business is not particularly seasonal due to the larger size of its projects, although working conditions and productivity can be impacted by cold weather conditions during the winter months and rainy weather during the balance of the year.

## **Commercial Systems Group**

### *Overview*

The Commercial Systems Group is comprised of Canem and its only operating subsidiary, McCaine. Since 1960, Canem (including its predecessor companies) has provided a broad range of services including designing, building, maintaining and servicing electrical and data communications systems for institutional, commercial, light industrial and multi-tenant residential customers. The contractual arrangements between Canem and its clients typically take the form of lump sum or construction management contracts.

Canem maintains a head office in Richmond, British Columbia and provides its services through several operating offices in Vancouver, Victoria and Nanaimo, British Columbia; Calgary, Edmonton and Red Deer, Alberta; and Winnipeg, Manitoba.

## *Services*

New construction and major renovation projects have generally accounted for the majority of Canem's work, while service and special projects have typically accounted for a relatively smaller portion.

## *Market Sectors*

Canem services the public and private sectors, which consist of institutional, commercial, light industrial and multi-tenant residential markets. Canem has a diverse customer base including general contractors, property managers and developers, government agencies, municipalities, universities, corporations, big-box retailers and telephone and communications carriers.

## *Competition*

Canem has historically provided a more comprehensive range of services and broader geographical presence than most of its competitors, which has enabled it to deliver a single source solution to clients. The competitive factors affecting Canem's business include: price and approach philosophies to project execution; relationships with clients and client representatives; scope of service capabilities; quality of service; record in completing similar projects on time and on budget; safety programs and record; performance bonding capability and financial strength; and relevant project experience.

## *Competitive Strengths*

**Size** – Canem is one of the largest critical building systems contracting companies in western Canada with significant large project experience and proven track record.

**Project controls** – Canem has integrated its technology systems and proprietary processes to enhance operating controls, and consolidated its procurement programs to manage vendors on a regional basis. These factors are intended to contribute to improved productivity and Canem's ability to deliver strong margins.

**Focus on higher margin services and markets** – Canem is able to select services and markets where the barriers to entry and margins are both high. These markets include large projects; highly complex projects that contain integrated building system components; projects that require extensive logistical expertise; and national rollouts for clients.

**Off-site assembly** – Canem uses off-site assembly and modularization (pre-fabrication) of system components in order to enhance quality and improve on-site labour installation productivity.

**Expertise** – Canem's management believes that the company has advantages in technical expertise that provide it with: (a) access to higher margin design-build projects that use the capabilities of its in-house experts; (b) access to growth markets, including wireless telecommunications, fibre, video, security and fire systems; and (c) the ability to deliver quality information services with greater reliability than many of its competitors.

**Safety** – Canem is continuously improving its safety programs as it develops and strengthens internal safety cultures. The commitment of Canem to safety and its proven track record is seen by management as a key competitive advantage in earning the trust of customers.

## *Seasonality*

The Canem business is not typically affected by seasonal factors as most of its work is performed inside buildings.

## **Industrial Services Group**

### *Overview*

The Industrial Services Group is comprised of Stuart Olson Industrial and its operating divisions. As at December 31, 2016, the Industrial Services Group had two primary operating divisions, being the MRO Division and the Construction Division.

Through these two divisions, the Industrial Services Group is a unique service provider capable of providing clients across industrial business sectors with a fully integrated service delivery model designed to enhance performance throughout the lifecycle of a project. More and more, companies are looking to streamline the delivery process and maximize results through integrated management solutions. Through both the MRO Division and the Construction Division, the Industrial Services Group's comprehensive service offerings enable it to do just that by providing clients with integrated and tailored solutions designed to address the opportunities and challenges unique to every project.

### *MRO Division*

The MRO Division supports its clients in either a single or multi-trade bundled service offering which reduces the total cost of delivery by removing margin stacking; optimizing project indirect staff; and lowering administrative costs both in the team's structure and client transaction costs. The MRO division includes Laird Electric, Studon, Fuller Austin, Northern, and Sigma Power, each of which is described in more detail below.

### *Overview of Laird Electric*

Laird Electric has been in business since 1962 and was acquired by Stuart Olson in 2003. Laird Electric is based in Edmonton, Alberta and has an office in Fort McMurray, Alberta. Laird Electric provides industrial electrical and instrumentation construction and maintenance services. It serves the resource and industrial sectors, including oil sands, oil and gas, petrochemical and mining markets. Most of Laird Electric's client engagements involve multi-year, cost plus contractual arrangements.

### *Services*

Laird Electric is a full service electrical contractor. As such, this allows it to gain early access to new projects by providing temporary power services for initial project phases; ongoing electrical and instrumentation installation during construction phases; electrical commissioning; and value added services of continued operations and maintenance support for operating facilities.

### *Market Sectors*

Laird Electric provides electrical contracting services to clients in the oil sands, oil and gas, petrochemical and mining industries. In particular, Laird Electric is most active in the Fort McMurray and Edmonton area construction and maintenance markets. Laird Electric's clients include engineering firms, prime construction and maintenance contractors and industrial owners.

### *Competition*

The competitive factors affecting Laird Electric include: price and solution driven approach philosophies to project execution; management information systems; client relationships; scope of service capabilities; quality of service; record of completing similar projects on time and on budget; operating plant experience (brownfield); safety programs and record; performance bonding capability and financial strength; owner's preference for union versus non-union workforce; and relevant project experience.

### *Competitive Strengths*

**Brand name prevalence and experience** – Management believes that Laird Electric is one of the more prevalent electrical contractors operating in the Canadian oil sands industry. It has a significant and long performance history with multiple industrial owners, which has resulted in strong recognition and relationships within the market sector.

**Local contractor** – Laird Electric is a local contractor to the oil sands industry in the Fort McMurray and Edmonton areas with talented, locally-based project management teams. Laird Electric continues to support and show commitment to the areas in which it operates.

**Strong project management and execution** – The project management team at Laird Electric has a proven track record for delivering projects ahead of client schedules, all the while meeting or exceeding client expectations.

**Ability to access labour** – The strong relationship that Laird Electric has with the building trades and its union-contractor status enables it to access a reliable and qualified trade labour supply via the local union halls. As such, it has been able to successfully access labour in the midst of province-wide labour shortages. This can be beneficial during periods of major plant turnarounds and other unexpected events that require a large volume of craft labour to mobilize for short durations.

**Power line and substation work** – The ability of Laird Electric to perform “greenfield” electrical infrastructure work on industrial construction projects allows it early entry onto new sites. This enables Laird Electric to establish good working relations with the project owner and can result in the company being invited to participate in requests for proposals as a preferred supplier during engineering and design phases.

**Safety** – Laird Electric is continuously improving its safety and loss prevention programs as it develops and strengthens its internal safety culture. The commitment of Laird Electric to safety and proven track record is seen by management as a key competitive advantage in earning the trust of customers.

### *Seasonality*

Although field conditions and productivity are impacted by weather conditions, the volume of electrical construction activity is not particularly seasonal for new capital projects. Electrical maintenance activities are generally greater during the second and third quarters of the year as conditions for turnarounds are more favourable.

### *Overview of Studon*

Headquartered in Red Deer, Alberta, Studon is a leading electrical and instrumentation services provider offering construction, maintenance and turnaround services to the oil and gas, pipeline and petrochemical industries in western Canada.

### *Services*

Studon provides electrical and instrumentation contracting services to construction, maintenance and turnaround projects within the oil and gas, pipeline and petrochemical industries in western Canada.

### *Market Sector*

Studon provides electrical and instrumentation contracting services to clients in the oil and gas, pipeline, petrochemical and mining industries. In particular, Studon is most active in the Fort McMurray, Conklin and Edmonton, Alberta area oil sands construction and maintenance markets. Studon’s clients include engineering firms, prime construction and maintenance contractors and industrial owners.

### *Competition*

The competitive factors affecting the businesses include: price and approach philosophies to project execution; relationships with clients and client representatives; scope of service capabilities; quality of service; record in completing similar projects on time and on budget; safety programs and record; performance bonding capability and financial strength; and relevant project experience.

### *Competitive Strengths*

**Management experience** – Studon’s senior leadership team has considerable experience in the electrical and instrumentation services markets with a proven track record of strong project execution skills. The team has been able to leverage these skills to secure projects of all sizes and has a proven track record for delivering projects ahead of client schedules.

**Safety** – Studon’s business philosophy is founded in a continuous commitment to safety and loss prevention programs. This commitment to a strong safety culture, along with a history of industry leading safety statistics, is seen by management as a key competitive advantage in earning the trust of customers.

**Client Base** – Studon’s clients include many of the large oil sands, pipeline and petrochemical companies within Alberta which generates large amounts of recurring work, sole sourced work and opportunities to bid on projects.

### ***Seasonality***

Although work conditions and productivity are impacted by weather conditions, the volume of electrical and instrumentation business activities for new capital and operating and maintenance projects are not particularly seasonal in nature.

### ***Overview of Fuller Austin***

Fuller Austin is primarily a “trade” contractor utilizing insulators, sheet metal workers and carpenters. Fuller Austin has been in business since 1962 serving the building trades union market. The contractual arrangements between Fuller Austin and its respective clients typically take the form of lump sum, unit-rate or cost-plus contracts. These contracts may vary from a standard subcontract, general contractor contract, engineering, procurement and construction contract or owner-direct prime contracts, ranging in size from a few hundred dollars to multi-million dollars.

Fuller Austin services clients from British Columbia to Northwest Ontario with offices in Edmonton and Fort McMurray, Alberta; Regina, Saskatchewan; and Thunder Bay, Ontario.

### ***Services***

Fuller Austin provides a variety of construction services, including: mechanical process insulation; industrial metal siding and cladding; scaffolding; HVAC; fire-stopping; heat trace tubing; and asbestos abatement. Installation of mechanical insulation can involve a variety of vessels and piping systems and sizes, all operating under differing conditions and in differing environments within the same facility. Other insulated components often include vessels, equipment, tanks, boilers, ductwork, precipitators, stacks and other miscellaneous components. Fuller Austin uses an extensive selection of insulation products and cladding types designed to accommodate thermal, cryogenic, acoustical and production purposes. The siding services provided encompass new and retrofit siding applications in the industrial sector utilizing claddings of all types (insulated, lined or single skinned construction systems). Scaffolding services include supply and installation of access and egress systems, shoring and hoarding. HVAC involves the supply and installation of ductwork and associated equipment related to building systems climate control and/or process requirements. Fire-stopping involves the installation of a variety of Underwriters’ Laboratory rated systems in electrical or architectural penetrations to contain smoke or fire in order to meet building code requirements. Asbestos abatement services include asbestos removal, encapsulation and emergency response, as well as monitoring and testing.

### ***Market Sectors***

Fuller Austin serves clients in a wide range of industrial businesses including the oil and gas, petrochemical, refinery, mining, pulp and paper and power generation industries.

### ***Competition***

Fuller Austin has several large and capable competitors in each of their geographic markets and areas of service. The competitive factors affecting the businesses include: price and approach philosophies to project execution; relationships with clients and client representatives; scope of service capabilities; quality of service; record in completing similar projects on time and on budget; safety programs and record; performance bonding capability and financial strength; and relevant project experience.

### ***Competitive Strengths***

**Size** – Fuller Austin is one of the largest industrial building trades specialty contracting organizations in western Canada.

**Geographic reach** – Fuller Austin targets and performs work on opportunities from northwest Ontario to British Columbia. This wider geographic scope is intended to mitigate the sensitivity of the business to economic conditions in any one particular province or industry.

**Safety** – Fuller Austin is continuously improving its safety programs as they develop and strengthen internal safety cultures. This commitment to safety and the proven track record of Fuller Austin is seen by management as a key competitive advantage.

### *Seasonality*

Although work conditions and productivity are impacted by weather conditions, the volume of specialty contracting activities for new capital and operating and maintenance projects are not particularly seasonal in nature, although activity in the first fiscal quarter tends to be the lowest. Plant maintenance activity is strongest during the second and fourth fiscal quarters.

