



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
QUARTER ENDED SEPTEMBER 30, 2012**

## 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, 2011 consolidated financial statements of Bird Construction Inc. and the notes thereto presented in comparison to the preceding year. 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 7, 2012. This MD&A has been prepared as of November 12, 2012. 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, including those filed by its predecessor, Bird Construction Income Fund (“the Fund”).

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## EXECUTIVE SUMMARY:

| (thousands of dollars, except per share amounts)    | For the nine months ended September 30 |                          |
|---|--|--------------------------|
|   | 2012                                   | 2011                     |
| <b>Income Statement Data</b>                        |  |                          |
| Revenue   | \$ 1,034,577                           | \$ 642,468               |
| Net income <sup>(1)</sup>                           | 33,541                                 | 16,671                   |
| Basic and diluted earnings per share <sup>(3)</sup> | 0.80                                   | 0.40                     |
| <b>Adjusted Net Income <sup>(4)</sup></b>           |  |                          |
| Adjusted net income                                 | 36,398                                 | 17,903                   |
| Adjusted net income per share                       | 0.86                                   | 0.42                     |
| <b>Cash Flow Data</b>                               |  |                          |
| Cash flows from operations                          | (35,850)                               | (19,863)                 |
| Additions to property and equipment <sup>(2)</sup>  | 23,538                                 | 3,540                    |
| Cash dividends/distributions paid                   | 22,131                                 | 20,656                   |
| Cash dividends declared per share <sup>(3)</sup>    | 0.53                                   | 0.49                     |
|   | <u>September 30, 2012</u>              | <u>December 31, 2011</u> |
| <b>Balance Sheet Data</b>                           |  |                          |
| Total assets  | 698,483                                | 632,475                  |
| Working capital                                     | 141,089                                | 122,962                  |
| Loans and borrowings (including current portion)    | 50,123                                 | 43,495                   |
| Shareholders' equity                                | 174,184                                | 162,413                  |

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

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

<sup>(3)</sup> adjusted for the April 2011 three-for-one stock split

<sup>(4)</sup> adjusted net income is a non-GAAP measure and does not have standardized meaning. See page 4.

## RECENT HIGHLIGHTS:

- During the nine months ended September 30, 2012, the Company reported net income of \$33.5 million on record construction revenues of \$1,034.6 million, compared with \$16.7 million and \$642.5 million, respectively, in the first three quarters of 2011. The increase in earnings in 2012 compared with 2011 reflects higher revenues and related higher gross profits offset to some extent by higher general and administrative expenses. The increase in revenues is in part a result of the contribution derived from O'Connell, but also an increase of construction activity in the Alberta oil sands. The Company also benefited from the timing in the execution of a number of institutional projects in 2012.
- For the nine months ended September 30, 2012, the Company's adjusted net income (non-GAAP measure) was \$36.4 million compared with \$17.9 million in 2011. The increase in adjusted net income is a result of higher 2012 revenues combined with higher gross margin percentages, all offsetting higher general and administrative expenses. The adjusted net income per share for the nine months ended September 30, 2012 was \$0.86 compared with \$0.42 in 2011.
- The Company's Board of Directors approved a 9% increase in the monthly dividend from \$0.055 to \$0.060 per share effective with the March 2012 dividend.
- The Company secured \$200.0 million of new construction contracts during the third quarter including change orders on existing contracts and put in place work valued at \$396.8 million. The Company has in place backlog at September 30, 2012 of \$1,162.3 million, compared to \$1,235.6 million as at December 31, 2011.

- In the second quarter, the Company successfully achieved substantial completion of the Alberta School Alternative Procurement Project II. The project featured the construction of ten schools and was completed within the original time schedule.
- In May, Bird announced that it has been awarded a number of construction contracts totalling approximately \$235 million. The projects are located in a number of our operating districts within all of Bird's market segments. The largest of the projects was a contract for the Early Works Civil Program at the Voyageur Upgrader project located north of Fort McMurray, Alberta. For a listing of the remainder of the jobs, refer to Bird's previously issued press release.
- In June, the Company announced that Maple Leaf Foods awarded a subsidiary of Bird a contract to construct a new prepared meat processing facility located in Hamilton, Ontario. The 402,000 square foot plant will be the largest and most technologically advanced of its kind in Canada and is expected to achieve LEED<sup>®</sup> Silver environmental certification.
- In the third quarter of 2012 the Company was part of two consortia shortlisted for a response to the Request for Proposal calls for the Iqaluit International Airport Improvement project located on Baffin Island, Nunavut and the North Island Hospitals project located on Vancouver Island, British Columbia.

### **ADJUSTED NET INCOME MEASURE (NON-GAAP INFORMATION):**

As disclosed in note 5 to the consolidated financial statements for the year ended December 31, 2011, \$6.0 million of the total purchase price attributable to the O'Connell acquisition was allocated to the value of the backlog acquired, \$8.4 million was allocated to the value attributed to customer relationships and \$0.8 million of transaction costs was expensed in the period. For accounting purposes, these intangible assets are assumed to have finite useful lives and accordingly, the amounts are amortized and expensed to income over the expected useful life of the respective assets. Management believes this accounting principle implies that there is a decline in the value of the acquisition to the Company immediately. Management believes that this principle is not consistent with the economics used by it to support the O'Connell acquisition, as the earnings potential of the business is not diminished by the amortization of the intangible assets. Accordingly, adjusted net income excludes the non-cash amortization expense associated with intangible assets, including the intangible asset amortization relating to the Rideau transaction completed in 2008. Adjusted net income also excludes transaction costs incurred in 2011 associated with the O'Connell acquisition as such costs are non-recurring expenses undertaken to achieve increased long-term future earnings and cash flows and are not associated with the income generating activities undertaken during the year. Management believes that the presentation of adjusted net income and adjusted net income per share provides useful information to shareholders and potential investors as it provides increased transparency and predictive value. Management uses adjusted net income to set targets, assess performance of the Company and set the Company's dividend payout rate.

