



MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2016

## Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of Bird Construction Inc.'s ("the Company" or "Bird") financial condition and results of operations should be read in conjunction with the December 31, 2015 consolidated financial statements of Bird Construction Inc. This discussion contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by these statements. See "Forward-Looking Information". Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described under "Risks Relating to the Business" and "Risks Relating to the Shares" included in the Company's most current Annual Information Form dated March 14, 2016. This MD&A has been prepared as of August 4, 2016. Additional information about the Company is available through the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) and includes the Company's Annual Information Form and other filings.

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## EXECUTIVE SUMMARY

(thousands of dollars, except per share amounts)	For the six months ended June 30,	
	2016	2015
<b>Income Statement Data</b>		
Revenue	\$ 751,489	\$ 641,485
Net income <sup>(1)</sup>	13,229	15,542
Basic and diluted earnings per share	0.31	0.37
<b>Cash Flow Data</b>		
Cash flows from operations before changes in non-cash working capital	23,566	29,756
Cash flows from operations	(7,146)	(15,206)
Additions to property and equipment <sup>(2)</sup>	1,735	2,648
Cash dividends paid	16,148	16,148
Cash dividends declared per share	0.38	0.38
	<u>June 30, 2016</u>	<u>December 31, 2015</u>
<b>Financial Position Data</b>		
Total assets	759,045	733,992
Working capital	119,601	127,358
Loans and borrowings	9,369	10,665
Shareholders' equity	167,926	170,891

<sup>(1)</sup> includes comprehensive income, hereafter referred to as net income

<sup>(2)</sup> computer software purchases included in intangible assets

## 2016 HIGHLIGHTS

- In the first half of 2016, the Company generated net income of \$13.2 million on construction revenue of \$751.5 million compared with net income of \$15.5 million and \$641.5 million of construction revenue, respectively in 2015. The volume of our backlog in our commercial and institutional projects resulted in revenue growth of 17.1% compared to 2015. The decrease in the amount of 2016 earnings is primarily due to the realization of a lower Gross Profit Percentage inherent in the commercial and institutional market offset to a lesser extent with the effect of lower general and administrative expenses.
- Year to date results were negatively impacted by the wildfires in the Fort McMurray area as both industrial and institutional project sites were impacted. As of June 30, 2016, not all project sites had remobilized. We estimate a negative pre-tax impact to the business of approximately \$4.0 million for the year of which \$3.1 million occurred in the second quarter.
- The second quarter results were also further negatively impacted by two projects where the estimated costs to complete increased by \$3.2 million in the aggregate. The Company has put the owner of each project on notice of our intention to file a claim related to design deficiencies and other issues and costs associated with schedule delays. Due to the complexity of the projects, we expect the claims process for each project to extend beyond the end of 2016 to resolve.
- In the second quarter of 2016, the Company reported net income of \$3.9 million on construction revenue of \$413.2 million compared to \$10.8 million and \$335.3 million, respectively in 2015.
- In the first half of 2016, the Company secured \$634.7 million of new contract awards and executed \$751.5 million of construction revenues. The success in securing new work through the first half of the year

contributed to a Backlog of \$1,546.0 million at June 30, 2016, compared with \$1,662.8 million at December 31, 2015.

- In the second quarter the Bird-Civeo Joint Venture was selected as the contractor to deliver the Cedar Valley Lodge, the workforce accommodation project required by LNG Canada to support the construction of its proposed liquefaction and export facility in Kitimat, BC and were authorized to proceed with the actual design and engineering of the workforce accommodations. We were notified shortly after the close of the quarter that the Final Investment Decision (FID) by the joint venture partners of the LNG Canada development, led by Shell, has been delayed indefinitely. At this time there is no impact to our backlog from this decision and the design and engineering project is ongoing and expected to be completed in fourth quarter.
- In the first quarter of 2016, the City of Calgary awarded the Company a fixed-price contract to construct the Seton Recreational Facility located in the southeast section of the city.
- During the first quarter of 2016, the Company successfully negotiated a \$10.0 million increase to its operating line of credit, increasing the facility from \$45.0 million to \$55.0M. This increase will provide the Company with additional financial capacity allowing Bird to achieve its strategic objectives.
- The Company's Board of Directors declared a monthly dividend of \$0.0633 per share for August, September and October 2016.

## NATURE OF THE BUSINESS

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The Company operates as a general contractor in the Canadian construction market with offices in: St. John's, Halifax, Saint John, Wabush, Montreal, Toronto, Winnipeg, Calgary, Edmonton, St. Albert and Vancouver. The Company and its predecessors have been in operation for 96 years. The Company focuses primarily on projects in the industrial, commercial and institutional sectors of the general contracting industry. Within the industrial sector, Bird constructs industrial buildings and performs civil construction operations including site preparation, concrete foundations, metal & modular fabrication, mechanical processes, underground piping and earthwork for clients primarily operating in the oil and gas and mining businesses. Within the commercial sector, Bird's operations include the construction and renovation of shopping malls, big box stores, office buildings and selected high rise condominiums and apartments. Within the institutional sector, Bird constructs hospitals, post-secondary education facilities, schools, prisons, courthouses, government buildings, retirement & senior housing and environmental facilities including water and wastewater treatment plants. The Company has developed expertise in the construction of vertical elements and overall management of transportation related projects and will continue to pursue these opportunities as governments plan to increase stimulus spending to address aging infrastructure. In all sectors, Bird contracts with its clients using a combination of fixed price, design-build, unit price, cost reimbursable, guaranteed upset price and construction management contract delivery methods.

While Bird self-performs some elements of its projects, particularly in the industrial market sector and in conjunction with its civil construction and contract mining operations, a significant portion of the overall construction risk rests with Bird's subcontractors. The scope of work of each subcontractor is generally defined by the same contract documents that form the basis of the Company's agreements with its clients. The terms of the agreements between the Company and its clients are generally replicated in the agreements between the Company and its subcontractors. These "flow-down" provisions substantially mitigate the risk borne by the Company. Depending on the value of the work, the Company may require bonds or other forms of contract security including enrolling our subcontractors in Bird's subcontractor default insurance program which will mitigate exposure to possible additional costs should a contractor not be able to meet their contractual obligations. Bird's primary constraint on growth is the ability to secure new work at reasonable margins and the availability of qualified professional staff who can be assigned to manage the projects.