### *Overview of Northern*

Northern is primarily a “trade” contractor utilizing insulators, sheet metal workers and carpenters. Northern has been in business since 1984 serving the “open shop”, non-union market. The contractual arrangements between Northern and its respective clients typically take the form of lump sum, unit-rate or cost-plus contracts. These contracts may vary from a standard subcontract, general contractor contract, engineering, procurement and construction contract or owner-direct prime contracts, ranging in size from a few hundred dollars to multi-million dollars.

Northern services clients from British Columbia to Manitoba, including the Northwest Territories with offices in Edmonton and Fort McMurray, Alberta.

### *Services*

Northern provides a variety of construction services, including: mechanical process insulation; industrial metal siding and cladding; scaffolding; HVAC; fire-stopping; fire-proofing, heat trace tubing; and asbestos abatement. Installation of mechanical insulation can involve a variety of vessels and piping systems and sizes, all operating under differing conditions and in differing environments within the same facility. Other insulated components often include vessels, equipment, tanks, boilers, ductwork, precipitators, stacks and other miscellaneous components. Northern uses an extensive selection of insulation products and cladding types designed to accommodate thermal, cryogenic, acoustical and production purposes. The siding services provided encompass new and retrofit siding applications in the industrial sector utilizing claddings of all types (insulated, lined or single skinned construction systems). Scaffolding services include supply and installation of access and egress systems, shoring and hoarding. HVAC involves the supply and installation of ductwork and associated equipment related to building systems climate control and/or process requirements. Fire-stopping involves the installation of a variety of Underwriters’ Laboratory rated systems in electrical or architectural penetrations to contain smoke or fire in order to meet building code requirements. Fireproofing involves the application of materials to increase the fire-resistant ratings of framing assemblies, beams, columns and exterior steel walls and structures. Heat trace tubing is attached to mechanical piping systems and utilizes a fluid medium to provide freeze protection and/or process temperature control in industrial facilities. Asbestos abatement services include asbestos removal, encapsulation and emergency response, as well as monitoring and testing.

### *Market Sectors*

Northern serves clients in a wide range of industrial businesses including the oil and gas, petrochemical, refinery, mining, pulp and paper and power generation industries.

### *Competition*

Northern has several large and capable competitors in each of their geographic markets and areas of service. The competitive factors affecting the businesses include: price and approach philosophies to project execution; relationships with clients and client representatives; scope of service capabilities; quality of service; record in completing similar projects on time and on budget; safety programs and record; performance bonding capability and financial strength; and relevant project experience.

### ***Competitive Strengths***

**Size** – Northern is one of the largest non-union industrial specialty contracting organizations in western Canada.

**Geographic reach** – Northern targets and performs work on opportunities from Manitoba to British Columbia including the Northwest Territories. This wider geographic scope is intended to mitigate the sensitivity of the business to economic conditions in any one particular province or industry.

**Safety** – Northern is continuously improving its safety programs as they develop and strengthen internal safety cultures. This commitment to safety and the proven track record of Northern is seen by management as a key competitive advantage.

### ***Seasonality***

Although work conditions and productivity are impacted by weather conditions, the volume of specialty contracting activities for new capital and operating and maintenance projects are not particularly seasonal in nature, although activity in the first fiscal quarter tends to be the lowest. Plant maintenance activity is strongest during the second and fourth fiscal quarters.

### ***Overview of Sigma Power***

Sigma Power is a high voltage testing, commissioning and maintenance business that aims to provide value added services to utility, industrial and commercial clients. The evolution of the business is in its infancy as it was only started in early 2014. Sigma Power's head office is based in Edmonton, Alberta.

### ***Services***

Sigma Power offers a full range of technical services on high voltage equipment ranging from 480V to 500KV, including project planning, acceptance testing, start-up and commissioning, maintenance, maintenance testing, infrared scanning, transformer assembly and repair, cable terminations and reliability studies.

### ***Market Sectors***

Sigma Power provides its services to clients in the oil and gas (in-situ / pipeline), mining, refining, power generation and delivery, petrochemical and pulp and paper industries. Sigma Power's business is focussed on construction and maintenance work and currently most active in the oil sands regions of northern Alberta and has the ability to scale its business over other western Canadian locations. Sigma Power's clients include end user owners, existing Stuart Olson businesses and general contractors.

### ***Competition***

The competitive factors affecting Sigma Power include: price and solution driven approach philosophies to project execution; management information systems; client relationships; scope of service capabilities; quality of service; record of completing similar projects on time and on budget; operating plant experience (brownfield); safety programs and record; and performance bonding capability and financial strength.

### ***Competitive Strengths***

**Management experience** – Sigma Power's senior leadership team has considerable experience in the high voltage market with a proven track record of strong project execution skills. The team has been able to leverage these skills to secure several projects in the first year following the inception of the business.

**Broad market and non-sector specific** – Sigma Power's business is not necessarily dependent upon one particular market or any one sector within a particular market. Although its initial focus has been on the oil sands markets in northern Alberta, it has the ability to quickly shift that focus to other markets, including general industrial, utility and commercial, or industries, including petrochemicals, mining, pulp and paper and pipelines.

**Internal clients** – A significant portion of Sigma Power’s business is generated by serving the specialty services needs of its internal customers, including Laird Electric, Stuart Olson Industrial Constructors, Canem and Studon. Sigma Power’s intimate familiarity with these internal groups provides it with a competitive advantage in a number of respects, including understanding internal processes and more efficiently coordinating work site activities.

**Safety** – Sigma Power’s business philosophy is founded in a continuous commitment to safety and loss prevention programs. This commitment to a strong safety culture is seen by management as a key competitive advantage in earning the trust of customers.

### ***Construction Division***

The Construction Division is led by Stuart Olson Industrial Constructors and supported by the MRO division where appropriate. Stuart Olson Industrial Constructors is a full service, self-performing General Contractor across Canada.

### ***Overview of Stuart Olson Industrial Constructors***

Stuart Olson Industrial Constructors is based in Sudbury, Ontario and started operations in 2011. It provides industrial electrical, instrumentation, power line, millwrighting, structural steel, equipment installation, civil construction, mechanical and structural construction and maintenance services. It serves the resource and industrial sectors, including oil and gas, petrochemical, power generation, electrical infrastructure and mining markets. Most of Stuart Olson Industrial Constructors’ client engagements involve both lump sum and cost plus contractual arrangements.

### ***Services***

Stuart Olson Industrial Constructors is a full service General Contractor. This multi-faceted approach allows it to gain early access to new projects by providing temporary power services for initial project phases; ongoing electrical, mechanical and instrumentation installation during construction phases; full project commissioning; and value added services of continued operations and maintenance support for operating facilities.

### ***Market Sectors***

Stuart Olson Industrial Constructors provides full service General Contracting services to clients in the oil and gas, petrochemical, power generation and mining industries. In particular, Stuart Olson Industrial Constructors is active throughout Canada with most of its activity in the mining and power generation sectors across Canada. The clients and partners of Stuart Olson Industrial Constructors include engineering firms, prime contractors, industrial owners and provincial energy providers.

### ***Competition***

The competitive factors affecting Stuart Olson Industrial Constructors include: price and solution driven approach philosophies to project execution; management information systems; client relationships; scope of service capabilities; quality of service; record of completing similar projects on time and on budget; operating plant experience; safety programs and record; performance bonding capability and financial strength; owners’ preference for union versus non-union workforce; and relevant project experience.

### ***Competitive Strengths***

**Brand name prevalence and experience** – Management believes that Stuart Olson Industrial Constructors has a distinct competitive advantage in terms of the depth of the experience of its management team and its ability to leverage its industrial experience.

**Local contractor** – Stuart Olson Industrial Constructors is a local contractor to the mining industry in the Sudbury and Thunder Bay areas with talented, locally-based project management teams.

**Strong project management and execution** – The project management team at Stuart Olson Industrial Constructors has a proven track record for delivering projects ahead of client schedules.

**Ability to access labour** – The strong relationship that Stuart Olson Industrial Constructors has with the building trades and its union-contractor status enables it to access a reliable and qualified trade labour supply via the local union halls. As such, it has been able to successfully access labour in the midst of province-wide labour shortages.

**Power line and substation work** – The ability of Stuart Olson Industrial Constructors to perform “greenfield” electrical infrastructure work on industrial construction projects allows it early entry onto new sites. This enables Stuart Olson Industrial Constructors to establish good working relations with the project owner and can result in the company being invited to participate in requests for proposals as a preferred supplier during engineering and design phases.

**Safety** – Stuart Olson Industrial Constructors is continuously improving its safety and loss prevention programs as it develops and strengthens internal safety cultures. The commitment of Stuart Olson Industrial Constructors to safety and its proven track record is seen by management as a key competitive advantage in earning trust of customers.

### *Seasonality*

Although field conditions and productivity are impacted by weather conditions, the volume of electrical and mechanical construction activity is not particularly seasonal for new capital projects. Electrical and mechanical maintenance activities are generally greater during the second and third quarters of the year as conditions for turnarounds are more favourable.

## **HEALTH, SAFETY AND ENVIRONMENT**

Stuart Olson and its subsidiaries are subject to federal, provincial and municipal health, safety and environmental (“**HS&E**”) legislation and regulations within its construction and maintenance operations. Stuart Olson recognizes it must conduct its business in a manner that protects workers, communities, the public, client assets and that preserves the natural environment. Stuart Olson acknowledges its responsibility to be in compliance with all applicable legislation and regulation. Stuart Olson and its subsidiaries have detailed processes and procedures to assist the Corporation in meeting its legal, employee, community and ethical obligations. These procedures and processes include policies, training programs and governance oversight.

The financial and operational effects of environmental protection and compliance requirements on the capital expenditures, earnings and competitive position of Stuart Olson are not expected to be material in the 2017 financial year.

The Board of Directors has established a Health, Safety and Environment Committee to provide greater oversight of the Corporation’s compliance with applicable legislation and regulations. The Health, Safety and Environment Committee is supported by an integrated HS&E Council consisting of senior management and safety representatives from each Operating Group in order to monitor performance and facilitate the sharing of best practices.

## **EMPLOYEES**

Stuart Olson and its subsidiaries had 586 salaried employees on December 31, 2016. Stuart Olson’s operating subsidiaries also employ additional construction personnel on an hourly and subcontract basis, which vary within a range of 65 to 85 people depending on the number, size and stage of active projects. As at December 31, 2016, Stuart Olson and its subsidiaries employed 1,711 hourly personnel. The table below sets out the number of hourly and salaried employees of the Corporation by the reportable segments of the Corporation.

<b>Segment</b>	<b>Hourly</b>	<b>Salaried</b>	<b>Total</b>
Buildings Group	355	257	<b>612</b>
Commercial Systems Group	596	115	<b>711</b>
Industrial Services Group	760	141	<b>901</b>
Corporate and Other	-	73	<b>73</b>
<b>Total</b>	<b>1,711</b>	<b>586</b>	<b>2,297</b>

## DIVIDENDS

On May 25, 2011, Stuart Olson announced that the Board of Directors had declared its first quarterly dividend of \$0.12 per Common Share for the second quarter of 2011. Stuart Olson has paid a quarterly dividend of \$0.12 per Common Share since that date or \$0.48 per Common Share in each of 2012, 2013, 2014, 2015 and 2016. During 2016, the Corporation made dividend payments totalling \$10,575,025.44. During 2015, 2014 and 2013, the Corporation made dividend payments totalling \$10,389,605.00, \$10,598,740.20 and \$10,165,914.24 respectively. The amount of future dividends will be determined by the Board from time to time and will be subject to the Corporation's earnings, financial requirements, Credit Facility restrictions and other conditions prevailing at that time. The record date for the payment of dividends is typically set as the last day of the applicable financial quarter and the payment date follows approximately two weeks thereafter. Stuart Olson did not declare any dividends at any time prior to the second quarter of 2011. Stuart Olson also announced on June 20, 2011 the commencement of its dividend reinvestment plan (the "DRIP"). The DRIP allows Stuart Olson shareholders to elect to direct that any portion of any future cash dividends paid by Stuart Olson be reinvested in Common Shares, which when issued from treasury, are issued at 95% of the weighted average market price of the Common Shares on the TSX for the 10 days preceding the dividend payment date.