### **NON-GAAP MEASURE:**

Adjusted net income and adjusted net income per share have no standardized meaning prescribed by GAAP and are not considered GAAP measures. Therefore, these measures may not be comparable with similar measures presented by others.

**Adjusted Net Income (Non-GAAP Information)**  
(thousands of dollars, except per share amounts)

|   | For the three months ended<br>September 30 |           | For the nine months ended<br>September 30 |           |
|---|--|-----------|---|-----------|
|   | 2012                                       | 2011      | 2012                                      | 2011      |
| Net income as reported in financial statements (GAAP) | \$ 18,104                                  | \$ 9,549  | \$ 33,541                                 | \$ 16,671 |
| Add: Amortization of intangible assets                | 1,656                                      | 713       | 3,909                                     | 993       |
| Add: Transaction costs                                |  | 356       | -   | 756       |
| Add: Associated tax effect                            | (442)                                      | (330)     | (1,052)                                   | (516)     |
| Adjusted net income (Non-GAAP Measure)                | \$ 19,318                                  | \$ 10,288 | \$ 36,398                                 | \$ 17,904 |
| Adjusted net income per share (Non-GAAP Measure)      | \$ 0.45                                    | \$ 0.24   | \$ 0.86                                   | \$ 0.42   |

During the nine months ended September 30, 2012, adjusted net income of \$36.4 million (\$0.86 per share) compares to \$17.9 million (\$0.42 per share) in the comparative period of 2011. During the periods reported, adjusted net income adjusts net income for amortization of intangible assets relating to business combinations.

## NATURE OF THE BUSINESS:

The Company operates as a general contractor with offices in St. John's, Halifax, Saint John, Wabush, Montreal, Toronto, Winnipeg, Calgary, Edmonton and Vancouver. The Company and its predecessors have been in operation for over 90 years and focuses primarily on projects in the industrial, mining, commercial and institutional sectors of the general contracting industry. The Company utilizes fixed price, design-build, unit price, cost reimbursable, guaranteed upset price and construction management contract delivery methods. The Company has secured and will continue to pursue design-build contracts with entities participating in the Public Private Partnership ("PPP") market in the institutional sector.

While Bird self-performs some elements of its projects, particularly in the industrial market sector and in conjunction with the civil construction and contract mining operations conducted by O'Connell, the majority of the overall construction risk rests with its subcontractors. The scope of the work of each subcontractor is defined by the same contract documents that form the basis of the Company's agreement with its clients. The terms of the agreement between the Company and its clients are replicated in the agreement 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 from subcontractors which will help mitigate exposure to possible additional costs should a subcontractor not be able to meet their contractual obligations. Bird's primary constraint on growth is the securement of new work at reasonable margins and the availability of qualified professional staff who can be assigned to manage the projects.

## MISSION STATEMENT:

The Company's mission statement is as follows:

**Bird Construction Company turns ideas into reality through a tradition of building trust, delivering exceptional client service and creating value.**

The Company's long record of success is based on trust that has been built with clients, employees and business partners and a commitment to providing exceptional customer service. We are committed to providing a remarkable customer experience for our clients by understanding their goals for their project and then ensuring that these objectives are achieved. The Company's core values include:

### Safety

- Safety is a moral obligation. Our goal is to attain a zero incident frequency.

### Teamwork

- We believe that the best results are achieved when everyone works together; our staff, our clients, our consultants and our subcontractors and suppliers.

### **Honesty and Integrity**

- We do what we say. We are always honest, truthful and conduct ourselves with integrity.

### **Fairness**

- We treat others as we would wish to be treated.

### **Professionalism and Excellence**

- We conduct ourselves in a manner of which we are proud; as individuals, and as representatives of our Company and industry.

### **Personal Growth**

- We support employees in their goal to expand their skills and experience. We believe that employees are entitled to meaningful, satisfying work as they help advance the goals of the Company.

## **STRATEGY:**

The Company will pursue organic growth by expanding its construction activities for clients in the industrial, commercial and institutional market sectors. The Company will continue to utilize a range of contract formats and also will continue to pursue design-build projects across the entire market sectors. The design work required for these projects is typically specialized and varies widely based on the project type. Accordingly, the Company will continue to out-source design services in order to efficiently access the best expertise available. The Company's long-standing record of providing a quality product to its clients on time and standing behind that product after completion of construction has provided the opportunity for the Company to work with many clients on a repeat basis. The Company will continue to emphasize operational excellence as a means for generating new opportunities and thereby creating value.

The Company has secured and will continue to pursue design-build contracts with clients participating in the PPP market in the institutional sector. In addition to the Company's more traditional role of acting as a construction contractor to the PPP project, the Company is actively looking to acquire an equity position in PPP projects as a means to support its construction operations and generate additional construction opportunities. The Company has accumulated shareholders' equity in order to have the financial capacity to pre-qualify for PPP construction contracts and should the right opportunities arise, acquire a non-controlling ownership interest in the PPP concession, using internally-generated funds. In the third quarter of 2012, the Company was part of two consortia shortlisted to proceed to prepare bids for the Iqaluit International Airport Improvement project and the North Island Hospitals project located on Vancouver Island.