## STRATEGY

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Overall, Bird's strategic objectives are to increase Company profitability to provide attractive and sustainable returns for our shareholders; a commitment to provide customer service and quality to our clients; and providing meaningful and safe working environments for our employees and those of our partners.

The fundamental elements of Bird's strategy include:

### HEALTH AND SAFETY

Responsibility for the health and safety of our most critical business asset - our people - is not the responsibility of an individual, role, or department. As befitting of a Company that started out as a family business, critical to Bird's successful growth is a belief that safety is everybody's responsibility, every minute of every day on every job. This is a fundamental tenet of our operational strategy, a core company value, and a key corporate social responsibility.

We understand that a corporate commitment to safety also pays tremendous dividends in both business and human capital. In addition to reducing related health and safety costs, reducing property damage and improving loss management outcomes, a robust safety program also contributes to employees and other stakeholders feeling more valued and engaged. This, in turn, produces a stronger commitment to product and service quality, improved productivity and client satisfaction.

For this reason, Bird promotes a culture of "Safe Production" wherein safety considerations are interwoven into the very fabric of our operational processes. From planning to execution, effective communication, documentation, orientation, training, and ongoing review and analysis of our work activity is vigorously undertaken to ensure continuous improvement in all facets of our operations so that both hazards and inefficiencies are effectively identified, assessed, and addressed. In doing so, we create a safer and more productive work environment and better ensure that every worker on our sites leaves the job every day just as healthy and safe as when they arrived.

In a highly competitive business environment, resourcing remains one of the greatest challenges facing the construction industry. Bird's commitment to the health and safety of our employees and other partners enhances both employee recruitment and retention and will serve to provide a strategic competitive advantage, allowing us to continue to successfully pursue and execute challenging work.

### INCREASING PROFITABILITY

Bird will continue to pursue organic growth by emphasizing its long-standing record of providing a quality product and service to our clients and thereby continue to secure new work with many of our clients on a repeat basis. Bird will continue to emphasize operational excellence through strict and disciplined adherence to the many risk management and project control policies and practices to ensure delivery of the financial returns expected from our construction projects. The Company will also continue to show a preference for design-build construction contracts where our proven track record provides Bird with a source of competitive advantage in the construction market; however, Bird will continue to offer clients other contract delivery methods including: fixed price, unit price, cost reimbursable, guaranteed upset price and construction management arrangements in order to satisfy their needs.

The Company continues to focus on larger and more complex construction projects which typically offer greater profit margins. In order to achieve this, Bird will continue to enter into joint venture arrangements with partners where it is appropriate to do so. These arrangements are typically beneficial to the Company because they offer a pooling of resources required to complete larger, complex projects and partnering allows for the spreading of operational and financial risk amongst the partners. In the Public Private Partnership ("PPP") market, Bird will continue to pursue an equity position in these projects as a means to support construction operations.

To broaden the scope of Bird's construction services, the Company is self-performing a greater proportion of our heavy civil construction operations, including earthmoving operations. Bird will continue to grow this element of business as opportunities present themselves. In addition, Bird is actively growing our sustaining

capital and maintenance services provided to support our oil sands clients. This initiative serves to diversify revenues, making the Company less dependent on new construction programs and further builds customer relationships.

## ATTRACTING AND RETAINING PEOPLE

The success of Bird is very much dependent on the Company's ability to attract, develop and retain a highly skilled workforce at all levels within the organization including executives, management, professional staff and craft workers.

While creating a positive, safe work environment is non-negotiable, we are just as committed to providing our employees, and potential employees, with interesting and challenging work, opportunities to grow and develop, and a welcoming environment in which to forge a successful career in every aspect of our business.

By continuously developing and refining policies and programs to engage our employees at work and in their communities, offering new and innovative training programs, driving ongoing leadership development, and making a career at Bird more than just a job, we are able to recruit, develop and retain top talent while ensuring our compensation programs remain market competitive.

## KEY PERFORMANCE DRIVERS

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Securing profitable construction contracts and then controlling the costs during the execution of that work are the key drivers of success for the Company.

In order to achieve this, new work must be available, which is a function of the general state of the economy. In periods of strong economic growth, capital spending will generally increase and there will be more opportunities available in the construction industry. In economic downturns, fewer opportunities typically exist and competition for those opportunities becomes even more intense, generally resulting in lower Gross Profit Percentages. The Company must be successful in securing profitable work when it is available. The construction industry is highly fragmented and accordingly, the Company competes with a number of international, national, regional and local construction firms. One of the Company's competitive advantages rests in its long-standing reputation for delivering high quality projects that fully meet the needs of the customer, which enables the Company to secure repeat business from clients.

The Company's success in securing work is also reflected in the value of the Backlog. The following table shows the Company's Backlog at the end of the comparative reporting periods. The Company's Backlog of \$1,546.0 million at June 30, 2016, represents a small reduction from the \$1,662.8 million reported at December 31, 2015. The reduction in Backlog since last year end was anticipated as we secured a significant amount of work in 2015, driven by the award of PPP & alternative finance projects and now we are executing this work program and have fewer available opportunities in the institutional market sector available for new work. Although the Company continues to secure a number of institutional and commercial projects, these awards are not sufficient to offset the decline in our industrial work program resulting from low commodity prices. The Company will continue to pursue PPP and alternative finance projects, however there are a fewer number of opportunities currently available in 2016 due to the timing and stage of procurement of these potential projects. The Company expects a higher volume of institutional project bidding activity in 2017 compared to what the Company is currently experiencing in 2016.

(thousands of dollars)	June 30, 2016	June 30, 2015	December 31, 2015
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Backlog	\$ 1,546,000	\$ 1,509,100	\$ 1,662,800

Once the Company has secured a potentially profitable contract, the profitability of that contract, measured by the Gross Profit Percentage, is primarily a function of management's ability to control the costs and achieve productivity objectives associated with the contract. The following table shows the Gross Profit Percentage realized by the Company in the comparative periods.