## CREDIT FACILITY

Stuart Olson entered into a credit facility (the "Credit Facility") in July 2010 with a syndicate of lenders and an administrative agent. The Credit Facility was amended once in 2011, twice in 2012, once in 2013, once in 2014, once in 2015, and in 2016 was both extended and amended. The Credit Facility includes a restrictive covenant which limits the dividends Stuart Olson may pay in any 12 month period to \$25 million. Management of Stuart Olson does not believe this restriction will have a direct correlation or impact on Stuart Olson's ability to pay dividends in the near term. See the section of this AIF entitled "*Material Contracts*" for further information about the Credit Facility and the sections entitled "*Three Year History of the Business – 2014*", "*Three Year History of the Business – 2015*" and "*Three Year History of the Business – 2016*" for a discussion of the material amendments to the Credit Facility in 2014, 2015 and 2016, respectively.

## CAPITAL STRUCTURE

### General Description of Share Capital

The Corporation is authorized to issue an unlimited number of Common Shares and an unlimited number of Preferred Shares. As at December 31, 2016, there were 26,921,371 Common Shares and no Preferred Shares issued and outstanding.

### Common Shares

The holders of Common Shares are entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of Stuart Olson, to receive any dividends declared by Stuart Olson on the Common Shares, to receive notice of, attend and vote at all meetings of the shareholders of Stuart Olson and, upon a ballot, are entitled to one vote for each Common Share held. In the event of the liquidation or winding-up of Stuart Olson or any other distribution of the assets of Stuart Olson among its shareholders for the purpose of winding-up its affairs, holders of Common Shares have the right, subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of Stuart Olson, to share rateably in all such distributions in proportion to the number of Common Shares held by them.

### Preferred Shares

Subject to the provisions of the ABCA, the provisions applicable to the Preferred Shares as a class and to the provisions of any outstanding series of Preferred Shares, the Board of Directors is authorized to fix the designation, rights, privileges, restrictions and conditions attaching to each series of Preferred Shares. The Preferred Shares are non-voting, except as provided by law or as otherwise determined by the Board of Directors before the issue thereof.

## Debentures

*The following is a brief summary of certain attributes and characteristics of the outstanding debentures of the Corporation and certain principal provisions of the trust indenture providing for the issuance of those debentures. The following does not purport to be complete and for full particulars, reference should be made to the 2014 Indenture (as defined herein) available under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com).*

On September 19, 2014, the Corporation completed the 2014 Debenture Offering pursuant to a trust indenture between the Corporation and Valiant Trust Company (now Computershare Trust Company of Canada), as trustee, dated September 19, 2014 (the “**2014 Indenture**”). As at December 31, 2015, there were \$80.5 million aggregate principal amount of 2014 Debentures issued and outstanding which mature on December 31, 2019. The 2014 Debentures are direct, subordinated unsecured obligations of Stuart Olson and rank equally with one another and with all of Stuart Olson's other existing and future subordinated unsecured indebtedness. The 2014 Debentures were issued in principal amount denominations of \$1,000 and bear interest at a rate of 6.00% per annum, payable semi-annually in arrears on June 30 and December 31 of each year. Stuart Olson may elect, from time to time, provided that there is not a current event of default under the 2014 Indenture, and subject to applicable regulatory approval, to satisfy its obligation to pay interest on any interest payment date (including following conversion, at the time of redemption, or at the time of maturity): (i) in cash; (ii) by delivering Common Shares to the trustee, in which event the holders of the 2014 Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares by the trustee; or (iii) any combination of (i) and (ii) above. The 2014 Debentures are convertible at the holder's option into Common Shares at any time, subject to prior redemption or recall for purchase pursuant to a Change of Control (as defined below), prior to the close of business on the business day immediately prior to December 31, 2019 at a conversion price of \$14.15 per Common Share. The 2014 Debentures are not redeemable by Stuart Olson before December 31, 2017. On and after December 31, 2017 and prior to December 31, 2018, the 2014 Debentures are redeemable in whole or in part from time to time at the option of Stuart Olson on not more than 60 days' and not less than 40 days' notice at a price equal to 100% of the principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the Common Shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On and after December 31, 2018, and at any time prior to the maturity date, the 2014 Debentures may be redeemed at the option of the Corporation, in whole or in part from time to time, on not more than 60 days' and not less than 40 days' prior notice at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest. A “Change of Control” in the context of the 2014 Debentures is generally defined as: (i) the acquisition by any person, or group of persons acting jointly or in concert, of voting control or direction of an aggregate of 50% or more of the outstanding Common Shares; or (ii) the sale of all or substantially all of the assets of the Corporation, but shall not include a sale, merger, reorganization, arrangement, combination or other similar transaction if the previous holders of Common Shares hold at least 50% of the voting control or direction in such merged, reorganized, arranged, combined or other continuing entity immediately following the completion of such transaction. In the event of a Change of Control transaction, Stuart Olson shall be required to purchase all of the 2014 Debentures on the date that is 30 business days after the date that notice of the offer respecting such Change of Control is delivered by Stuart Olson to the holders of 2014 Debentures at a price equal to 100% of the principal plus accrued and unpaid interest. Additionally, if a Change of Control occurs in which 10% or more of the consideration for the Common Shares in the transaction or transactions constituting a change of control consists of: (i) cash; (ii) trust units, limited partnership units or other participating securities of a trust, limited partnership or similar entity; (iii) equity securities that are not traded or intended to be traded immediately following such transactions on a recognized stock exchange; or (iv) other property that is not traded or intended to be traded immediately following such transactions on a recognized stock exchange (a “**Cash Change of Control**”), then, subject to regulatory approvals, during the period beginning ten trading days before the anticipated date on which the Cash Change of Control becomes effective and ending 30 days after the Cash Change of Control purchase offer is delivered, holders of 2014 Debentures will be entitled to convert their 2014 Debentures and, subject to certain limitations, receive, in addition to the number of Common Shares they would otherwise be entitled to receive, an additional number of Common Shares per \$1,000 principal amount of 2014 Debentures as set forth in the 2014 Indenture.

## Shareholder Rights Plan

Stuart Olson has a shareholder rights plan (the “**Rights Plan**”) that was adopted to ensure, to the extent possible, that all shareholders of Stuart Olson are treated fairly in connection with any take-over bid for Stuart Olson. The Rights Plan creates a right that attaches to each present and subsequently issued Common Share. Until the separation time, which would generally occur at the time of an unsolicited take-over bid whereby a person acquires or attempts to

acquire 20% or more of the Common Shares, the rights are not separable from the Common Shares, are not exercisable and no separate rights certificates are issued. When exercisable, each right will entitle the holder (other than the 20% acquirer) to purchase from Stuart Olson that number of Common Shares having an aggregate market price equal to twice the exercise price (i.e. at a 50% discount). For example, if the exercise price is \$75 and the market price of the Common Shares is \$25, the holder of each right would be entitled to purchase Common Shares having an aggregate market price of \$150 for \$75. The Rights Plan was amended in 2016 which amendments were approved at the same time that the Rights Plan was reconfirmed at the 2016 annual meeting of shareholders of Stuart Olson. The Rights Plan will expire at the close of business on the date of Stuart Olson's annual meeting of shareholders in 2019, unless terminated at an earlier date by the Board of Directors or unless amended and continued with the approval of shareholders at Stuart Olson's annual meeting of shareholders in 2019.

## DIRECTORS AND OFFICERS

### The Board of Directors

The following are the names and municipalities of residence of the directors of the Corporation as at December 31, 2016 and their respective principal occupations during the last five years. Each director will hold office until the next annual meeting of shareholders or until a successor is elected or appointed.

<u>Name and Municipality of Residence</u>	<u>Principal Occupation During Preceding Five Years</u>	<u>Service as a Director since</u>
Richard T. Ballantyne, P.Eng Salt Spring Island, British Columbia	Currently a Corporate Director, serving on the Board of Directors of Horizon North Logistics Inc., British Columbia Safety Authority, Sail Canada and Scott Point Waterworks District (2012). Until 2016, when he wound up his business. Mr. Ballantyne was also President of Timple Consulting Ltd. (a consulting services firm).	May 23, 2013
Albrecht W.A. Bellstedt, B.A., J.D., Q.C. <sup>(1)</sup> Canmore, Alberta	Corporate Director and independent consultant.	May 17, 2007
Chad Danard, B.Comm. Calgary, Alberta	Managing Director at TriWest Capital Partners (a Calgary-based private equity firm) since March 2005. Prior thereto, Associate of Morgan Stanley (an international investment bank).	May 22, 2014
Rod Graham, CFA, MBA Calgary, Alberta	President and Chief Executive Officer of Horizon North Logistics Inc. (a resource development service company) since November 2014. Prior thereto, Senior Vice President, Corporate Development and Planning of Horizon North Logistics Inc. from January 2014 to November 2014. Prior thereto, President and CEO of ZCL Composites Inc. from September 2010 until August 2012. Prior thereto, a co-founder and from 2005 until 2010 the managing director of Northern Plains Capital Ltd. (a private equity firm).	May 23, 2013
Wendy L. Hanrahan, CA Calgary, Alberta	Executive Vice President, Corporate Services, TransCanada Corporation (an energy infrastructure company) since May 1, 2011. Prior thereto, Vice President Human Resources, Communications and Facilities Management, TransCanada Corporation since January 1, 2005.	December 9, 2009
David J. LeMay, MBA Calgary, Alberta	President and Chief Executive Officer of the Corporation since June 1, 2013. Prior to that, President and Chief Operating Officer of the Corporation from August 2012 to May 2013. Prior thereto, President and Chief Operating Officer, Churchill Services Group from January 2012 to August 2012; prior thereto, President and Chief Operating Officer, Laird Electric from November 2008 to December 2011; and prior thereto, Vice President Operations at Laird Electric from July 2007 to November 2008.	June 1, 2013

<u>Name and Municipality of Residence</u>	<u>Principal Occupation During Preceding Five Years</u>	<u>Service as a Director since</u>
Carmen R. Loberg, Calgary, Alberta	Corporate Director. Prior to June 2010, President and CEO of NorTerra Inc. (a privately held investment and management company owned by the Inuvialuit of the Western Arctic and Inuit of Nunavut with diverse interests in transportation, logistics, manufacturing and industrial supplies).	July 1, 2009
Ian M. Reid, B.Comm. Edmonton, Alberta	Corporate Director and independent business person.	May 17, 2007

Notes:

- (1) Mr. Bellstedt is the Chairman of the Corporation.

## Board Committee Members

The Board has four committees, being the Audit Committee, the Human Resources and Compensation Committee, the Corporate Governance and Nominating Committee and the Health, Safety and Environment Committee. The members of each of these committees as at December 31, 2016 were as set out in the table below. As Chairman of the Corporation, Mr. Bellstedt is an ex-officio non-voting member of every Committee.

<u>Audit Committee</u>	<u>Corporate Governance and Nominating Committee</u>	<u>Health, Safety and Environment Committee</u>	<u>Human Resources and Compensation Committee</u>
Richard T. Ballantyne Chad Danard Rod Graham (Chair) Carmen R. Loberg	Wendy Hanrahan Carmen R. Loberg (Chair) Ian M. Reid	Richard T. Ballantyne (Chair) Rod Graham Ian M. Reid	Chad Danard Wendy Hanrahan (Chair) Ian M. Reid

## Executive Officers

The following are the names and provinces of residence of the executive officers of Stuart Olson (other than Mr. LeMay) and its Operating Groups as at December 31, 2016 and their respective principal occupations during the last five years.