The Company has developed expertise in the construction of water and waste water treatment facilities and will continue to capitalize on this expertise. Small to mid-size acquisitions may be considered as a means of achieving higher penetration in this market area.

While there has been some softening in the market, the Company is still well positioned to capitalize on numerous construction activities in the Alberta oil sands. In addition, the Company is also positioning itself to address the maintenance requirements of our oil sands clients. Achievement of this strategic initiative may be accomplished through an acquisition or through organic growth, or a combination of both. With oil sands production methods becoming increasingly more environmentally friendly, the Company will seek to develop construction expertise in the area of steam-assisted gravity drainage ("SAGD") as the industry moves in this direction. Through the acquisition of O'Connell, the Company expects to benefit from the many attractive opportunities that are expected to arise through the continued development of Canada's resource sector. During the second quarter of 2012, the Company secured a heavy civil construction contract with a significant earth moving component in the Alberta oil sands. With the expertise acquired through O'Connell, the Company plans on self-performing the earth moving component.

The Company will continue its efforts to attract and retain a highly skilled professional work force to increase its capacity and productivity to deliver increasing revenues and earnings in the future. Bird prides itself in providing a working environment for its employees based on the principles of honesty, integrity, excellence and professionalism. We support employees in their goal to expand their skills and experience. The Company believes that employees are entitled to meaningful, satisfying work as they help advance the goals of the organization.

The Company emphasizes providing a safe working environment for its employees and those of its subcontractors. Our safety program is supported through ongoing safety training programs, on-site safety supervision and audits of these programs.

### KEY PERFORMANCE DRIVERS:

Securing profitable construction contracts and then controlling the costs during the execution of that work are 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. Economic conditions in the construction industry improved through 2011 and into 2012 since the earlier downturn in the economy and have been reflected in the Company's revenues and gross margins in last half of 2011 and 2012 year to date. Currently, the Company is seeing some softening within the markets in which we operate.

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.

The Company's success in securing work is also reflected in the value of Backlog, which 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 reporting period. This includes all contracts that have been awarded to the Company whether the work has commenced or will commence. The following table shows the Company's backlog at the end of the comparative reporting periods. The Company has experienced a strong level of securements during the first nine months of 2012, but the backlog has declined in the current quarter as a result of third quarter revenues totalling \$396.8 million exceeding securements during the period of \$200.0 million.

| Backlog<br>(thousands of dollars) | September 30,<br>2012 | September 30,<br>2011 | December 31,<br>2011 |
|-----------------------------------|-----------------------|-----------------------|----------------------|
| Backlog                           | \$ 1,162,300          | \$ 1,299,700          | \$ 1,235,600         |

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 associated with that contract. The following table shows the gross margin percentage realized by the Company in the comparative periods.

#### Construction Gross Profit Percentage

| Nine months ended<br>September 30, 2012 | Nine months ended<br>September 30, 2011 | Year ended<br>December 31, 2011 |
|---|---|---------------------------------|
| 8.6%                                    | 7.6%                                    | 8.2%                            |

In the first three quarters of 2012, a gross profit percentage of 8.6% represents a modest improvement compared to the same period last year. The improvement is due to the timing and mix of construction projects executed in the respective periods.

#### Financial condition

In order to pursue and secure projects, the Company must have adequate working capital and equity retained in the business to support its 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) | <u>September 30,<br/>2012</u> | <u>September 30,<br/>2011</u> | <u>December 31,<br/>2011</u> |
|------------------------|-------------------------------|-------------------------------|------------------------------|
| Working capital        | \$ 141,089                    | \$ 115,676                    | \$ 122,962                   |
| Shareholders' equity   | \$ 174,184                    | \$ 156,445                    | \$ 162,413                   |

The increase in working capital in the nine months ended September 30, 2012 represents the extent to which net income adjusted for non-cash working capital items exceeds working capital used to fund dividends and the acquisition of property and equipment not financed with debt.

#### Safety

The safety of the workers on our construction sites and in our offices continues to be a clear priority enshrined in our Company values and reflected in our strategic plan. The management team is committed to ensuring that Bird is recognized as a construction safety performance leader and has established multi-year targets for both our industrial and commercial operations. While our incident frequency levels remain well below the industry average, we continuously review and assess our safety program and practices to identify opportunities to improve.

Building a consistent National Safety Program and a true safety culture at Bird remains a top priority. Enhancements to our safety manual, our worker orientation and training, ongoing communication activities, and developing a more qualitative and quantitative approach to measuring safety performance and culture at Bird are just some of the ways we continue to strive to be an industry leader. During the first three quarters of the year, the Company incurred ten lost time incidents (LTI) in over 3.4 million man hours of work for an LTI frequency of 0.59.

#### Lost Time Incident Frequency

| <u>Nine months ended<br/>September 30, 2012</u> | <u>Nine months ended<br/>September 30, 2011</u> | <u>Year end<br/>December 31, 2011</u> |
|---|---|---------------------------------------|
| 0.59  | 0.14  | 0.30                                  |

## RESULTS OF OPERATIONS:

### NINE MONTHS ENDED SEPTEMBER 30, 2012 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2011

During the nine months ended September 30, 2012, the Company generated net income of \$33.5 million on record construction revenue of \$1,034.6 million compared with \$16.7 million and \$642.5 million, respectively, in 2011. The increase in earnings is a result of higher construction revenue, an increase in the gross margin percentage offset to some extent by higher general and administrative expenses, higher finance costs and a higher incidence of income tax expense.