Six months ended June 30, 2016	Six months ended June 30, 2015	Year ended December 31, 2015
6.0%	8.2%	8.4%

In the first half of 2016, the Company has realized a Gross Profit Percentage of 6.0% compared with 8.2% in 2015. The reduction in the 2016 Gross Profit Percentage compared with first half of 2015 is primarily due to a shift to lower margin commercial and institutional work program in 2016 combined with the gross profit reductions resulting from the Fort McMurray wild fires and the two industrial projects that experienced an increase in their estimated cost to complete. The Company expects that in 2016 our industrial sector work program will continue to generate reasonable Gross Profit Percentages but the amount of gross profit contribution will decline as the year progresses. The amount of gross profit derived from our institutional work program is expected to increase as the Company continues to execute the PPP and other significant institutional projects secured in 2015.

### Financial Condition

The Company must have adequate working capital and equity retained in the business to support its ongoing operations, including surety and contract security requirements. The Company continually monitors the adequacy of its working capital and equity to satisfy contract security needs. The following shows the working capital and equity of the Company in the comparative reporting periods.

(thousands of dollars)	June 30, 2016	June 30, 2015	December 31, 2015
Working capital	\$ 119,601	\$ 105,742	\$ 127,358
Shareholders' equity	\$ 167,926	\$ 181,011	\$ 170,891

The decrease in the amount of the Company's shareholders' equity since December 31, 2015 primarily represents the extent to which dividends exceeded earnings in the first half of the year. Although earnings adjusted for non-cash expenses exceeded dividend payments and capital expenditures, the excess was primarily offset by a shift in deferred income taxes to current taxes payable, the use of funds to finance subcontractor default insurance coverage and the repayment of loans and borrowings. These factors resulted in a decline in working capital of \$7.8 million to the end of June. The Company believes it continues to have sufficient working capital and equity to conduct its business in the ordinary course.

### Safety

At Bird, ensuring that all work on our sites is executed to exacting quality standards begins with our commitment to creating and sustaining a culture in which the identification, assessment, and elimination or control of hazards and risks is incorporated into every aspect of our operations. We call this *Safe Production*, and it is a cornerstone of our operational philosophy and approach.

Ensuring that all workers leave our jobsites everyday just as healthy and safe as when they arrived is a shared commitment and by working collaboratively with our workers and subcontractors to achieve this, we minimize risk and create the appropriate conditions for the safe execution of construction activity - on time, on budget, and to our client's satisfaction. We believe this shared commitment is critical to our overall success. It's how we work.

Through our robust orientation and training programs and our ongoing communication and engagement activities, we encourage all workers to actively contribute to our ongoing efforts to continuously improve not only our safety program, but overall collaboration and effectiveness. In this way we not only ensure they leave work healthy and safe every day, but in doing so, help contribute to our overall operational excellence.

At Bird, *Safe Production* is not just a vision or a philosophy, it is a daily routine practiced with discipline and rigor on all of our job sites.

In the first half of 2016, Bird executed 1,883,607 manhours of work, incurring zero lost time incidents (LTI) for an LTI frequency of 0.00.

Lost Time Incident Frequency		
Six months ended June 30, 2016	Six months ended June 30, 2015	Year ended December 31, 2015
0.00	0.00	0.04

## RESULTS OF OPERATIONS

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### SIX MONTHS ENDED JUNE 30, 2016 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2015

During the first half of 2016, the Company generated net income of \$13.2 million on construction revenue of \$751.5 million compared with \$15.5 million and \$641.5 million, respectively in 2015. The decrease in the amount of 2016 earnings is primarily due to the realization of a lower Gross Profit Percentage inherent in our institutional and commercial projects offset to a lesser extent with the effect of lower general and administrative expenses.

Construction revenue of \$751.5 million compares with \$641.5 million recorded in the first half of 2015. Year over year revenues derived from the industrial work program is declining however, this decline has been more than offset by an increase in construction revenue earned from the execution of the Company's institutional and commercial work program.

In the first half ended June 30, 2016, the Company's gross profit of \$44.9 million compares with \$52.3 million recorded a year ago. The \$7.4 million (14%) decrease in the amount of gross profit is the result of a lower gross margin profit percentage on institutional and commercial projects which are becoming a larger proportion of total revenues.

To date in 2016, the Company's Gross Profit Percentage of 6.0% compares to 8.2% recorded a year ago. First half results were impacted negatively by the wildfires in the Fort McMurray area in both industrial and institutional project sites. As of June 30, 2016, not all project sites had remobilized. The second quarter impact to gross profit was negative \$3.1 million and we expect the total year impact to be approximately \$4.0 million. The second quarter results were further negatively impacted by two projects where the estimated costs to complete increased by \$3.2 million. The Company has put the owner of each project on notice of our intention to file a claim related to design deficiencies and other issues and costs associated with schedule delays. Due to the complexity of the projects, we expect the claims process for each project to extend beyond the end of 2016 to resolve.

In the first half of 2016, general and administrative expenses of \$27.6 million (3.7% of revenue) compares with \$29.9 million (4.7% of revenue) in 2015. The decrease in 2016 expenses is primarily driven by a reduction in pursuit costs compared to those incurred in 2015.

Finance income in the first half of 2016 of \$2.2 million was \$1.7 million higher than the \$0.5 million recorded in the comparable period of 2015. The primary reason for the increase in 2016 finance income is due to the fact that the Company incurred a \$1.4 million net loss on the disposal of a significant portion of the Company's investment in preferred shares in 2015.

Finance costs of \$1.7 million were \$0.6 million higher than the \$1.1 million reported in the same period of 2015 due to interest expense on additional non-recourse project financing.

In the first half of 2016, income tax expense of \$4.6 million was \$1.7 million lower than 2015, consistent with lower current period pre-tax earnings.



## THREE MONTHS ENDED JUNE 30, 2016 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2015

During the second quarter of 2016, the Company generated net income of \$3.9 million on construction revenue of \$413.2 million compared with \$10.8 million and \$335.3 million, respectively in 2015. The decrease in the amount of 2016 earnings is primarily due to the realization of a lower Gross Profit Percentage inherent in our commercial and institutional projects offset to a lesser extent with the effect of lower general and administrative expenses.