<u>Name and Municipality of Residence</u>	<u>Principal Occupation During Preceding Five Years</u>
Joette C. Decore, B.Sc., MBA Edmonton, Alberta	Executive Vice President, Strategy and Development of the Corporation since June 1, 2015. Prior thereto, Vice President, Strategy and Development of the Corporation since December 2012. Prior thereto, Vice President, Corporate Development of the Corporation from November 2010 to December 2012. Prior thereto, Vice President of Strategic Planning and Human Resources of the Corporation from June 2009 to November 2010. Prior thereto, Vice President, Performance Improvement of the Corporation. Prior thereto, management consultant with PricewaterhouseCoopers (a management consultancy firm) from 2000 to 2008.
Tara Rihn, B. Sc., EMBA Calgary, Alberta	Vice President Project Services since January 2016. Prior thereto, Vice President Technical Services at Terracon Geotechnique Ltd., a private geology and geotechnical engineering and field services company from January 2014 until December 2015. Prior thereto, Vice President Project Services at URS Flint, a part of URS Corporation from May 2012 until March 2013. Prior thereto, Vice President Project Services at Flint Energy Services Ltd. from July 2011 until April 2012.
Daryl E. Sands, B.Comm., CA Calgary, Alberta	Executive Vice President and Chief Financial Officer of the Corporation since November 2009. Prior thereto, Senior Vice President, Finance and Chief Financial Officer of the Corporation from June 2007 to November 2009.
Richard Stone, B.Comm, LLB, Calgary, Alberta	Vice President, General Counsel and Corporate Secretary of the Corporation since November 2016. Prior thereto, Partner at Bennett Jones LLP since November, 2015. Prior thereto, Vice-President, Legal and Corporate Secretarial at the ATCO Group from January 2014 until October 2015. Prior thereto, associate lawyer, Bennett Jones LLP from May 2007 to December 2013.

**Name and Municipality of Residence****Principal Occupation During Preceding Five Years****Operating Group Executives**

Arthur Atkinson  
Calgary, Alberta

Chief Operating Officer, Buildings Group since June 1, 2015. Prior thereto, Executive Vice-President, Buildings Group from June 2014 to May 31, 2015. Prior thereto Vice-President, Southern Alberta Region for the Buildings Group from April 2012 to June 2014, and Vice-President, British Columbia Region for Buildings Group from May 2008 to March 2012.

Bob Myles B.Sc., B. Eng., P.Eng.  
Calgary, Alberta

Chief Operating Officer, Industrial Services Group since February 2016. Prior thereto, President and CEO at Tartan Canada Corporation, a private mechanical maintenance and construction contractor operating in Western Canada since September 2011. Prior thereto, from 2002 until 2011, an executive at the ATCO Group, holding numerous senior management positions, most recently, Managing Director, Energy.

As at December 31, 2016, the directors and executive officers of the Corporation, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 387,301 Common Shares, or approximately 1.4% of the issued and outstanding Common Shares of the Corporation. The information as to the beneficial ownership of the Common Shares, not being within the knowledge of the Corporation, has been confirmed by the directors and executive officers of the Corporation individually.

**CORPORATE CEASE TRADE ORDERS AND BANKRUPTCIES**

To the knowledge of management, except as otherwise disclosed herein, no director or executive officer of the Corporation is, or has been, within the past 10 years before the date hereof, a director or executive officer of any issuer that: (i) while that person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the issuer access to any exemption under securities legislation for a period of more than 30 consecutive days, or was subject to an event that resulted, after the person ceased to be a director or executive officer, in the issuer being the subject of a cease trade or similar order or an order that denied the issuer access to any exemption under securities legislation for a period of more than 30 consecutive days; or (ii) while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Bellstedt ceased being a director of Sun Times Media Group, Inc. (formerly Hollinger International Inc.) in June of 2008. Sun Times Media Group, Inc. went into Chapter 11 bankruptcy protection under the U.S. Bankruptcy Code in 2009.

**CONFLICTS OF INTEREST**

Certain directors and officers of the Corporation and its subsidiaries are associated with other reporting issuers or other corporations which may give rise to conflicts of interest. Directors who have a material interest in any person who is a party to a material contract or a proposed material contract with the Corporation are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Corporation.

Mr. Sutherland, who, until September 30, 2016 was the President of Studon, has an indirect interest in a company that owns a building which is leased to the Corporation. The amount paid to the company that owns the building in respect of that lease during each of the 2016 and 2015 fiscal years was approximately \$500,000. No amounts were paid by the Corporation in respect of that lease in the 2013 and 2014 fiscal years.

## MARKET FOR SECURITIES

### 2014 Debentures

The 2014 Debentures are listed and posted for trading on the TSX under the stock market symbol “SOX.DB.A”. The following is a summary of the price ranges as well as the total monthly volumes traded (based on aggregate trading value) on the TSX from January 1, 2016 to December 31, 2016.

<b>Period</b>	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Volume</b>
January 2016	98.00	81.50	755,000
February 2016	91.00	84.99	1,484,000
March 2016	99.71	93.50	426,000
April 2016	100.51	97.50	859,000
May 2016	101.00	99.01	787,000
June 2016	101.00	100.00	862,000
July 2016	102.71	100.76	1,065,000
August 2016	102.98	101.00	759,000
September 2016	102.51	100.99	819,000
October 2016	102.02	101.00	1,067,000
November 2016	102.00	100.00	846,000
December 2016	103.26	101.50	399,000

### Common Shares

The Common Shares are listed and posted for trading on the TSX under the stock market symbol “SOX”. The following is a summary of the price ranges as well as the total monthly volumes traded on the TSX from January 1, 2016 to December 31, 2016.

<b>Period</b>	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Volume</b>
January 2016	5.80	4.41	510,310
February 2016	5.80	5.29	180,062
March 2016	6.98	5.60	655,104
April 2016	6.89	6.52	335,640
May 2016	6.95	6.10	450,870
June 2016	6.92	5.90	445,829
July 2016	7.13	5.42	847,030
August 2016	6.75	5.99	628,479
September 2016	6.30	5.89	498,466
October 2016	6.35	5.72	422,848
November 2016	5.88	5.06	973,523
December 2016	6.00	5.52	911,174

## **RISK FACTORS**

The Corporation is subject to certain risks and uncertainties that are common in the construction industry and that may affect future performance. The risks described below are not exhaustive. The Corporation operates in a very competitive and ever-changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Corporation's business.

### **The Operations of the Corporation are Dependent on the Price of Oil and Natural Gas**

Macro-economic and geopolitical factors associated with oil and natural gas supply and demand are prime drivers for pricing and profitability within the oil and natural gas industry. Generally, when oil and natural gas prices are relatively high, demand for the Corporation's services are high, while the opposite is true when oil and natural gas prices are low.

Worldwide military, political and economic events, including initiatives by the Organization of the Petroleum Exporting Countries and other major petroleum exporting countries, for instance, may affect both the demand for, and the supply of, oil and natural gas. Weather conditions, governmental regulation (both in Canada and elsewhere), levels of consumer demand, the availability of pipeline capacity, United States and Canadian natural gas storage levels and other factors beyond the Corporation's control may also affect the supply of and demand for oil and natural gas and thus lead to future price volatility. A prolonged reduction in oil and natural gas prices would likely depress the level of exploration and production activity. This would likely result in a corresponding decline in the demand for the Corporation's services and could have a material adverse effect on its revenues, cash flows and profitability generally, with the most significant impact likely being on the Industrial Services Group's business. Specifically, a sustained period of low oil and gas prices could have an adverse effect on the number and scope of projects planned for Alberta's oil sands. If the current downturn is prolonged, slower or reduced development of Alberta's oil sands and heavy oil may result in lower than expected demand for the Industrial Services Group's services. Lower oil and natural gas prices could also cause the Corporation's customers to seek to terminate, renegotiate or fail to honour contracts which could affect the Corporation's ability to retain skilled personnel and the Corporation's ability to obtain access to capital to finance and grow its businesses. There can be no assurance that the future level of demand for the Corporation's services or future conditions in the oil and natural gas and oilfield services industries will not decline.

Some of the Corporation's accounts receivable are with customers involved in the oil and natural gas industry, whose revenues may be impacted by fluctuations in oil and natural gas prices. The collection of receivables may be adversely affected by any prolonged weakness in oil and natural gas prices.

### **Unexpected Adjustments and Cancellations in Backlog**

Stuart Olson may not be able to convert its entire backlog into revenue and cannot guarantee that the revenues projected in its backlog will be realized or, if realized, will result in profits. Projects may remain in the backlog for an extended period of time due to delay of commencement of projects or alternatively, may be cancelled. Stuart Olson includes in its backlog, binding and non-binding letters of intent, work orders and cost reimbursable contracts, which may be different than the items other issuers include or exclude in their respective backlogs. Project cancellations or scope adjustments may occur from time to time with respect to contracts reflected in backlog. In respect of backlog evidenced by a non-binding letter of intent, the formal contract respecting the same may never be finalized, resulting in such engagement either being terminated or being completed pursuant to substantially different terms than originally contemplated, in which case, margins relative to such projects may not materialize as planned. Backlog reductions can adversely affect the revenue and profit Stuart Olson actually receives from projects reflected in its backlog.

### **Volatile Market Conditions**

The volatility created by the global financial crisis in 2008 and 2009 damaged investor confidence in global equity markets and negatively impacted the value of publicly-traded securities of many companies. This global financial crisis also resulted in reduced access to capital and a significant decline in commodity prices including the price of oil and natural gas. Additionally, changing fiscal, taxation, and royalty policies of various levels of government can impact the decisions of oil and gas companies to conduct business in western Canada. Over the last several years these macro-economic conditions did have a significant adverse effect on the operating conditions of the clients and

industries to which the Corporation provides services, resulting in significant declines in capital expenditures by oil and gas companies.

A sustained period of low prices on a going forward basis may result in material differences in previously projected oil sands and resource development, which could lead to delays, scope reductions and/or cancellations in previously announced or anticipated projects in the Alberta oil sands and commodities mining sector. Management expects that project postponements or cancellations would have an adverse impact on the Corporation's business generally, with the most significant impact likely being on the Industrial Services Group's business. It is management's intention to monitor these developments very closely and to remain in close communication with customers to ensure that the Corporation is positioned to react should a severe market correction occur.

It remains possible that a future economic crisis, outside of management's control, may yet cause instability in the financial system. Future market conditions could negatively impact the outlook, financial performance and the price of Stuart Olson's securities.

### **Contractual Factors**

The Corporation performs construction activity under a variety of contracts including lump-sum, fixed price, and guaranteed maximum price, cost reimbursable and design-build. Some forms of these construction contracts carry more risk than others.

Historically, a portion of the Corporation's revenue has been derived from lump sum contracts pursuant to which a commitment is provided to the owner of the project to complete the project at a fixed price ("**Lump Sum**") or guaranteed maximum price ("**GMP**"). In Lump Sum and GMP projects, in addition to the risk factors of a fixed unit price contract (as described below), any errors in quantity estimates or schedule delays or productivity losses, for which contracted relief is not available, must be absorbed within the Lump Sum or GMP, thereby adding a further risk component to the contract. These contracts, given their inherent risks, have from time to time resulted in significant losses on projects. The failure to properly assess a wide variety of risks, appropriately execute these contracts or contractual disputes may have an adverse impact on financial results.

The Corporation is also involved in fixed unit price construction contracts under which Stuart Olson is committed to provide services and materials at a fixed unit price. While this shifts the risk of estimating the quantity of units to the contract owner, any increase in the Corporation's cost over the unit price bid, whether due to estimating error, inefficiency in project execution, inclement weather, inflation or other factors, will negatively affect the Corporation's profitability.