In the first three quarters of 2012, the Company generated adjusted net income (non-GAAP measure) of \$36.4 million or 103.2% higher than the amount recorded in the comparable period in 2011.

Construction revenue of \$1,034.6 million in the nine months ended September 30, 2012 was \$392.1 million or 61.0% higher than the amount recorded in 2011. The improvement in part reflects growth in revenues derived from the acquisition of O'Connell combined with higher revenues principally derived from increased construction activity in the Alberta oil sands. The Company also benefited from significant progress on a number of institutional and commercial projects in the nine months ended September 30, 2012 compared with last year. In 2011, the Company reported revenues from O'Connell for the month of September 2011 compared with nine months of revenue contribution in 2012.

In the nine months ended September 30, 2012, the Company's gross profit of \$88.6 million compares with \$48.5 million recorded a year ago. The increase is a result of higher construction revenues and modestly higher gross profit margins in 2012 combined with the impact of the gross profit derived from O'Connell. In the first three quarters of 2012, the gross profit margin was 8.6% compared with 7.6% in 2011 as a result of impact of the timing and mix of construction projects executed in 2012 compared with 2011.

General and administrative expenses of \$42.8 million in the first three quarters of 2012 were \$15.9 million higher than the amount recorded in 2011. The increase in costs is in part attributable to the inclusion of O'Connell general and administrative costs for nine months in 2012 as compared to only one month in 2011. In addition, the Company incurred higher staff costs necessary to support the higher revenue base and higher amortization expense primarily relating to the amortization of intangible assets arising from the acquisition of O'Connell. Despite an increase in total general and administrative costs in 2012, these costs continue to represent approximately 4.2% of construction revenues, consistent with the Company's experience in 2011.

Finance income of \$3.0 million compares with \$2.8 million reported in 2011. The increase in finance income is a result of higher interest income relating to the accretion of holdback receivables, consistent with higher 2012 holdbacks receivable. Interest and dividend income remained relatively comparable between the years.

Finance costs of \$2.7 million were \$1.8 million higher than 2011, primarily due to interest costs on the long-term debt used to finance the acquisition of O'Connell and to a lesser extent, interest on long-term debt used to finance equipment purchases of O'Connell in 2012.

In 2012, income tax expense of \$12.6 million was \$5.6 million higher than 2011, consistent with higher pre-tax earnings in 2012.

### **THREE MONTHS ENDED SEPTEMBER 30, 2012 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2011**

In the third quarter of 2012, the Company generated strong earnings of \$18.1 million on record quarterly construction revenue of \$396.8 million compared with \$9.5 million and \$278.6 million, respectively, in 2011. Similar to the year-to-date results, the increase in current quarter earnings is a result of higher construction revenue combined with an increase in the gross margin percentage offset to some extent by higher general and administrative expenses.

In the third quarter of 2012, the Company generated adjusted net income (non-GAAP measure) of \$19.3 million compared with \$10.3 million in 2011.

Construction revenue of \$396.8 million in the three months ended September 30, 2012 was \$118.3 million or 42.4% higher than the amount recorded in 2011. The growth in construction revenue reflects the inclusion of O'Connell revenues for three months in 2012 compared with only one month in 2011, and an increase in revenues from Alberta oil sands projects.

In the third quarter of 2012, the Company's gross profit of \$39.8 million compares with \$24.2 million recorded a year ago. An increase of \$15.6 million or 64.4% is a function of both higher revenues and higher gross profit margins in 2012 compared with the same period a year ago. In the third quarter of 2012, the gross profit

margin was 10.3% compared with 8.7% in 2011 as a result of the timing and mix of construction projects executed in the respective periods.

General and administrative expenses of \$14.8 million in the quarter were \$4.3 million higher than the amount recorded in 2011. The increase in costs is attributable to the inclusion of O'Connell general and administrative costs combined with the impact of higher compensation costs attributable to a larger staff complement required to manage increased project revenues and higher amortization expense relating to intangible assets, primarily relating to the O'Connell acquisition. General and administrative costs represent 3.7% of construction revenues in 2012 compared with 3.8% of construction revenues in 2011.

Finance income of \$0.9 million was \$0.3 million higher than the \$0.6 million reported in 2011. In the third quarter of 2011, the Company recorded a mark-to-market loss on its portfolio of investments which compares to a small gain in 2012.

Finance costs of \$1.0 million were \$0.6 million higher than 2011, primarily due to interest costs related to the long-term debt used to finance the O'Connell acquisition and to a lesser extent interest on long-term debt used to finance recent equipment purchases.

In 2012, income tax expense of \$6.9 million was \$2.6 million higher than 2011, consistent with higher pre-tax earnings in 2012.

## **FUTURE OPERATING PERFORMANCE:**

Successful financial performance of the Company is dependent upon securing profitable construction contracts and then controlling the costs associated with the execution of the work. The ability to secure contracts is a function of the general state of the economy. Current period earnings reflect the execution of projects with modestly higher margins, notwithstanding softening in the marketplace due to global economic concerns. At September 30, 2012, the Company's backlog is \$1.16 billion.