Construction revenue of \$413.2 million was \$77.9 million or 23.2% higher than \$335.3 million recorded in the second quarter of 2015. The increase in construction revenues is largely due to the execution of the Company's significant institutional work program, including many PPP and alternative finance projects. As expected, the Company's industrial revenues declined relative to those recorded in 2015, primarily due to the reduction in the capital spending programs of many of our industrial clients in response to low commodity prices.

In the second quarter of 2016, the Company's gross profit of \$18.9 million was \$12.2 million or 39.3% lower than \$31.1 million recorded a year ago. The decrease in the amount of gross profit is primarily the result of the project mix shifting to a greater proportion of PPP and alternative finance projects as the industrial work program ramps down. Despite strong organic revenue growth, the margin profile of the institutional and commercial work program is not as high as the industrial program.

In 2016, the Company's Gross Profit Percentage of 4.6% compares to 9.3% recorded a year ago. The second quarter was impacted negatively by the wildfires in the Fort McMurray area in both industrial and institutional project sites. The negative impact to gross profit was \$3.1 million. The second quarter results were also further negatively impacted by two projects where the estimated costs to complete increased by \$3.2 million in the aggregate. The Company has put the owner of each project on notice of our intention to file a claim related to design deficiencies and other issues and costs associated with schedule delays. Due to the complexity of the projects, we expect the claims process for each project to extend beyond the end of 2016 to resolve.

In the second quarter of 2016, general and administrative expenses of \$14.0 million (3.4% of revenue) compares with \$15.6 million (4.7% of revenue) in 2015. The decrease in 2016 expenses is primarily driven by a reduction in pursuit costs related to PPP and alternative finance projects and to a lesser degree by lower compensation expense.

Finance income in the second quarter of 2016 of \$1.1 million was \$0.7 million higher than the \$0.4 million recorded in the comparable period of 2015. The amount of 2016 finance income does not include the negative impact of a \$0.2 million mark-to-market loss recorded on the Company's investment in a portfolio of preferred shares which was reported in the second quarter of 2015. These preferred shares were sold in 2015 in order to limit the Company's exposure to fluctuations in their market value.

Finance costs of \$0.9 million were \$0.3 million higher than \$0.6 million reported in the comparable period of 2015. The increase is primarily due to interest expense on non-recourse debt used to finance two alternative finance projects secured in 2015.

In the second quarter of 2016, income tax expense of \$1.2 million was \$3.3 million lower than 2015, consistent with a lower current period pre-tax earnings.

## FUTURE OPERATING PERFORMANCE

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To the end of June, the Company is carrying a Backlog of \$1,546 million, representing a small reduction from the \$1,662 million carried at the end of 2015. The consistency in the level of Backlog through the first six months of the year is a positive result given the persistent weak market conditions in the industrial sector and further demonstrates the ability of the Company to leverage our geographic and market sector diversification to secure new contract awards and maintain a strong work program. Approximately one-half of the Backlog is expected to be put in place in the remainder of 2016, which will result in higher total projected revenues in

2016 than the \$1,445 million realized in a year ago. The current work program is characterized by a higher composition of institutional work compared with the last several years, a result of the success in securing a significant number of contract awards in this sector in 2015 and early 2016. As anticipated, the Backlog attributable to the industrial work program continues to decline as clients limit capital investment, a condition not expected to change in the near term. While we remain confident in our ability to generate reasonable revenues in 2016, this change in the composition of our work program will not allow the Company to replicate the level of earnings recorded in 2015, adjusted for the after-tax HJO impairment loss reported last year.

Looking towards 2017, the weak market conditions in the industrial and resource sectors are expected to persist, which will only serve to reduce the contribution from this sector even further on a year-over-year basis. Although the Company will continue to perform the design and engineering work for the Cedar Valley Lodge, the workforce accommodation center required during construction of the proposed liquefaction and export facility in Kitimat, British Columbia, the recent announcement by LNG Canada to delay its final investment decision for the project will further reduce 2017 results. The potential offset to a further decline in the contribution from the industrial sector is the high level of Backlog in the institutional sector and the expectations of robust pipeline of new project opportunities in 2017. The Company is positioning itself to actively pursue a number of these projects as they become available. However, successful award of these projects would primarily benefit years subsequent to 2017. Consequently, with industrial opportunities still waning and the timing of the institutional opportunities, 2017 will be a transition year in rebuilding the Company's earnings base.

The industrial market sector contributed 51% of 2015 revenues (57% in 2014). The uncertainty in the energy sector in western Canada which has resulted in a reduction in the number and size of new construction opportunities, is similar in eastern Canada, where lower iron ore and commodity prices in general have limited mining related opportunities for H.J. O'Connell. There continue to be smaller project opportunities related to the Lower Churchill Muskrat Falls mega project as well as other hydroelectric generation projects in eastern Canada. The challenging economic environment related to resource development that has persisted since 2014 is not expected to change to any significant extent in 2016 and there are indications that clients in this sector are tightening spending even further in the remainder of the year. Although we continue to receive new contract awards in the industrial sector, the projects are smaller and shorter cycle in nature and have been secured at lower margins due to the increased level of competition. Accordingly, we do not expect to generate the revenue and gross profits in this sector that were achieved in 2015.

The institutional market sector contributed 34% of 2015 revenues (24% in 2014). In the institutional sector, spending is anticipated to increase in the balance of 2016 and beyond to address the infrastructure deficit in Canada and to stimulate slow economic growth. The Company is actively pursuing a number of these opportunities and is well positioned to secure and deliver these projects as they become available. New contract awards for institutional projects secured in the first half of the year have added to an already significant level of Backlog in this market sector. The revenue and earnings contribution in 2016 derived from this market sector is expected to exceed the revenue and earnings performance achieved last year.

The retail and commercial sector contributed 15% of 2015 revenues (19% in 2014). Although this market will continue to offer opportunities to the Company, we believe that slow growth and uncertain economic conditions will limit activity in this market sector in 2016. Consequently, we expect revenues and earnings in this sector to decline marginally relative to those recorded last year.

### **Backlog**

During the first half of 2016, the Company secured \$634.7 million in new construction contracts (including change orders to existing contracts) and put in place \$751.5 million of work resulting in a Backlog at June 30, 2016 of \$1,546.0 million. The following table outlines the changes in the amount of the Company's Backlog throughout the current and prior fiscal years.