In certain instances, the Corporation commits to a customer that it will complete a project by a scheduled date or that the facility will achieve certain performance standards. If the project or facility subsequently fails to meet the schedule or performance standards, the Corporation could incur additional costs or penalties commonly referred to as liquidated damages. Although the Corporation attempts to negotiate waivers of consequential or liquidated damages, on some contracts, the Corporation is required to bear the risk for failure to meet certain contractual provisions. These penalties may be significant and could materially impact the Corporation's financial position or results of future operations. Furthermore, schedule delays may also reduce profitability because staff may be prevented from pursuing and working on new projects. Project delays may also reduce customer satisfaction which could impact future awards.

Stuart Olson occasionally participates in design-build projects whereby, in addition to the responsibilities and risks of a fixed unit price or Lump Sum contract, it assumes the additional risk of quality or design-related flaws or failures. This risk is managed by using external consultants for the design component as well as by the purchase of appropriate insurance protection. Design remediation work could result in additional contract costs that may not be reimbursed by the client.

Certain of the Corporation's contractual requirements may also involve financing elements, where the Corporation is required to provide one or more letters of credit, performance bonds or financial guarantees. There can be no assurance that the Corporation will be able to obtain the necessary financing on favourable or commercially reasonable terms and conditions to satisfy such requirements, nor that its working capital and bonding facilities will be adequate in order to issue the required letters of credit and performance bonds.

Change orders, which modify the nature or quantity of the work to be completed, are frequently issued by clients. Final pricing of these change orders is often negotiated after the changes have been started or completed. Disputes regarding the quantum of unpriced change orders could impact the Corporation's profitability on a particular project, ability to recover costs, or in a worst case scenario, result in significant project losses. The timing of the resolution of these events can have a material impact on income and liquidity and thus can cause fluctuations in the revenue and income of the Corporation in any one reporting period.

### **Competition**

There is strong competition relating to all aspects of the construction industry. The Corporation competes with a broad range of companies in each market, some of which are substantially larger than the Corporation. In addition, an increase in the number of international companies entering the western Canadian marketplace has also made the market more competitive. Each competitor has its own advantages and disadvantages relative to Stuart Olson. New contract awards and contract margin are dependent upon the level of competition and the general state of the markets in which Stuart Olson operates. Fluctuations in demand in the segments in which Stuart Olson operates may impact the degree of competition for new work. Competitors that have greater financial and other resources can better bear the risk of under-pricing projects, whereas smaller competitors may have lower overhead cost structures and therefore may be able to provide their services at lower rates. The Corporation's business may be adversely impacted to the extent that it is unable to successfully bid against these companies. The loss of existing clients to competitors or the failure to win new projects could materially and adversely affect the Corporation's business and results of operations.

### **Unanticipated Shutdowns**

A portion of Stuart Olson's work is generated from the development, expansion and ongoing maintenance of oil sands mining, extraction and upgrading facilities. Shutdowns of these facilities due to events outside of the Corporation's control or the control of the Corporation's clients, such as the cancellation of projects due to a downturn in oil and gas prices, fires, mechanical breakdowns, technology failures or pressure from environmental activists, could lead to the temporary shutdown or complete cessation of projects on which Stuart Olson is working. These events could materially and adversely affect the Corporation's business and results of operations.

### **Subcontractor Performance**

The profitable completion of some contracts depends to a large degree on the satisfactory performance of subcontractors as well as design and engineering consultants who complete different elements of the work, especially within the Buildings Group. If these subcontractors or consultants do not perform to accepted standards, the Corporation may be required to hire different subcontractors to complete the tasks, which may impact schedule, add costs to a project, impact profitability on a specific job and, in certain circumstances, lead to significant losses. A major subcontractor default or failure to properly manage subcontractor performance could materially impact results.

### **Cyber Security Risks**

The Corporation utilizes a number of information technology systems for the management and operation of its business and is subject to a variety of information technology and system risks as part of its normal operations, including potential breakdown, invasion, virus, cyber-attack, cyber fraud, security breach and destruction or interruption of the Corporation's information technology systems by third parties or insiders. Although the Corporation has security measures and controls in place that are designed to mitigate these risks, a breach of its security measures and/or loss of information could occur and could lead to a number of adverse consequences, including but not limited to: the unavailability, disruption or loss of key functionalities within the Corporation's control systems and the unauthorized disclosure, corruption or loss of material and confidential information, breach of privacy laws and a disruption to the Corporation's business activities.

The Corporation attempts to prevent such breaches through, among other things, the implementation of various technology security measures, segregation of control systems from its general business network, engaging skilled consultants and employees to manage the Corporation's technology applications, conducting periodic audits and adopting policies and procedures as appropriate. To date, the Corporation has not been subject to a cyber security breach that has resulted in a material impact on its business or operations; however, there is no guarantee that the measures the Corporation takes to protect its information technology systems will be effective in protecting against a breach in the future.

## **Dependence on the Public Sector**

A significant portion of the Buildings Group's revenue is derived from contracts with various governments or their agencies. Consequently, any reduction in demand for the Buildings Group's services by the public sector, whether from funding constraints, changing capital spending plans or changing political priorities, would likely have an adverse effect on the Corporation if that business could not be replaced from within the private sector.

## **Penalties Related to Total Costs and Completion Dates**

A portion of Stuart Olson's revenue may be derived from contracts which have performance incentives and penalties depending on the total cost of a project as compared to the original estimate. Stuart Olson could incur significant penalties based on cost overruns. In addition, the total project cost as defined by the contract may include work performed by other contractors or subcontractors. As a result, Stuart Olson could incur penalties due to work performed by others over which it has no control. Stuart Olson may also incur penalties if projects are not completed by their specified completion date milestones. These penalties, if incurred, could have a significant impact on Stuart Olson's profitability under these contracts.

Any catastrophic occurrence in excess of insurance limits at projects where Stuart Olson's structures are installed or services are performed could result in significant professional liability, product liability, warranty or other claims against the Corporation. Such liabilities could potentially exceed Stuart Olson's current insurance coverage and the fees derived from those services. A partially or completely uninsured claim, if successful and of a significant magnitude, could result in substantial losses.

## **Potential for Non-Payment and Credit Risk**

During the term of a contract, Stuart Olson may be required to use its working capital to fund construction costs until payments are collected from clients. If a client defaults in making its payments on a project, Stuart Olson would generally have a right to register a lien against the project. If the client were ultimately unable or unwilling to pay the amounts owing to the Corporation, a lien against the property would normally provide some security that Stuart Olson could ultimately realize what is owed. However, in these situations the Corporation's ability to ultimately collect what it is owed cannot be assured. A greater incidence of payment default by clients could result in a financial loss to the Corporation that could have a material adverse effect on its operating results and financial position.

## **Ongoing Financing Availability**

Stuart Olson's operations, particularly its industrial operations, require a significant amount of working capital due to the requirement for large workforces on many projects. The Corporation's ability to obtain additional capital is a significant factor in achieving its strategy of expansion in the industrial services industry. There can be no assurance that the current working capital of Stuart Olson will be sufficient to enable it to implement all of its objectives. As well, there can be no assurance that, if, as and when Stuart Olson seeks equity or debt financing, it will be able to obtain the required funding on favourable commercial terms, or at all. Any such future financing may also result in significant dilution to existing shareholders.

## **Acquisition and Integration Risk**

Stuart Olson has historically grown partly by acquisition. The Corporation's growth strategy may in the future contemplate more acquisitions; however, future acquisition opportunities may not be identified and obtainable on suitable terms. Similarly, the integration of any acquisition raises a variety of issues including, without limitation, identification and execution of synergies, elimination of cost duplication, systems integration (including accounting and technology), execution of pre-deal business strategy, development of a common corporate culture and values, integration and retention of key staff, retention of current clients as well as a variety of issues that may be specific to Stuart Olson and the industries in which it operates. There can be no assurance that Stuart Olson will maximize or realize the full potential of any acquisition. A failure to properly integrate an acquisition and execute a combined business plan could materially impact the future financial results of Stuart Olson.

## **Loss of Key Management; Inability to Attract and Retain Management**

The success of the Corporation is highly influenced by the efforts of key members of management including its executive officers. The loss of the services of any of the Corporation's key management personnel could negatively impact the Corporation. The future success of the Corporation also depends heavily on its ability to attract, retain and develop high-performing personnel in all areas of its operations. Most organizations throughout the construction industry face this challenge, and accordingly, competition for professional staff is significant. If the Corporation ceases to be seen by current and prospective employees as a highly attractive place to work, it could experience difficulty in hiring and retaining the right people. This could have an adverse effect on current operations of the Corporation and would limit its prospects and impair its future success.

## **Geographic Scope of Operations**

Stuart Olson's operations are centered in, and primarily focused on, western Canada. The majority of construction in western Canada, particularly industrial construction, is either directly or indirectly connected to the oil and gas industry. Oil and gas pricing affects relative activity levels in the oil and gas industry which, in turn, are directly impacted by worldwide events. The Corporation monitors this information to assist in managing various mid-term aspects of its business. Significant downward movement in oil or gas commodity prices could lead clients to slow down, delay or cancel current projects or planned expansions, while significant upward movement could lead to clients seeking to accelerate project schedules. Either movement could put pressure on the Corporation's organizational infrastructure in the short term. Slowdowns, delays or cancellations could have a material adverse impact on the Corporation's financial condition.

## **Litigation Risk**

In the normal course of the Corporation's operations, whether directly or indirectly, the Corporation has been, and in the future it may become, involved in, named as a party to, or the subject of, various legal proceedings and legal actions relating to, among other things, construction disputes for which insurance is not available, human resources matters, personal injuries, property damage and general commercial and contractual matters arising from its business activities. In view of the quantum of the amounts claimed, the insurance coverage maintained by the Corporation and, in some cases, the provisions included in the Corporation's financial statements for any potential settlements in respect of these matters, management of the Corporation does not believe that any existing litigation or pending litigation will ultimately result in a final judgement against the Corporation that would have a material adverse impact on the operations of the Corporation. Litigation is, however, inherently uncertain. Accordingly, adverse outcomes to current litigation or pending litigation are possible. These potentially adverse outcomes could include financial loss, damage to the Corporation's reputation or reduction of prospects for future contract awards.

## **Reputation**

Reputation in the construction industry is a significant factor in the long-term success of the Corporation. Adverse opinions may impact long-term financial results and can arise from a number of factors including errors or losses on specific projects, employee sentiment, questions concerning business ethics and integrity, corporate governance, the accuracy and quality of financial reporting and public disclosure as well as the quality and timing of the delivery of key products and services. Stuart Olson has put in place various controls and procedures to mitigate this risk; however, these controls and policies cannot guarantee that future breaches of such controls and procedures will not occur, which may or may not impact the financial results of the Corporation.

## **Dividends**

The payment of dividends on the Common Shares is at the discretion of the Board of Directors of the Corporation. In establishing the amount of any dividend, the Board of Directors will take into consideration, among other things, the need to meet future requirements for increases in working capital and equity to meet contract security requirements, provide the financial capacity to withstand any downturn in the construction industry should it occur, expand the business and the desirability of maintaining the dividend rate. There can be no assurances that the dividend rate will not be reduced or suspended in the future.

## **Performance Bonds**

Stuart Olson's operating companies are often required to provide performance and labour and material payment bonds as assurance for contract completion. The surety industry has endured a certain degree of instability and uncertainty as a result of the recent economic conditions, which may constrain the overall industry capacity. Furthermore, the issuance of bonds under the Corporation's Surety Program is at the sole discretion of the surety companies on a project by project basis. As such, even sizable sureties can no longer guarantee bonding support on every project. Although the Corporation believes that it will be able to continue to maintain adequate surety capacity under the Surety Program to satisfy its requirements, should those requirements be materially greater than anticipated, or should sufficient surety capacity not be available to the Corporation for any reason, this may have an adverse impact on the ability of the Corporation to operate its business or take advantage of all market opportunities.