The Company's acquisition of O'Connell in 2011 will now enable Bird to more aggressively pursue heavy civil opportunities in Canada's commodity, mining and hydro power markets. With the continued softening in the Canadian economy and the recent decline in commodity prices, the outlook for the Canadian economy is expected to slow for the foreseeable future which will impact the availability of favourable construction opportunities. However, the Company is well positioned to capitalize on future opportunities as they come to market. In addition, Bird's financial strength will allow O'Connell to pursue larger scale projects that it could not previously undertake because of limited financial capacity. In addition, the products and services offered by Bird and O'Connell complement each other. There are opportunities for O'Connell to apply their earth moving expertise to Bird projects and for Bird to offer their building expertise to O'Connell projects. During the second quarter of 2012, the Company secured a large heavy civil construction contract with a significant earth moving component in the Alberta oil sands. With the expertise acquired through O'Connell, the Company plans on pursuing and self-performing additional civil construction projects with earth moving components.

The industrial market represented 31% of 2011 revenues (32% - 2010). With the current state of resource prices, the Company is seeing some signs of a slowdown in the level of construction activity in our industrial markets. The increase in 2012 industrial revenues and gross profits will likely continue to be sustainable through the balance of 2012; however, uncertainty in the market may impact results in 2013. There has been a positive impact on the nine-month revenues and earnings from the O'Connell acquisition and the Company expects opportunities for O'Connell to continue to come to market, which will contribute to earnings in 2012. As with our industrial related business, there is a sense of uncertainty in the mining sector which could negatively influence results in 2013.

The institutional sector represented 58% of 2011 revenues (61% - 2010). The institutional sector has been a significant source of revenues and earnings over the past several years due to a combination of government stimulus spending and the PPP market. All levels of government are still under pressure to address budget deficits, and consequently, we do not anticipate any significant benefit from further stimulus spending. The Company expects opportunities in the PPP market to continue to be available, although the number of projects that will come to market in the remainder of 2012 and beyond is expected to decline and the competition for these projects will continue to be intense.

The retail and commercial sector represented 11% of 2011 revenues (7% - 2010). Within the retail and commercial sector, the Company experienced an increase in the relative significance of revenues and earnings from this market in 2011, due to an improving economy and the related positive impact on our client's capital expenditure programs. The recovery of this sector was particularly evident in the last half of 2011 and continued in the first three quarters of 2012, with a strong level of project awards. The Company expects continuing modest improvement in this sector if the economy continues to strengthen. Even with this improvement, this market is likely to remain very competitive and the impact of this progress on 2013 earnings is expected to be moderate.

## Backlog

During the nine months ended September 30, 2012, the Company secured \$961.2 million in new construction contracts (including change orders to existing contracts). The Company's backlog is \$1,162.3 million at September 30, 2012 compared to \$1,235.6 million as at December 31, 2011. With respect to the current backlog, \$408.9 million is expected to be put in place during 2012, leaving \$753.4 million to carry forward to 2013 and beyond. The following table outlines the changes in the amount of the Company's backlog throughout the current fiscal period and with a comparison to the prior year.

| <b>Backlog</b>                            |                |
|---|----------------|
| (thousands of dollars)                    |                |
| December 31, 2010                         | \$ 1,229.6     |
| Securements and Change Orders in 2011     | 975.2          |
| Acquired with O'Connell                   | 152.3          |
| Cancellations                             | (147.0)        |
| Realized in construction revenues in 2011 | <u>(974.5)</u> |
| December 31, 2011                         | 1,235.6        |
| Securements and Change Orders - Q1 2012   | 225.0          |
| Realized in construction revenues         | <u>(294.7)</u> |
| March 31, 2012                            | 1,165.9        |
| Securements and Change Orders - Q2 2012   | 536.2          |
| Realized in construction revenues         | <u>(343.0)</u> |
| June 30, 2012                             | 1,359.1        |
| Securements and Change Orders - Q3 2012   | 200.0          |
| Realized in construction revenues         | <u>(396.8)</u> |
| September 30, 2012                        | \$ 1,162.3     |

In addition to backlog, at September 30, 2012, the value of uncompleted construction management contract work, for which the Company acts as an agent for the customer, is \$114.0 million, compared with \$136.4 million at December 31, 2011.

## ACCOUNTING POLICIES:

The Company's significant accounting policies are outlined in the notes to the September 30, 2012 Unaudited Condensed Consolidated Interim Financial Statements.

### Future accounting changes

IFRS 9 *Financial Instruments* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 *Financial Instruments - Recognition and Measurement* for debt instruments with a new mixed measurement model having only two categories: amortized costs and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss, or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income, indefinitely. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39 *Financial Instruments - Recognition and Measurement*, except that fair value changes due to credit risk for liabilities

designated at fair value through profit and loss would generally be recorded in other comprehensive income. In January 2012, the effective date was revised to January 1, 2015 with earlier application permitted.

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements* which is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. IFRS 10 replaces the guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation - Special Purpose Entities*. IAS 27 (2008) survives as IAS 27 (2011) *Separate Financial Statements* only to carry forward the existing accounting requirements for separate financial statements. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008). The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 10 has not yet been determined.

In May 2011, the IASB issued IFRS 11 *Joint Arrangements*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it shall also apply IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) at the same time. IFRS 11 replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which, although structured through a separate vehicle, such separation, is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11, there is no longer a free choice of equity accounting or proportionate consolidation for joint ventures; the equity method is now required, subject to certain exceptions. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 11 has not yet been determined.

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it need not apply IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) at the same time. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 12 to have a material impact on the financial statements.