<b>Backlog</b>	
(millions of dollars)	
December 31, 2014	\$ 1,149.7
Securements and Change Orders in 2015	1,957.9
Realized in construction revenues in 2015	<u>(1,444.8)</u>
December 31, 2015	\$ 1,662.8
Securement and Change Orders in 2016	634.7
Realized in construction revenues in 2016	<u>(751.5)</u>
<b>June 30, 2016</b>	<b>\$ <u>1,546.0</u></b>

## ACCOUNTING POLICIES

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The Company's significant accounting policies are outlined in the notes to the audited December 31, 2015 and 2014 Consolidated Financial Statements. The Condensed Consolidated Interim Financial Statements were prepared using the same accounting policies as our 2015 consolidated financial statements.

The Company has adopted the Amendments to IAS 1, Presentation of Financial Statements, effective for our condensed interim and annual consolidated financial statements commencing January 1, 2016. The adoption of these amendments did not have a material impact on the presentation and disclosure in the Company's condensed consolidated interim financial statements.

### Future accounting changes

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

On May 28, 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 *Construction contracts* and IAS 18 *Revenue*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. On April 12, 2016, the IASB issued *Clarifications to IFRS 15, Revenue from Contracts with Customers*, which is effective at the same time as IFRS 15. The clarifications to IFRS 15 provide additional guidance with respect to the five step analysis, transition, and the application of the Standard to licenses of intellectual property. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. This standard introduces a single lessee accounting model and requires a lessee to

recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying assets is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of the standard has not yet been determined.

## SUMMARY OF QUARTERLY RESULTS

The table below summarizes the results for the eight most recent quarters (in thousands of dollars, except per share amounts). Although the Company experiences some seasonality in its business, variations in net income from quarter to quarter primarily reflect the differences in the profitability of the contracts administered in the respective quarters. Contracts typically extend over several quarters and often over several years. For purposes of quarterly financial reporting, the Company must estimate the cost required to complete each contract to assess the overall profitability of the contract and the amount of gross profit to recognize for the quarter. Such estimating includes contingencies to allow for certain known and unknown risks. The magnitude of the contingencies will depend on the nature and complexity of the work to be performed. As the contract progresses and remaining costs to be incurred and risk exposures become more certain, contingencies will typically decline or have been utilized, although certain risks will remain until the contract has been completed, and even beyond. As a result, earnings may fluctuate significantly from quarter to quarter, depending on whether large and/or complex contracts are completed or nearing completion during the quarter, or have been completed in immediately prior quarters.

There are also a number of other factors that can affect the Company's revenues and profit from quarter to quarter. These include the timing of contract awards, the value of subcontractor billings and project scheduling. Management does not believe that any individual factor is responsible for changes in revenue from quarter to quarter.

(thousands of dollars)	2014		2015				2016	
	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u> *	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Revenue	370,382	390,565	306,163	335,322	389,878	413,443	338,294	413,195
Net income	12,425	12,882	4,727	10,815	(5,616)	11,556	9,343	3,886
Earnings per share	0.29	0.30	0.11	0.25	(0.13)	0.28	0.22	0.09

\* Note: The third quarter 2015 includes a net non-cash after-tax impairment charge of \$20.3 million.

## FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

The following table presents a summary of the Company's financial condition for the year indicated.

(thousands of dollars)	<u>June 30, 2016</u>		<u>December 31, 2015</u>	
<b>Financial Position Data</b>				
Cash and cash equivalents	\$	198,532	\$	218,756
Working capital		119,601		127,358
Long-term debt		9,369		10,665
Shareholders' equity		167,926		170,891

The Company has sufficient working capital and equity retained in the business to support current operations. The Company expects to utilize cash from operations, existing working capital, including cash and cash equivalent amounts, and draws on its credit facilities to fund liabilities as they become due, finance future capital expenditures and pay dividends on its common shares.

As a component of working capital, the Company maintains a balance of cash and cash equivalents. At June 30, 2016, this balance amounted to \$198.5 million. The non-cash net current asset/liability position was in a net liability position of \$78.9 million at June 30, 2016, compared to a net liability position of \$91.4 million at December 31, 2015. The non-cash net current asset/liability position fluctuates significantly in the normal course of business from period to period, primarily due to the timing of differences between the settlement of payables due to subcontractors and suppliers, billings and collection of receivables from clients, and also the timing in the settlement of income taxes payable. The Company's cash balances absorb these fluctuations with no net impact to the Company's net working capital position or ability to access contract surety support. The Company believes it has sufficient working capital to support its current contract security requirements.

### Credit Facilities

The Company has a number of credit facilities available to access in order to support the issuance of letters of credit, finance future capital expenditures and finance the day-to-day operations of the business.

During the first quarter of 2016, the Company successfully negotiated a \$10.0 million increase to its operating line of credit, increasing the facility from \$45.0 million to \$55.0 million.

### Issuance of Letters of Credit

The Company has available \$122.0 million of demand facilities used to primarily support the issuance of letters of credit. All letters of credit issued under these facilities are supported by the pledge of Company-owned financial instruments, including cash.

The Company has available a \$45.0 million credit facility with Export Development Canada (EDC) to support the issuance of contract performance security letters of credit issued by financial institutions on behalf of the Company. The Company can only use this facility when letters of credit have been issued as contract security for projects that meet the EDC mandate to provide financial support for Canadian exports abroad.

Letters of credit are typically issued to support the Company's performance obligations relating to PPP and other major construction projects. The following table outlines the amount of the credit facilities, the amount of issued letters of credit and the amount of collateral pledged in support of the outstanding letters of credit.

(thousands of dollars)	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>December 31, 2015</u>
Operating line of credit	\$ 122,000	\$ 132,000	\$ 132,000
Letters of credit issued	\$ 33,802	\$ 31,515	\$ 39,848
Collateral pledged to support letters of credit	\$ 28,950	\$ 32,542	\$ 33,777
Guarantees provided by EDC	\$ 4,891	\$ -	\$ 6,157

The reduction in the amount of outstanding letters of credit at the end of the first half of 2016 compared to the end of 2015 is primarily the result of the letters of credit maturing on their scheduled expiration dates.