## **Cyclicality of Construction Industry**

The success of the construction industry is inherently linked to the state of the general economy. Fluctuating cycles are common and can have a significant impact on the level of capital spending by the Corporation's clients, which thereby impacts the Corporation's backlog, margins and overall financial results. The Corporation attempts to insulate itself from the effects of negative economic conditions. However, there is no assurance that these methods will be effective in insulating the Corporation from a general downturn in the economy. A decrease in construction activity as a result of a general economic decline could have an adverse effect on the Corporation's financial performance and results of operations.

## **Corporate Guarantees and Letters of Credit**

In the course of business operations, the Corporation may be required to guarantee the performance pursuant to a contract of one or more of its Operating Groups by way of providing guarantees or letters of credit. If Stuart Olson's capacity to issue letters of credit under its Credit Facility and its cash on hand are insufficient to satisfy clients and surety providers, its business and results of operations could be adversely affected. Letters of credit are issued mainly to provide security to third parties in the case of non-performance under a contract. Significant claims under letters of credit and/or corporate guarantees could materially and adversely affect the Corporation's business, financial stability and operating capacity.

## **Volatility of Market Trading**

The market price of the Corporation's securities may be volatile and could be subject to fluctuations in response to quarterly variations in operating results, changes in financial estimates by securities analysts, or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many companies providing services to the commodity industry. Often these fluctuations have been unrelated to the operating performance of such companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter. Broad market fluctuations, or any failure of the Corporation's operating results in a particular quarter to meet market expectations, may adversely affect the market price of the Corporation's securities.

## **Client Concentration**

Canem does a significant amount of work with a small number of major general contractors. Consequently, the loss of, or a significant reduction in business with, one or more of these contractors, whether as a result of completion of a contract, early termination, or a failure or inability to pay amounts owed, could have a material adverse effect on the Commercial Systems Group's and consequently Stuart Olson's business and results of operations. Similarly, the Industrial Services Group has a narrow concentration of clients. The loss of, or significant reduction in business with, one or more of these clients could have a material adverse effect on the Industrial Services Group, and consequently on Stuart Olson's business and results of operations.

## **Cost Overruns by Stuart Olson's Clients**

On occasion, Stuart Olson's clients have experienced project cost overruns, impacting their returns. As new projects are contemplated or built, if cost overruns continue to challenge Stuart Olson's clients, they could reassess future projects and expansions which could adversely affect the amount of work Stuart Olson receives.

## **Failure of Clients to Obtain Required Permits and Licenses**

The development of construction projects requires Stuart Olson's clients to obtain regulatory and other permits and licenses from various governmental licensing bodies. Stuart Olson's clients may not be able to obtain all necessary permits and licenses required for the development of their projects, in a timely manner or at all. These delays are generally outside the Corporation's control. The major cost associated with these delays is personnel and associated overhead that is designated for the project which cannot be reallocated effectively to other work. If the client's project is unable to proceed, it may adversely impact the demand for the Corporation's services.

## **Labour Matters**

Periods of high construction activity can create shortages of labour. In the past, the rapidly expanding markets in, among others, Alberta and British Columbia, have created general shortages of tradesmen and management personnel. Stuart Olson's operating companies attempt to mitigate labour shortages through positive union relationships, competitive remuneration, enhanced in-house training programs and expanded recruiting, both within Canada and internationally. If Stuart Olson is unable to recruit and retain enough employees with the appropriate skills, the Corporation may be unable to maintain its client service levels, and it may not be able to satisfy increased demand for its services. Similarly, a significant portion of Stuart Olson's labour force is unionized and accordingly Stuart Olson is subject to the detrimental effects of a strike or other labour action, in addition to competitive cost factors. Any future labour shortage or disruption may lead to construction cost escalation which could decrease contract margins, should clients not agree to absorb these additional costs.

## **Maintaining Safe Worksites**

Stuart Olson's success as a contractor is highly dependent on its ability to keep its construction worksites safe. Failure to do so can have serious impacts beyond the threat to personal safety of its employees and others. It can expose the Corporation to fines, regulatory sanction and even criminal prosecution. The Corporation's safety record and worksite safety practices have a direct bearing on its ability to secure work. Management is not aware of any pending health and safety legislation or prior incidents which would be likely to have a material impact on any of the Corporation's operations, capital expenditure requirements or competitive position. Nevertheless, there can be no guarantee with respect to the impact of future legislation or accidents.

## **Work Stoppages**

Certain of the Corporation's businesses are subject to collective bargaining agreements with their hourly employees. Any work stoppage resulting from a strike or lockout could have a material adverse effect on the Corporation's business, financial condition and results of operations, including increased labour costs and service disruptions. In addition, Stuart Olson's clients employ workers under collective agreements. Any work stoppage or labour disruption experienced by Stuart Olson's clients could significantly reduce the amount of Stuart Olson's services they require.

## **Insurance Risk**

The Corporation maintains insurance in order to satisfy the requirements of its construction contracts and part of its corporate risk management policies. The Corporation believes it maintains an appropriate amount of insurance coverage; however, there can be no assurance that the Corporation's insurance arrangements will be sufficient to cover claims incurred.

## **Weather**

The climate in western Canada can generate severe weather, including heavy rain, snow and extreme winter temperatures, which could slow down or delay construction for periods of time, impacting costs and delivery schedules. This could adversely impact results of operations.

## **Interruption of Information Technology Systems**

Stuart Olson is dependent on computers and related communications systems to effectively run its operations. Natural disasters, viruses, security breaches, and similar events or disruptions could cause computers and related communications systems failures that may adversely affect Stuart Olson's business and financial results.

## **Compliance with Environmental Laws**

The Corporation is subject to numerous federal, provincial and municipal environmental laws and judicial, legislative and regulatory developments relating to environmental protection on an ongoing basis. While the Corporation strives to keep informed of and to comply with all applicable environmental laws, circumstances may arise and incidents may occur that are beyond the Corporation's control that could adversely affect it. During its history, Stuart Olson has experienced incidents, emissions and spills of a non-material nature. None of these incidents has resulted in any liability to the Corporation to date, although there can be no guarantee that any future incidents will be of a non-material nature. Management is not aware of any pending environmental legislation that would be likely to have a material adverse impact on any of the Corporation's operations, capital expenditure requirements or competitive position, although there can be no assurance that future legislation will not be proposed, and if implemented, may have a material adverse impact on the Corporation's operations.

## **Regulations**

The operations of Stuart Olson's clients are subject to or impacted by a wide array of regulations in the jurisdictions in which they operate, such as applicable environmental laws. As a result of changes in regulations and laws relating to these industries, client operations could be disrupted or curtailed by governmental authorities. The high cost of compliance with applicable regulations may cause clients to discontinue or limit their operations or may discourage companies from continuing further development activities. As a result, demand for the Corporation's services could be substantially affected by regulations adversely impacting these industries.

## **Joint Venture Partners**

Stuart Olson undertakes certain contracts with joint venture partners. The success of its joint ventures depends on the satisfactory performance of Stuart Olson's joint venture partners in their joint venture obligations. The Corporation may provide joint and several guarantees in connection with these joint ventures. The failure of the joint venture partners to perform their obligations could impose additional financial and performance obligations on Stuart Olson that could result in increased costs.

## **SIGNIFICANT ACQUISITIONS**

The Corporation acquired Studon on January 6, 2015. See the section entitled "*Three Year History of the Business – 2014*" for further details pertaining to the acquisition of Studon. The Corporation filed a Form 51-102F4 in connection with the acquisition of Studon under its profile on SEDAR on March 23, 2015.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

The Corporation is involved in various legal proceedings in the ordinary course of its business. In the opinion of management, all such legal proceedings are adequately covered by insurance, or if not so covered, the amount of any such claim for damages, exclusive of interest and costs, does not exceed 10% of the Corporation's current assets.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as set forth herein, there were no material interests, direct or indirect, of directors or executive officers of the Corporation, any shareholder that is a direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the Corporation's voting securities, or any "associate" or "affiliate" (as those terms are defined in the *Securities Act* (Alberta)) of any of the foregoing persons, in any transaction in the Corporation's three most recently completed financial years or during the current financial year that has materially affected or will materially affect the Corporation.

On September 1, 2014, the Corporation completed the Broda Disposition, pursuant to which it sold Broda to TriWest Capital Partners and certain members of the senior management team of Broda, including Gord Broda, for gross cash proceeds of \$39.0 million. Mr. Broda was the President of Broda at the time of the Broda Disposition and he had an indirect interest in the entity that acquired Broda. Mr. Danard is both a member of the Board and a Managing Director of TriWest, although he did not participate in any discussions relating to the Broda Disposition.

The Corporation completed the acquisition of Studon on January 6, 2015. The Purchase Price consisted of the Share Consideration and the Cash Consideration, both of which are described in further detail under the section entitled “*Three Year History of the Business – 2014*”. Mr. Don Sutherland was, until September 30, 2016 the President of Studon and was a shareholder of Studon at the time of its acquisition by the Corporation. Mr. Sutherland received, directly or indirectly, cash consideration and 335,449 Common Shares in connection with the acquisition. Mr. Sutherland is also entitled to receive a portion of the earn-out in respect of the acquisition.

### INTEREST OF EXPERTS

The Corporation’s independent auditors are Deloitte LLP. Deloitte LLP has advised management of the Corporation that they are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

### TRANSFER AGENTS AND REGISTRARS

CST Trust Company, at its offices in Calgary and Toronto, is the transfer agent and registrar of the Common Shares.

Computershare Trust Company of Canada, at its offices in Calgary and Toronto, is the transfer agent and registrar of 2014 Debentures.

### MATERIAL CONTRACTS

Stuart Olson entered into the Credit Facility with a syndicate of lenders and an administrative agent on July 22, 2010, as later amended on each of July 12, 2011, July 12, 2012, December 21, 2012, July 12, 2013, June 5, 2014 and July 16, 2015. In July 2016, the Credit Facility was amended to extend the maturity date until July 2021, and, in December 2016, the Credit Facility was amended to change the required interest rate coverage ratio. The Credit Facility provides Stuart Olson with a committed \$150 million revolving credit facility, and \$25 million operating facility maturing on July 16, 2021. The Credit Facility has no required principal payments prior to maturity and revolves through the application of funds received by Stuart Olson and the additional advance of available loan amounts as requested from time to time by Stuart Olson. The Credit Facility is collateralized by a general security agreement covering all of the current and future assets of Stuart Olson.

Stuart Olson entered into the 2014 Indenture with Valiant Trust Company (now Computershare Trust Company of Canada) on September 19, 2014. The 2014 Indenture sets out the terms and conditions of the 2014 Debentures. See “*Capital Structure – Debentures*”.

Stuart Olson established the Surety Program with Travelers and Continental in October of 2011 and later amended that program in June of 2012. The Surety Program was again amended in 2013, at which time Travelers and Continental were replaced by Chubb and Liberty with respect to the issuance of future performance and labour and material bonds as assurance against contract completion. See “*Risk Factors – Performance Bonds*” and “*Three Year History of the Business*”.

On November 26, 2014, Stuart Olson entered into a definitive agreement (the “**Studon Agreement**”) to acquire all of the issued and outstanding common shares of Studon. The Studon Agreement includes standard provisions pertaining to the purchase and sale of the outstanding shares of Studon as well as provisions pertaining to the operation of Studon over a period of three years from closing of the acquisition (the “**Earn-Out Period**”). During the Earn-Out Period, the former shareholders of Studon are entitled up to a maximum of \$24.2 million through earn-out payments in the event that the Studon business exceeds certain financial performance targets, all of which are described in more detail in the Studon Agreement. Since January 6, 2015 no earn-out payments have been made.

The Corporation’s material contracts are available under the Corporation’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## AUDIT COMMITTEE INFORMATION

Pursuant to National Instrument 52-110 Audit Committees (“**NI 52-110**”), the Corporation is required to disclose its audit committee practices, as summarized below.

### **Audit Committee Charter**

The responsibilities and duties of the Committee are set out in the Audit Committee’s Terms of Reference, the text of which is attached as Schedule “A” to this AIF.