In May 2011, the IASB published IFRS 13 *Fair Value Measurement* which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The Standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements, and for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

## 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 sometimes 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, 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)            | 2010      | 2011      |           |           |           | 2012      |           |           |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                                   | <u>Q4</u> | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> |
| Revenue                           | 225,360   | 171,155   | 192,752   | 278,561   | 332,002   | 294,654   | 343,083   | 396,840   |
| Net income                        | 9,238     | 4,109     | 3,013     | 9,549     | 12,924    | 6,435     | 9,002     | 18,104    |
| Earnings per share <sup>(1)</sup> | 0.22      | 0.10      | 0.07      | 0.23      | 0.30      | 0.15      | 0.22      | 0.43      |

<sup>(1)</sup> Adjusted for the April 2011 three-for-one stock split

## FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY:

The Company believes that its strong balance sheet, including equity of \$174.2 million and \$141.1 million of working capital and long-term debt (including the current portion thereof) of \$50.1 million, allows it the financial capacity to support all of our contract security requirements, including the ability to secure performance bonds, labour and material bonds, issue letters of credit to support PPP contract requirements and provide parent company performance guarantees. Although the Company has more recently introduced long-term debt into its capital structure coincident with the acquisition of O'Connell, management believes that the amount of long-term debt totalling \$50.1 million at September 30, 2012 is a reasonable amount and is manageable in light of the level of earnings of the Company. The Company expects to utilize cash from operations, existing working capital, including cash and cash equivalent balances, and draws on its credit facilities to fund liabilities as they become due, finance future capital expenditures and pay dividends on shares.

The following table outlines the amount of Shareholders' equity, working capital, long-term debt and backlog at September 30, 2012, September 30, 2011 and December 31, 2011.

| Financial Condition table<br>(thousands of dollars) | <u>September 30, 2012</u> | <u>September 30, 2011</u> | <u>December 31, 2011</u> |
|---|---------------------------|---------------------------|--------------------------|
| Shareholders' equity                                | \$ 174,184                | \$ 156,445                | \$ 162,413               |
| Working capital                                     | \$ 141,089                | \$ 115,676                | \$ 122,962               |
| Long-term debt                                      | \$ 50,123                 | \$ 45,083                 | \$ 43,495                |
| Backlog   | \$ 1,162,300              | \$ 1,299,700              | \$ 1,235,600             |

The Company's participation in PPP infrastructure development programs has required the Company to issue letters of credit as performance security related to these construction projects. To accommodate the issuance of letters of credit, the Company has lines of credit of \$131.5 million. The letters of credit are supported by the hypothecation of certain financial instruments owned by the Company.

In conjunction with the acquisition of O'Connell, the Company initially secured total long-term debt financing of \$45.6 million, which combined with the use of \$37.8 million of cash and the assumption of a contingent consideration obligation valued at \$2.1 million was used to finance the transaction. The long-term debt secured was originally comprised of five-year term debt of \$30.6 million, one-half of which was financed using fixed interest rates and the remainder using variable interest rates. The debt was secured by the equipment owned by O'Connell. In addition, a vendor take-back of \$15.0 million due in four annual equal payments was used in part to finance the total acquisition price. During the first three quarters of 2012, the Company made \$9.4 million of principal repayments and issued \$16.0 million of new debt to finance purchases of heavy equipment in the year to support the ongoing operations of O'Connell. The following table provides details of outstanding debt as at September 30, 2012 and principal repayments due over the next five years, excluding the amortization of debt financing costs of \$0.3 million.

| Debt                   | Amount    | Year 1    | Year 2    | Year 3    | Year 4   | Year 5 |
|------------------------|-----------|-----------|-----------|-----------|----------|--------|
| (thousands of dollars) |           |           |           |           |          |        |
| Loans and borrowings   | \$ 49,455 | \$ 13,638 | \$ 13,680 | \$ 13,891 | \$ 8,246 | \$ -   |

### Credit Facilities

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

### Issuance of Letters of Credit

The Company has available \$131.5 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. Letters of credit are typically issued to support the Company's performance obligations relating to PPP 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>September 30, 2012</u> | <u>September 30, 2011</u> | <u>December 31, 2011</u> |
|---|---------------------------|---------------------------|--------------------------|
| Operating line of credit                        | \$ 131,500                | \$ 131,500                | \$ 131,500               |
| Letters of credit issued                        | \$ 37,090                 | \$ 43,399                 | \$ 42,750                |
| Collateral pledged to support letters of credit | \$ 53,604                 | \$ 52,345                 | \$ 52,685                |

In 2012, the amount of outstanding letters of credit declined by \$5.7 million compared with the previous year end. This reduction reflects the expiry of a number of letters of credit on their scheduled termination dates.

### Operating Lines of Credit

(a) Five-year committed revolving line of credit:

The Company has a five-year committed unsecured revolving line of credit for \$30.0 million with a Canadian chartered bank. This facility may be used in the normal course of business for general working capital purposes, and to fund future capital expenditures and qualifying permitted acquisitions. At September 30, 2012, no amounts were outstanding under this facility. This credit facility includes standard default and covenant provisions whereby accelerated repayment may be required if the Company were to violate certain financial covenants.

(b) Committed revolving line of credit:

A subsidiary of the Company has a committed revolving credit facility of \$20.0 million to be used to finance normal course operations of the subsidiary. Borrowings under this facility are secured by a first charge against the accounts receivable of O'Connell. This credit facility is used for the purpose of financing general working capital requirements. At September 30, 2012, the Company has drawn \$14.2 million under this facility. This credit facility includes standard default and covenant provisions whereby accelerated repayment may be required if the subsidiary were to violate certain financial covenants.