### Operating Lines of Credit

#### a) *Committed revolving line of credit:*

During the 2016, the Company increased its committed revolving credit facility from \$45.0 million to \$55.0 million, with a Canadian chartered bank. The facility expires on November 30, 2018. This facility may be used in the normal course of business for general working capital purposes, to issue non-collateralized letters of credit, fund future capital expenditures and qualifying permitted acquisitions. At June 30, 2016, the Company has drawn \$5.0 million under this facility. The \$5.0 million draw is presented as long term debt on the Company's statement of financial position as the facility matures in 2018.

#### b) *Committed revolving line of credit facility:*

A subsidiary of the Company has a \$25.0 million committed revolving credit facility, maturing on June 10, 2018. The facility may be used to finance normal course operations. Borrowings under this facility are

secured by a first charge against the net assets of the subsidiary. As at June 30, 2016, the balance drawn on this facility is nil.

### Equipment Financing

The Company has a committed term credit facility of up to \$10.0 million to be used to finance equipment purchases of subsidiaries guaranteed by the Company. As of June 30, 2016, the facility is undrawn. Interest on the facility can be charged at a fixed rate based on the Bank of Canada bond rate plus a spread. Interest is paid monthly in arrears. Draws under this facility are permitted until June 10, 2018.

In 2015, a subsidiary of the Company executed a new committed term credit facility of up to \$15.0 million to be used to finance equipment purchases. As of June 30, 2016, the facility is undrawn. Borrowings under the facility are secured by a first charge against certain of the subsidiary's equipment financed using the facility. Interest on the facility can be charged at a fixed rate based on the Bank of Canada bond rate plus a spread. Interest is paid monthly in arrears. Draws under this facility are permitted until June 10, 2018.

In addition, subsidiaries of the Company have equipment acquisition lines of credit for \$62.5 million with the financing arms of several major heavy equipment suppliers to finance equipment procurement. Draws under this facility are typically recognized as operating leases for accounting purposes. At June 30, 2016, the Company has used \$7.8 million under the facilities (\$9.1 million at December 31, 2015). The Company's total lease commitments are outlined under Contractual Obligations.

At June 30, 2016, the Company was in compliance with all debt covenants relating to its operating and equipment lines of credit.

### Loans and Borrowings

In the first half of 2016, the Company made \$6.1 million in principal repayments. No new debt was issued. The following table provides details of outstanding debt as at June 30, 2016, and principal repayments due over the next five years, excluding the amortization of debt financing costs, finance lease liabilities and non-recourse project financing.

Debt	Amount	Year 1	Year 2	Year 3	Year 4	Year 5
(thousands of dollars)						
Loans and borrowings	\$ 12,559	\$ 3,336	\$ 2,314	\$ 6,397	\$ 433	\$ 79

### Cash Flow Data

The following table provides an overview of cash flows during the periods indicated:

(thousands of dollars)	Six months ended June 30,	
	2016	2015
<b>Cash Flow Data</b>		
Cash flows from operations before changes in non-cash working capital	\$ 23,566	\$ 29,756
Changes in non-cash working capital and other	(30,712)	(44,962)
Cash flows from (used in) operating activities	(7,146)	(15,206)
Cash flows from (used in) investing activities	(3,616)	9,715
Cash flows from (used in) financing activities	(9,462)	(18,639)
Increase (decrease) in cash and cash equivalents	\$ (20,224)	\$ (24,130)

### Operating Activities

During the six months ended June 30, 2016, cash flows from operating activities used cash of \$7.1 million compared with a use of cash of \$15.2 million in 2015. In 2016, cash flow from operations was comprised of \$23.6 million of cash generated from operating activities before changes in non-cash working capital and a \$30.7 million use of cash derived from changes in non-cash working capital and other items. In 2015, the comparative amounts were \$29.8 million of cash generated from operations before changes in non-cash working capital and a \$45.0 million use of cash from changes in non-cash working capital and other items. The decrease in cash flow from operations before changes in non-cash working capital in 2016 is primarily the result of lower earnings. In 2016 changes in the amount of non-cash working capital used cash of \$30.7 million compared to a use of cash of \$45.0

million in 2015. Changes in the amount of non-cash working capital primarily represent normal course fluctuations in the Company's net non-cash current asset/liability position. In some periods, this fluctuation will be a use of cash while it will be a source of cash in other periods tending to balance out over time and having no net impact on the Company's working capital.

#### **Investing Activities**

During the six months ended June 30, 2016, the Company used \$3.6 million of cash in investing activities compared with a source of cash in 2015 of \$9.7 million. The net increase in the amount of cash used in investing activities in 2016 compared to the prior year is largely due to the proceeds realized in 2015 from the sale of preferred share investments. The amount of cash used to purchase property and equipment remain relatively comparable in the respective periods. The Company's level of investment in equipment is currently sufficient to support the projected work program in the short term.

#### **Financing Activities**

During the six months ended June 30, 2016, the Company used \$9.5 million of cash in financing activities compared with a use of cash of \$18.6 million in 2015. The net reduction in the amount of cash used in financing activity in 2016 is primarily a result of issuing additional non-recourse long term debt in 2016 to finance the construction of two alternative finance projects. Dividend payments and debt repayments remained comparable in the respective periods.

### **DIVIDENDS**

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The Company declared monthly dividends on common shares payable on or about the 20<sup>th</sup> of the month following the month in which the dividend was declared. The following table outlines the dividend history:

April 1, 2015 to June 30, 2015	\$0.190
July 1, 2015 to September 30, 2015	\$0.190
October 1, 2015 to December 31, 2015	\$0.190
January 1, 2016 to March 31, 2016	\$0.190
April 1, 2016 to June 30, 2016	\$0.190

### **CAPABILITY TO DELIVER RESULTS**

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Productive capacity relates to the financial and non-financial resources available to the Company to execute its strategy and achieve planned results. From a financial perspective, the Company believes it has sufficient working capital and access to operating lines of credit to execute its current operational and growth objectives. The belief is fully explained in sections of this MD&A dealing with financial condition and liquidity.