### **Composition of the Audit Committee**

As at the date hereof, the Audit Committee of the Corporation was composed of Chad Danard, Richard T. Ballantyne, Rod Graham (Chair) and Carmen R. Loberg.

The Board of Directors believes that the composition of the Audit Committee reflects a high level of financial literacy and expertise. Each member of the Audit Committee has been determined by the Board to be “financially literate” as defined under NI 52-110. The Board has made this determination based on the education, breadth and depth of experience of each member of the Committee. Each member of the Audit Committee has been determined by the Board to be “independent” as defined under NI 52-110.

### **Relevant Education and Experience of Audit Committee Members**

The following is a description of the education and experience of each member of the Audit Committee that is relevant to the performance of their responsibilities in that role:

**Mr. Rod Graham** has significant public and private company management and board experience in private equity, financial markets, operations, strategic planning and general financial management. He is currently the President and Chief Executive Officer of Horizon North Logistics Inc. after having served as Senior Vice President, Corporate Development and Planning. Prior to serving in his current position, he was a director and the President and Chief Executive Officer of ZCL Composites Inc. and, prior thereto, a co-founder and managing director of Northern Plains Capital Ltd., a private equity firm. Mr. Graham has also served as a director, member and Chair of the Audit Committee of several other public and private companies. In addition to his practical experience, Mr. Graham is a Chartered Financial Analyst, holds a Business Administration degree from Wilfrid Laurier University (Honours) and an MBA from the University of Western Ontario (Ivey Scholar).

**Mr. Carmen R. Loberg** retired in 2010 as President and CEO of NorTerra Inc. a privately held investment and Management Company with diverse investments in transportation, logistics, manufacturing and industrial supplies with combined revenues in excess of \$500 million. In his 10 years as CEO, Mr. Loberg participated in all Audit Committee meetings of the company and worked closely with the subsidiary financial reporting structures and the firm’s independent auditors. Mr. Loberg is a member of the Audit Committee of the Vancouver Fraser Port Authority (Port Metro Vancouver). As a director of HNZ Group Inc. (a global operator of helicopters), Mr. Loberg attends all Audit Committee meetings and Chairs that company’s Governance Committee. He also chairs the Governance Committee of McCoy Global Inc. (an international supplier to the energy industry). Mr. Loberg regularly attends continuing education sessions on audit committee matters offered by the Institute of Corporate Directors and leading Canadian accounting firms.

**Mr. Chad Danard** has developed significant financial-related skills through his role at TriWest Capital, where he is actively involved in analyzing new investment opportunities, including the completion of financial due diligence and the ongoing monitoring of portfolio companies once an investment has been made. As a board member of a number of private companies, Mr. Danard works closely with Chief Financial Officers and the auditors of those businesses to ensure appropriate reporting of financial results. Prior to joining TriWest, Mr. Danard worked for Morgan Stanley in the investment banking practice, where financial analytics were a critical part of his role. Mr. Danard also completed a Bachelor of Commerce degree from Queen’s University, with a significant focus on finance and accounting related course work. Mr. Danard graduated as the top ranked student in the program.

**Mr. Richard T. Ballantyne** Mr. Ballantyne retired in 2005 as the President of Terasen Pipelines Ltd. (a transportation and service provider to the energy industry), having held such position since 2001. From 1998 to 2000, Mr. Ballantyne was the Director, Transmission and Project Development of BC Gas Utility Ltd. and previously held various positions with Trans Mountain Pipe Line Co. Ltd. and Shell Canada Ltd.

During his career, Mr. Ballantyne has been a Director on numerous public and private boards and currently serves as the Chair of the British Columbia Safety Authority and is a director of Horizon North Logistics Inc., where he serves as a member of the Audit Committee and the Health, Safety and Environmental Committee. He previously was a director of Canadian Hydro Developers Inc. where he sat on the Audit Committee and Special Committee, Cimarron Engineering Ltd. and Terasen Pipelines (Trans Mountain) Inc. He is currently the Chair of the Trustees of Scott Point Waterworks District and has been a director on several other not-for-profit boards.

Mr. Ballantyne holds a Bachelor of Applied Science in Mechanical Engineering from the University of British Columbia and has completed the Executive Program at the Banff School of Advanced Management and the Director's Education Program through the Institute of Corporate Directors.

### **Pre Approval Policies and Procedures**

The Audit Committee has adopted a policy for the engagement of non-audit services of Deloitte LLP. The text of the policy is attached as Schedule "B" to this AIF.

### **External Auditor Service Fees**

Aggregate fees (\$ thousands, but excluding GST) billed by Deloitte LLP during the fiscal years ended December 31, 2016 and 2015 were as follows:

<b>Fee</b>	<b>2016</b>	<b>2015</b>
Audit Fees	\$1,014	\$751
Audit-Related Fees	16	125
Tax Fees	10	-
All Other Fees <sup>(1)</sup>	283	336
<b>Total</b>	<b>\$1,323</b>	<b>\$1,212</b>

**Notes:**

(1) "All Other Fees" In 2015 this amount relates to Canadian Public Accountancy Board fees, the acquisition of Studon and a corporate project controls review. In 2016 this amount relates to the Canadian Public Accountancy Board project controls framework and pension plan audits.

### **ADDITIONAL INFORMATION**

Additional information relating to the Corporation may be obtained by accessing the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Stuart Olson's securities and securities authorized for issuance under equity compensation plans is contained in Stuart Olson's Management Information Circular for its most recent annual meeting of shareholders.

Additional financial information is provided in Stuart Olson's Consolidated Financial Statements and Management's Discussion and Analysis for the financial year ended December 31, 2016.

Copies of any of the foregoing documents and this AIF may be obtained by accessing SEDAR at [www.sedar.com](http://www.sedar.com), or are available upon request from the Investor Relations department of the Corporation ([inquiries@stuartolson.com](mailto:inquiries@stuartolson.com) or 403-685-7777).

## **SCHEDULE “A” – Audit Committee Terms of Reference To the Annual Information Form of Stuart Olson**

### **Purpose**

The Audit Committee (the “**Committee**”) is a standing committee of the Board of Directors of Stuart Olson Inc. (the “**Corporation**”). Its purpose is to assist the Board of Directors in fulfilling its oversight responsibilities in respect of (i) the integrity of the Corporation’s financial statements and other public financial disclosure documents (ii) the effectiveness of the Corporation’s accounting and financial reporting processes and systems of internal controls (iii) the identification and monitoring of financial risks (iv) the Corporation’s compliance with legal and regulatory requirements (v) the qualifications, performance and independence of the external auditors of the Corporation (vi) the performance of the Corporation’s internal audit function and (vii) the disclosure policies and procedures of the Corporation;

### **Composition and Operations**

1. The Committee shall be composed and operate in accordance with the Standing Committees of the Board General Terms of Reference. Pursuant to section 3.1(1), (2) and (3) of National Instrument 52-110 - *Audit Committees* and section 171 (2) of the *Business Corporations Act* (Alberta), the Committee must be composed of a minimum of three independent Directors.
2. The Corporate Governance & Nominating Committee will recommend to the Board of Directors members for appointment to the Committee and the Chair of the Committee.
3. The Committee shall be comprised exclusively of independent Directors. All members must be financially literate. The terms “independent” and “financially literate” will be interpreted as outlined in National Instrument 52-110 - *Audit Committees*.
4. The Committee shall be provided with appropriate and timely access to information on new regulatory requirements, accounting and audit standards as outlined by the Chartered Professional Accountants of Canada or other relevant international standard setting authorities, best practices in Corporate Governance as outlined by the Institute of Corporate Directors and any other training, both in the form of an induction program for new members and on an ongoing basis, as required to support the Audit Committee in fulfilling their responsibilities.
5. The Committee shall meet at least once each quarter before interim and annual financial reports are filed with the regulators, with authority to convene additional meetings as circumstances require.
6. The Committee shall meet periodically, and at least annually, with the external auditor without management being present. In addition, the Committee shall meet with the external auditor, as it deems appropriate to consider any matters of concern that the external auditor determines should be brought to the attention of the Board or shareholders.
7. A majority of the Committee will constitute a quorum. Minutes of each meeting will be prepared by a person designated by the Committee to act as secretary.
8. The President and Chief Executive Officer (“**CEO**”) and the Chief Financial Officer (“**CFO**”) would be expected to be available to attend meetings or portions thereof.
9. The Committee provides open avenues of communication amongst management (particularly the CFO), employees, external and internal auditors and the Board. In particular any person may provide to the Committee his/her concerns or complaints regarding accounting, internal accounting controls and auditing matters.
10. Following a Committee meeting, the Committee Chair shall report on the Committee’s activities to the Board of Directors at the next Board of Directors meeting.

## **Duties and Responsibilities**

Subject to the powers and duties of the Board, the Committee will perform the following duties:

### **1. Financial Statements and Other Financial Information**

The Committee will review and recommend for approval to the Board, financial information that will be made publicly available. This includes:

- a) The Corporation's annual financial statements and annual MD&A;
- b) The Corporation's quarterly financial statements, quarterly MD&A and earnings press releases;
- c) The financial content of the Annual Report and any reports required by government or regulatory authorities;
- d) The Annual Information Form and any prospectus/private placement memoranda;
- e) Any management report that accompanies published financial statements (to the extent such a report discusses the financial position or operating results) for consistency of disclosure with the financial statements themselves; and
- f) Ensure that adequate procedures are in place for reviewing the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, and periodically assess the adequacy of these procedures.

### **2. Financial Reporting**

The Committee shall review:

- a) The appropriateness of accounting policies and financial reporting practices used by the Corporation;
- b) Any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Corporation;
- c) Any new or pending developments in accounting and reporting standards that may affect the Corporation;
- d) Significant accounting and reporting issues impacting the financial statements, including complex or unusual transactions, highly judgmental areas and key estimates determined by management; and
- e) Procedures for the receipt, retention and treatment of any complaints or concerns received by the Corporation (either directly or anonymously) regarding accounting, internal accounting controls, auditing or any other matters.

### **3. Financial Risk Management**

The Committee will review and obtain reasonable assurance that financial risk management practices are operating effectively to produce accurate, appropriate and timely management and financial information. These include:

- a) Review the Corporation's financial risk management controls and policies;
- b) Obtain reasonable assurance that the information systems of the Corporation are reliable;
- c) Reviewing the adequacy of security of information, information systems and recovery plans;

- d) Monitoring compliance with statutory and regulatory obligations; and
- e) Reviewing the adequacy of accounting and finance resources.

#### **4. Internal Control**

The Committee shall require management to implement and maintain appropriate systems of internal controls, including internal controls over financial reporting and for the prevention and detection of fraud and error. The Committee shall:

- a) Meet with the internal auditor and with management to assess the adequacy and effectiveness of the systems of internal control and to obtain on a regular basis reasonable assurance that the organization is in control;
- b) Receive reports from the CEO and the CFO as to the existence of any significant deficiency or material weakness in the design or operation of the internal controls over financial reporting which are reasonably likely to adversely affect the corporation's ability to record, process, summarize and report financial information;
- c) Receive reports from the CEO and the CFO as to the existence of fraud, whether or not material, that involves management or other employees;
- d) Review the procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, auditing matters and ethical breaches that may be submitted by any party internal or external to the organization;
- e) Review complaints that might have been received, current status, and resolution if one has been reached;
- f) Review procedures for the confidential, anonymous submission by employees of the organization of concerns regarding questionable accounting or auditing matters; and
- g) Review external auditors' management letters and management's response to such letters.

#### **5. Disclosure**

The Committee will review the Disclosure Policy and procedures of the Corporation and obtain reasonable assurance that they are effective in meeting the requirements of applicable legislation and regulatory agencies. This includes:

- a) Reviewing the Corporation's Disclosure Policy;
- b) Monitoring compliance with the Disclosure Policy, particularly as it relates to the disclosure of financial related matters; and
- c) Receive and review reports from the Disclosure Committee related to financial matters.