At September 30, 2012, the Company was in compliance with all debt covenants relating to its operating lines of credit. The Company expects to continue to comply with these provisions.

### Equipment Financing

(a) A subsidiary of the Company has an equipment financing facility with a Canadian chartered bank for \$20.0 million for the purpose of financing future equipment purchases. At September 30, 2012, the Company has drawn \$3.5 million under this facility. Draws under this facility are permitted until May 31, 2015. The facility allows the Company access to term financing for up to five years with a maximum amortization period of 84 months. Interest can be set using either a fixed or variable rate option. Any draws under this facility will be secured by equipment purchased with the proceeds from the loan.

(b) In addition, the Company has an operating lease line of credit for \$42.5 million with the financing arm of a major heavy equipment supplier to finance operating equipment leases. Draws under this facility are recognized as operating leases for accounting purposes. At September 30, 2012, the Company has drawn \$28.0 million under this facility. The Company's total lease commitments are outlined under Contractual Obligations.

### Liquidity

A manageable amount of long-term debt used to finance the acquisition of O'Connell, a high proportion of working capital represented by cash and other liquid securities and access to a number of unutilized credit facilities will enable the Company to meet its obligations as they become due. The amount of equity retained in the business supports the Company's strategic objectives including active participation in the PPP infrastructure market, while also providing the Company with sufficient financial capacity to withstand a downturn in the construction industry should it occur.

### Financial Position

The following table provides an overview of the Company's financial position for the period indicated.

| Financial Position Data             | September 30, 2012 | December 31, 2011 |
|-------------------------------------|--------------------|-------------------|
| Cash and cash equivalents           | \$ 99,415          | \$ 173,402        |
| Investment in marketable securities | 15,951             | 16,752            |
| Working capital                     | 141,089            | 122,962           |
| Long-term debt                      | 50,123             | 43,495            |
| Shareholders' equity                | 174,184            | 162,413           |

As a component of working capital, the Company maintains significant balances of cash and cash equivalents and investments in liquid securities. At September 30, 2012, these balances consisted of \$96.8 million of cash and cash equivalents and \$16.0 million of liquid securities for a total of \$112.8 million. The \$112.8 million plus net non-cash current assets of \$28.3 million comprise the \$141.1 million of working capital. These components are summarized in the following table for September 30, 2012 and September 30, 2011.

| Working Capital Components<br>(thousands of dollars)             | <u>September 30, 2012</u> | <u>September 30, 2011</u> |
|--|---------------------------|---------------------------|
| Investment in marketable securities (bonds and preferred shares) | \$ 15,951                 | \$ 16,751                 |
| Cash and cash equivalents held for working capital               | 96,886                    | 98,925                    |
| Non-cash net current assets                                      | <u>28,252</u>             | <u>-</u>                  |
|  | 141,089                   | 115,676                   |
| Cash held for dividends payable                                  | 2,529                     | 2,318                     |
| Dividends payable  | (2,529)                   | (2,318)                   |
| Working cash   | -                         | 49,654                    |
| Non-cash net current liabilities                                 | <u>-</u>                  | <u>(49,654)</u>           |
| Working capital  | <u>\$ 141,089</u>         | <u>\$ 115,676</u>         |

The Company's 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 accounts receivable from clients, and also the timing of settlement of income taxes payable. The working cash balance absorbs these fluctuations with no net impact to the Company's net working capital position or ability to access surety support. During the first three quarters of 2012, the Company has experienced a significant reduction in the amount of working cash. The decline in cash balances is attributable to the use of cash to fund other net non-cash working capital balances resulting primarily from the increase in accounts receivable at September 30, 2012.

#### Cash Flow Data

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

| (thousands of dollars)                         | <u>Nine months ended September 30,<br/>2012</u> | <u>2011</u>        |
|--|---|--------------------|
| <b>Cash Flow Data</b>                          |   |                    |
| Operating activities                           | \$ (35,850)                                     | \$ (19,863)        |
| Investing activities                           | (22,568)  | (56,108)           |
| Financing activities                           | (15,569)  | 9,427              |
| Increase/decrease in cash and cash equivalents | <u>\$ (73,987)</u>                              | <u>\$ (66,544)</u> |

#### Operating Activities

During the nine months ended September 30, 2012, the Company used cash in operating activities of \$35.9 million. This was comprised of \$66.7 million of cash provided by earnings net of non-cash charges to earnings and \$102.6 million of cash used to fund an increase in the Company's non-cash working capital position, which represented a normal course fluctuation in the Company's net current asset position. In some periods, this fluctuation will be a use of cash, as in the current period, but in other periods, it will be a source of cash, tending to balance out over time and having no net impact on the Company's working capital. During the first three quarters of 2012, there has been a significant use of cash to fund other working capital balances resulting from the increase in construction revenues and the related impact on accounts receivable.

#### Investing Activities

During the nine months ended September 30, 2012, the Company used \$22.6 million of cash in investing activities while in 2011 investing activities used cash of \$56.1 million. The higher level of investing activity in 2011 in large part represents the cash required to fund the O'Connell transaction in August of that year. In 2011, the Company used \$65.1 million of net cash to acquire a 100% interest in O'Connell. Partially offsetting the use of cash to acquire O'Connell in 2011 was the net receipt of cash of approximately \$12.5 million resulting from the maturity of bonds included in the Company's bond and preferred share investment portfolio.