In addition to financial capacity, the success of the Company is very much dependent upon the management and leadership skills of senior management. On an annual basis, high-performing candidates are identified for training and progression into more senior critical positions within the Company. The Company's performance management system emphasizes the development of leadership skills. In addition, the Company sponsors internal and external training programs, including the Bird Leadership Academy program and the Bird Site Management program, to provide a forum for high-potential candidates to develop their leadership skills.

### **CONTRACTUAL OBLIGATIONS**

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At June 30, 2016, the Company has future contractual obligations of \$478.7 million. Obligations for accounts payable, finance and operating annual lease payments and for principal repayments, including interest, under long-term debt over the next five years are:

(thousands of dollars)	Accounts Payable	Finance Leases	Operating Leases	Non-recourse Project Financing	Long-Term Debt	Total
2016	\$ 369,481	835	3,261	370	2,340	376,287
2017	18,586	330	4,945	15,890	2,413	42,164
2018	13,178	41	3,823	11,949	7,466	36,457
2019	441	29	3,028	-	592	4,090
2020	-	10	2,912	-	238	3,160
Thereafter	-	-	16,567	-	-	16,567
	\$ 401,686	1,245	34,536	28,209	13,049	478,725

## OFF BALANCE SHEET ARRANGEMENTS

The Company has operating lease obligations described under Contractual Obligations noted above and surety lien bonds issued on behalf of the Company valued at \$6.8 million at June 30, 2016.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in a material adjustment to the carrying amount of an asset or liability and/or the reported amount of revenue and expense in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and any future periods affected.

Construction revenue, construction costs, deferred revenue and costs and estimated earnings in excess of billings are all based on estimates and judgments used in determining an estimate of contract revenue and contract costs and to determine the stage of completion for a particular construction project, depending on the nature of the construction project, as more fully described in the Revenue Recognition Policy included in the notes to the Company's annual financial statements. To determine the estimated costs to complete construction projects, assumptions and estimates are required to evaluate issues related to schedule, material and labour costs, labour productivity, changes in contract scope and subcontractor costs. Due to the nature of construction, estimates can change significantly from one accounting period to the next.

The value of many construction contracts increases over the duration of the construction period. Change orders may be issued by our clients to modify the original contract scope of work or conditions. In addition, there may be disputes or claims regarding additional amounts owing as a result of changes in contract scope, delays, additional work or changed conditions. Construction work related to a change order or claim may proceed and costs may be incurred in advance of final determination of the value of the change order. As many change orders and claims may not be settled until the end of the construction project, significant increases or decreases in revenue and income may arise during any particular accounting period.

Provisions involve the use of estimates, as determined by management. Estimates and assumptions are required to determine when to record and measure a provision in the financial statements for legal and warranty claims. The outcomes can differ significantly from the estimates used in preparing the financial statements resulting in required adjustments to expenses and liabilities.

Impairment testing is performed annually or earlier, if a triggering event occurs, for indefinite-lived intangible assets and goodwill resulting from business combinations, by comparing the recoverable amount of the cash generating unit ("CGU"), or groups of CGUs to its carrying amount. The recoverable amount of the CGU is determined based on a value in use calculation. There is significant amount of uncertainty with respect to the estimates of recoverable amounts of the CGUs' assets given the necessity of making key economic projections



which employ the following key assumptions: future cash flows, growth opportunities, including economic risk assumptions, estimates of achieving key operating metrics and the discount rate.

## **OUTSTANDING COMMON SHARE DATA AND STOCK EXCHANGE LISTING**

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The Company is authorized to issue an unlimited number of common shares. The Company had a total of 42,516,853 common shares outstanding at June 30, 2016 and December 31, 2015.

At June 30, 2016, 565,000 stock options are outstanding with a weighted average exercise price of \$13.61 per common share.

The common shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol BDT.

## **CONTROLS AND PROCEDURES**

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### **Disclosure Controls and Procedures**

Based on their evaluations as of June 30, 2016, the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that information relating to the Company which is required to be disclosed in reports filed under provincial and territorial securities legislation is accumulated, summarized and communicated to the Company's senior management, including the CEO and the CFO of the Company, as appropriate, to allow timely decisions regarding required disclosure.

### **Internal Control over Financial Reporting**

The Company's management is responsible for designing and maintaining adequate internal control over financial reporting for the Company. All internal control systems, no matter how well designed, have inherent limitations; therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

As of June 30, 2016, under the supervision of and with the participation of management, including the CEO and CFO, internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

There have been no material changes in the Company's internal control over financial reporting during the half ended June 30, 2016 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **RISKS RELATING TO THE BUSINESS**

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The following discussion addresses the more significant risk factors relating to the business. For a detailed discussion of all risk factors relating to the business, refer to the Company's most recently filed Annual Information Form filed on March 14, 2016, which is available through the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

### **Economy and Cyclicity**

Activity within the construction industry is tied to the general state of the economy. Thus, in periods of strong economic growth, capital spending will generally increase and there will be more and better quality opportunities available within the construction industry. Bird attempts to insulate itself in various ways from the effects of negative economic conditions; however, there is no assurance that these methods will be effective in insulating Bird from a downturn in the economy. Furthermore, as a result of increased demand in certain regions or industry sectors, the Company has, in the past, earned above-average margins on particular projects. There is also no assurance that above-average margins that may have been generated on historical contracts can be generated in the future. The Company has increased its focus on industrial projects in the oil sands of northern Alberta and more recently on facility maintenance and repairs. Furthermore, the Company has gained a presence in the industrial and mining sectors in eastern Canada through the acquisition of H.J.

O'Connell. Investment decisions by our clients are based on the long-term views of the economic viability of their current and future projects. The economic viability of the projects is dependent upon the clients' view of the long-term price of commodities which is influenced by many factors. If our clients' outlook for commodity prices is not favourable, this may delay, reduce or cancel capital project spending and may make them more sensitive to construction costs. A decrease in construction activity in this sector could have an adverse effect on the Company's financial performance and results of operations. Moreover, many of Bird's contracts are and will be relatively short-term (less than two years, generally). As such, any prolonged downturn in the economy could impact Bird's ability to generate new business or maintain a backlog of contracts with acceptable margins to sustain Bird through such downturns.