#### **6. Internal Audit**

The Committee shall:

- a) Review the appointment, replacement, reassignment or dismissal of the head of the Corporation's internal audit function;
- b) Review the independence of the head of the Stuart Olson internal audit function;
- c) Review with management, the external auditors and internal audit the charter, plans, activities, staffing and organizational structure of the internal audit function;

- d) Approve the annual internal audit plan;
- e) Approve the internal audit charter periodically, at least once every three years;
- f) Review with the internal auditor the results of their audit examinations, including but not limited to any restrictions imposed by management during the audit, any significant findings on internal audits and management's responses thereto, the auditor's evaluation of the Corporation's system of internal accounting controls, procedures, documentation and any changes required in the scope of their internal audit; and
- g) On a regular basis meet separately with the Director of Internal Audit to discuss any matters that the Committee or the Director of Internal Audit believes should be discussed privately.

**7. External Audit**

The external auditor shall report directly to the Committee, shall meet at least twice annually with the Committee and will be expected to be available to attend meetings or portions thereof as requested by the Committee and to be heard at those meetings on matters relating to the external auditor's duties.

The Committee will review the planning and results of external audit activities and oversee the work of the external auditor, including:

- a) Review and recommend to the Board, for shareholder approval, the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation;
- b) Recommend to the Board the appropriate compensation of the external auditor;
- c) Review and approve the annual audit plan, including but not limited to:
  - I. Engagement letter
  - II. Objectives and scope of the audit work
  - III. Procedures for quarterly review of financial statements
  - IV. Materiality limit
  - V. Areas of audit risk
  - VI. Staffing
  - VII. Timetable
  - VIII. Coordination of audit efforts between the internal auditors and external auditors to assure completeness of coverage, reduction of redundant efforts and the effective use of audit resources.
- d) Meet with the external auditor to discuss the Corporation's quarterly and annual financial statements and the auditor's report including the appropriateness of material accounting policies and underlying estimates;
- e) Review any significant disagreement between management and the external auditor regarding financial reporting;
- f) Review and advise the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:

- I. Any difficulties encountered, or restrictions imposed by management, during the annual audit;
  - II. Any significant changes required in the external auditors audit plan;
  - III. Any significant accounting or financial reporting issues;
  - IV. The external auditor's evaluation of the Corporation's system of internal controls, procedures and documentation;
  - V. The post audit or management letter containing any findings or recommendations of the external auditor and schedule of unadjusted differences, including management's response thereto and the subsequent follow-up of any identified internal control weaknesses; and
  - VI. Any other matters the external auditor brings to the Committee's attention;
- g) Review the external auditor's report on all material subsidiaries;
  - h) Review and receive assurances on the independence of the external auditor;
  - i) Review and pre-approve the non-audit services to be provided by the external auditor firm or its affiliates in accordance with the Audit Committee Pre-Approval Policy;
  - j) Review and approve the Corporation's policy restricting the hiring of certain employees or former employees of the external auditors;
  - k) Review and evaluate the performance of the independent auditors on an annual basis, with a more comprehensive evaluation at least once every five years;
  - l) Review with the full Board of Directors any proposed discharge of the independent auditors;
  - m) Ascertain that the lead audit partner is performing audit services in accordance with applicable Canadian securities regulations and Canadian professional standards on independence with respect to length of service; and
  - n) Consider, with management, the rationale for engaging audit firms other than the principal independent auditors.

## **8. Pension Plans**

- a) Receive and review information in respect of the financial aspects of the Canem Systems Ltd. ("Canem") and Stuart Olson Construction Ltd. ("Stuart Olson") pension plans (the "Pension Plans"), including:
  - i. Review and consider financial and investment reports and the funded status relating to the Pension Plans. Provide recommendations to the Canem and Stuart Olson Boards on pension contributions;
  - ii. Receive, review and report to the Stuart Olson Board of Directors on the actuarial valuation and funding requirements for the Pension Plans;
  - iii. Review annually the Statement of Investment Policies and Procedures ("SIP&P");
  - iv. Report to the Human Resources and Compensation Committee with regard to the financial impact of any proposed changes in the Corporation's pension plans;
  - v. Approve the appointment and termination of auditors; and

- vi. Review the decisions of the Canem and Stuart Olson Boards in regard to the appointment and termination of investment managers.

**9. Other**

- a) Review insurance coverage of significant business risks and uncertainties;
- b) Review material litigation and its impact on financial reporting;
- c) Review policies and procedures for the review and approval of executive expenses and perquisites;
- d) Review correspondence with the regulators;
- e) Periodically review the Corporation's Code of Conduct Policy to ensure that it is adequate and up to date;
- f) Review the Terms of Reference for the Committee annually and make recommendations to the Board as required;
- g) Review all related party transactions between the Corporation and any officers or directors;
- h) Review policies and practices with respect to trading and hedging activities; and
- i) Engage independent outside counsel and other advisors as it determines necessary to carry out its duties.

**SCHEDULE “B” – Audit Committee Pre-Approval Policy  
To the Annual Information Form of**

**Stuart Olson Inc.**

**Background**

Both the Canadian Securities Administrators and the CICA have implemented rules or standards to support the independence of the external auditor. Under these, the Audit Committee is required to pre-approve all non-audit services performed by the external auditor in order to assure that the provision of such services does not impair the auditor’s independence. Unless a type of service to be provided by the external auditor has received general pre-approval, it will require specific pre-approval by the Audit Committee of Stuart Olson Inc. (the “Corporation”). Any proposed services exceeding pre-approved cost levels will require specific pre-approval by the Audit Committee.

The appendices to this Policy describe the Audit, Audit-related, Tax and All Other services that have the pre-approval of the Audit Committee. The term of any pre-approval is valid for 120 days from the date of pre-approval, unless the Audit Committee specifically provides for a different period. The Audit Committee will periodically review & revise, when appropriate, the list of pre-approved services, based on subsequent determinations.

**Delegation**

The Audit Committee may delegate pre-approval authority to one or more of its independent members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee will not delegate its responsibilities to pre-approve services performed by the external auditor to management.

**Audit Services**

The annual Audit services engagement terms and fees will be subject to the specific pre-approval of the Audit Committee. The Audit Committee will approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, company structure or other matters.

In addition to the annual Audit services engagement approved by the Audit Committee, the Audit Committee may grant pre-approval for other Audit services, which are those services that only the external auditor reasonably can provide. The Audit Committee has pre-approved the Audit services listed in Appendix A. All other Audit Services not listed in Appendix A must be separately pre-approved by the Audit Committee.

**Audit-Related Services**

Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of the Corporation’s financial statements and that are traditionally performed by the external auditor. The Audit Committee believes that the provision of Audit-related services does not impair the independence of the auditor, and has pre-approved the Audit-related services listed in Appendix B. All other Audit-related services not listed in Appendix B must be separately pre-approved by the Audit Committee.

## **Non-Audit Services - General**

The Audit Committee must be informed of each non-audit service. In the event that the Corporation did not recognize the services as non-audit services at the time of the engagement, the services must be promptly brought to the attention of the Audit Committee and approved, prior to the completion of the audit, by the Audit Committee or by one or more of its members to whom authority to grant such approvals has been delegated.

## **Tax Services**

The Audit Committee believes that the external auditor can provide Tax services to the Corporation such as tax compliance, tax planning and tax advice without impairing the auditor's independence. However, the Audit Committee will not permit the retention of the external auditor in connection with a transaction initially recommended by the external auditor, the purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Income Tax Act and related regulations. The Audit Committee has pre-approved the Tax services listed in Appendix C. All Tax services involving large and complex transactions not listed in Appendix C must be separately pre-approved by the Audit Committee.

## **All Other Services**

A list of the CICA prohibited non-audit services is attached to this policy as Exhibit 1. The rules and relevant guidance of the CICA should be consulted to determine the precise definitions of these services and the applicability of exceptions to certain of the prohibitions.

## **Pre-Approval Fee Levels**

Pre-approval fee levels for a particular service to be provided by the external auditor will be established periodically by the Audit Committee. Any proposed services exceeding these levels will require specific pre-approval by the Audit Committee.

## **Supporting Documentation**

With respect to each proposed pre-approved service, the external auditor will provide detailed back-up documentation, which will be provided to the Audit Committee, regarding the specific services to be provided.

## **Procedures**

Requests or applications to provide services that require separate approval by the Audit Committee will be submitted to the Audit Committee by both the external auditor and the Chief Financial Officer, and must include a joint statement as to whether, in their view, the request or application is consistent with the CICA standard on auditor independence.

**Appendix A**  
**Pre-Approved Audit Services for Fiscal Year**

<b>Service</b>	<b>Threshold</b>
Statutory audits or financial audits for the Corporation and for subsidiaries or affiliates of the Corporation	Up to \$ 10,000
Services associated with securities commissions registration statements, periodic reports and other documents filed with the securities commissions or other documents issued in connection with securities offerings (e.g., comfort letters, consents), and assistance in responding to securities commissions comment letters	Up to \$ 10,000
Consultations by the Corporation's management as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards or interpretations by the CICA, ASC, or other regulatory or standard setting bodies	Up to \$ 10,000
Consultations and services provided in the review of conversion activities related to acquired entities to provide a level of reliance for the annual audit.	Up to \$ 10,000
Services associated with the review of the Corporation's quarterly financial statements and reporting to the audit committee.	Up to \$ 10,000

**Appendix B**  
**Pre-Approved Audit-Related Services for Fiscal Year**

<b>Service</b>	<b>Threshold</b>
Due diligence services pertaining to potential business acquisitions/dispositions.	Up to \$ 10,000
Agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or regulatory reporting matters.	Up to \$ 10,000
Internal control reviews and assistance with internal control reporting requirements.	Up to \$ 10,000
Consultations by the Corporation's management as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards or interpretations by the CICA, ASC, or other regulatory or standard-setting bodies.	Up to \$ 10,000
Attest services not required by statute regulation.	Up to \$ 10,000

**Appendix C**  
**Pre-Approved Tax Services for Fiscal Year**

<b>Service</b>	<b>Threshold</b>
Canadian and US federal, state, provincial and local tax planning and advice, including guidance on entering into new jurisdictions (states or provinces); and on withdrawal procedures, if required.	Up to \$ 10,000
Canadian and US federal, state, provincial and local tax compliance including dealing with notices and/or assessments from these jurisdictions; assistance with specific correspondence or requests from state or city/county; and application for refunds when required.	Up to \$ 10,000
International tax planning and advice	Up to \$ 10,000
International tax compliance	Up to \$ 10,000
Review of federal, state, local and international income, franchise, and other tax returns	Up to \$ 10,000
Licensing [or purchase] of income tax preparation software <sup>1</sup> from the independent auditor, provided the functionality is limited to preparation of tax returns or calculation of supporting amounts necessary to prepare tax returns or tax elections.	Up to \$ 10,000
Due diligence services pertaining to review of tax returns of potential business acquisitions and tax planning for acquisition deal structures.	Up to \$ 10,000

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<sup>1</sup> Licensing or purchasing income tax preparation software is permitted, so long as the functionality is limited to preparation of tax returns. If the software performs additional functions, each function must be evaluated *separately* for its potential effect on the auditor's independence.

**Exhibit 1**  
**Prohibited Non-Audit Services**

- § Bookkeeping or other services related to the accounting records or financial statements of the audit client<sup>2</sup>
- § Financial information systems design and implementation<sup>2</sup>
- § Appraisal or valuation services, fairness opinions or contribution-in-kind reports<sup>2</sup>
- § Actuarial services<sup>2</sup>
- § Internal audit outsourcing services<sup>2</sup>
- § Management functions
- § Human resources
- § Broker-dealer, investment adviser or investment banking services
- § Legal services
- § Expert services unrelated to the audit

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<sup>2</sup> Provision of these non-audit services is permitted if it is reasonable to conclude that the results of these services will not be subject to audit procedures. Materiality is not an appropriate basis upon which to overcome the rebuttable presumption that prohibited services will be subject to audit procedures because determining materiality is itself a matter of audit judgment.