### **Competitive Factors**

Bird competes with many international, national, regional and local construction firms. Competitors often enjoy advantages in a particular market that Bird does not have or they may have more experience or a better relationship with a particular client. On any given contract bid or negotiation, Bird will attempt to assess the level of competitive pressure it may face and it will attempt to neutralize or overcome any perceived advantage that its competitors have. Depending on this assessment, Bird will decide whether or not to pursue a contract. In addition, this assessment bears directly on decisions that Bird will make, including what level of profit can be incorporated into its contract price and what personnel should be assigned to the contract. The accuracy of this assessment and the ability of Bird to respond to competitive factors affect Bird's success in securing new contracts and its profitability on contracts that it does secure.

### **Ability to Secure Work**

Bird generally secures new contracts either through a competitive bid process or through negotiation. Awards in both the public and private sectors are generally based upon price, but are also influenced by factors such as perceived level of services offered, construction schedule, project personnel, the makeup of the subcontractor team, prior experience with the prospective client and the type of project and the ability to provide bonds and other contract security. In order to be afforded an opportunity to bid for large projects and in the PPP market, a strong statement of financial position measured in terms of an adequate level of working capital is typically required. Bird operates in markets that are highly competitive and there is constant pressure to find and maintain a competitive advantage. In the current economic climate, competition is intense. This presents significant challenges for the Company. If those competitive challenges are not met, Bird's client base could be eroded or it could experience an overall reduction in profits.

A decline in demand for Bird's services from the private sector could have an adverse impact on the Company if that business could not be replaced within the public sector. A portion of Bird's construction activity relates to government-funded institutional projects. Any reduction in demand for Bird's services by the public sector, whether as a result of funding constraints, changing political priorities or delays in projects caused by elections, could have an adverse impact on the Company if that business could not be replaced within the private sector. Government-funded projects also typically have long and sometimes unpredictable lead times associated with government review and approval. The time delays associated with this process can constitute a risk to general contractors pursuing these projects. Certain government-funded projects, particularly PPP and alternative finance projects, may also require significant bid costs which can only be recovered if Bird is the successful bidder. A number of governments in Canada have procured a significant value of projects under a PPP and/or alternative finance contract format, which is an attractive market for the Company. A reduction in the popularity of this procurement method or difficulties in obtaining financing for these projects would have negative consequences for Bird.

### **Estimating Costs/Assessing Contract Risks**

The contract price for a significant number of contracts performed by Bird is based, in part, on cost estimates that are subject to a number of assumptions. Erroneous assumptions can result in an incorrect assessment of risks associated with the contract, or estimates of the project costs may be in error, resulting in a loss of or lower than anticipated profits. All significant cost estimates are reviewed by senior management prior to tender submission.

### **Performance of Subcontractors**

Successful completion of a contract by Bird depends, in large part, on the satisfactory performance of subcontractors who are engaged to complete the various components of the work. Subcontractor defaults tend to increase during depressed market conditions. If subcontractors fail to satisfactorily perform their portion of

the work, Bird may be required to engage alternate subcontractors to complete the work and may incur additional costs. This can result in reduced profits, or in some cases, significant losses on the contract and could also damage the reputation of Bird. In addition, the ability of Bird to bid for and successfully complete projects is, in part, dependent on the availability of qualified subcontractors and trades people. Depending on the value of the subcontractor's work, Bird may require some form of performance security and achieves this through the use of surety bonds, subcontractor default insurance or other forms of security from the subcontractors to mitigate Bird's exposure to the risks associated with a subcontractor under the contract. A significant shortage of qualified subcontractors and trades people could have a material impact on Bird's financial condition and results of operations.

#### **Maintaining Safe Work Sites**

In spite of the best efforts of Bird to minimize the risk of incidents, they can occur and when they do, the impact on Bird can be significant. Bird's success as a general contractor is highly dependent on its ability to keep its construction work sites and offices safe; failure to do so can have serious impact on the personal safety of its employees and others. In addition, it can expose Bird to contract termination, fines, regulatory sanction or even criminal prosecution. Bird's safety record and worksite safety practices also have a direct bearing on its ability to secure work, particularly in the industrial sector. Certain clients will not engage particular contractors to perform their work if their safety practices do not conform to predetermined standards or if the general contractor has an unacceptably high incidence of safety infractions or incidents. Bird adheres to very rigorous safety policies and procedures which are continually reinforced on its work sites and offices. 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 Bird's operations, capital expenditure requirements, or competitive position. Nevertheless, there can be no guarantee with respect to the impact of future legislation or incidents.

#### **Ability to Hire and Retain Qualified and Capable Personnel**

The success of Bird is highly influenced by the efforts of key members of management, including its executive officers and district managers. The loss of the services of any of Bird's key management personnel could negatively impact Bird. The future success of Bird also depends heavily on its ability to attract, retain and develop high-performing personnel in all areas of its operations. Most firms throughout the construction industry face this challenge and accordingly, competition for professional staff is intense. If Bird 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 Bird and would limit its prospects and impair its future success.

## **TERMINOLOGY**

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Throughout this report, management uses the following terms not found in GAAP Standards and which do not have a standardized meaning and therefore require definition:

- **"Gross Profit Percentage"** is the percentage derived by dividing gross profit by construction revenue. Gross profit is calculated by subtracting construction costs from construction revenue.
- **"Backlog"** (also referred to in the construction industry as "work on hand") is the total value of all contracts awarded to the Company, less the total value of work completed on these contracts as of the date of the most recently completed quarter. This includes all contracts that have been awarded to the Company whether the work has commenced or will commence in the normal course.
- **"Lost Time Incident Frequency"** is the number of lost time incidents recorded per 200,000 manhours of work by Bird employees.

## **FORWARD-LOOKING INFORMATION**

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Certain statements included herein which express management's expectations or estimates of future performance may constitute "forward-looking statements". The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", and similar expressions identify forward-looking statements.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. In particular, this MD&A includes many such forward-looking statements and the Company cautions the reader that such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual financial results, performance or achievements of the Company to be materially different from the Company's estimated future results, performance or achievements expressed or implied by those forward-looking statements and the forward-looking statements are not guarantees of future performance. Risks that may impact the Company's future results, performance or achievements include those described under "Risks Relating to the Business" in this MD&A and in the Company's Annual Information Form dated March 14, 2016 filed and available on SEDAR. The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, events or otherwise.