In 2012, the Company used \$23.5 million to purchase property and equipment including software compared with \$3.5 million in 2011. The increase in capital asset spending relates primarily to purchases of heavy equipment to support the ongoing operations of O'Connell. Partially offsetting the use of cash in 2012 was the net receipt of cash of approximately \$0.8 million from the redemption of preferred share investments.

#### **Financing Activities**

During the nine months ended September 30, 2012, \$15.6 million of cash was used in financing activities compared to a source of cash of \$9.4 million in 2011. In 2012, the Company paid monthly dividends totalling \$22.1 million. In addition, the Company received cash from the issuance of long-term debt of \$16.0 million, used primarily to finance the purchases of heavy equipment to support the operations of O'Connell. Approximately \$9.4 million of cash was used to repay long-term debt in 2012. In 2011, the Company received cash from the issuance of long-term debt of \$30.6 million, net of \$0.4 million to finance the O'Connell acquisition, and \$0.2 million of cash was used to repay the debt during the third quarter. Cash of \$18.5 million was used in 2011 to pay dividends and \$2.1 million was used to pay unit holder distributions declared in December 2010.

#### **DIVIDENDS AND DISTRIBUTIONS:**

The Company intends to declare monthly dividends of \$0.06 per common share 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 historical dividend history.

|                                      |         |
|--------------------------------------|---------|
| January 1, 2011 to March 31, 2011    | \$0.165 |
| April 1, 2011 to June 30, 2011       | \$0.165 |
| July 1, 2011 to September 30, 2011   | \$0.165 |
| October 1, 2011 to December 31, 2011 | \$0.165 |
| January 1, 2012 to March 31, 2012    | \$0.170 |
| April 1, 2012 to June 30, 2012       | \$0.180 |
| July 1, 2012 to September 30, 2012   | \$0.180 |

Reflects the April 2011 three-for-one stock split.

#### **CAPABILITY TO DELIVER RESULTS:**

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 its 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 and has more recently launched a leadership program to provide a forum for high potential candidates to develop their leadership skills.

## CONTRACTUAL OBLIGATIONS:

At September 30, 2012, the Company has future contractual obligations totalling \$405.9 million. Obligations for accounts payable, finance and operating annual lease payments, and for principal repayments under long-term debt over the next five years are:

| (thousands of dollars) | Accounts Payable | Finance Leases | Operating Leases | Long-Term Debt | Total   |
|------------------------|------------------|----------------|------------------|----------------|---------|
| 2012                   | \$ 312,719       | 77             | 3,371            | 2,576          | 318,743 |
| 2013                   | 16,294           | 309            | 8,928            | 13,526         | 39,057  |
| 2014                   | 4,527            | 412            | 6,260            | 13,732         | 24,931  |
| 2015                   | -                | 251            | 2,525            | 13,945         | 16,721  |
| 2016                   | -                | -              | 693              | 5,676          | 6,369   |
| Thereafter             | -                | -              | 30               | -              | 30      |
|                        | \$ 333,540       | 1,049          | 21,807           | 49,455         | 405,851 |

## 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 totalling \$5.4 million at September 30, 2012.

## CRITICAL ACCOUNTING ESTIMATES:

The accounting principles used by the Company to account for its construction contracts involve the use of estimates.

Construction revenue, construction costs, deferred contract revenue and costs and estimated earnings in excess of billings include amounts that are derived using the percentage of completion basis. Percentage of completion is calculated based on the costs incurred on each construction contract to the end of the respective accounting period divided by the total estimated costs. Revenue from unit price contracts conducted in the heavy construction, civil construction and contract mining construction sectors is based on billable work completed. Contract costs in the heavy construction, civil construction and contract surface mining construction sectors are adjusted so the gross profit recognized in the period is based on the percentage of revenue realized relative to total contract value. Any excess of progress billings over earned revenue determined using the percentage of completion method is carried as deferred revenue in the consolidated financial statements. Any excess of cost and estimated earnings over progress billings on construction contracts is carried as costs and estimated earnings in excess of billings in the consolidated financial statements.

Revenue and estimated costs to complete for each contract are updated and reviewed by management at least once each financial reporting period. In making such estimates, judgments are required to evaluate issues related to scheduling, material costs, labour costs, labour productivity, changes in contract scope and subcontractor costs. Due to the nature of construction contracts, estimates may change significantly from one accounting period to the next.

Construction contracts typically extend over several quarters and sometimes over several years. For purposes of quarterly financial reporting, the Company must estimate the cost required to complete each contract to assess the amount of income to be recognized 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 the remaining costs to be incurred and risk exposures become more certain, contingencies will typically decline although certain risks will remain until the contract has been completed, and even beyond. As a result of this, earnings may fluctuate

significantly from quarter to quarter, depending on whether large and/or complex contracts are completing or nearing completion during the quarter, or have been completed in immediately prior quarters.

The value of many construction contracts increases over the duration of the construction period due to the issuance of change orders to modify the original contract scope of work or conditions. Construction work related to a change order may proceed, and costs may be incurred, in advance of final determination of the value of the change order. Revenue on change orders is recognized by the Company to the extent that management estimates that realization is probable. As many change orders are settled at the end of the construction project, significant increases or decreases in revenue and income may arise during any particular accounting period.

Allowances for accounts receivable may require an assessment and estimate of the credit-worthiness of the client and the timing of collection. Furthermore, provisions for litigation involve the use of estimates, as determined by management. Amounts arising from negotiated settlements or court judgments may vary significantly from management's estimate. Similarly, the estimate for warranty claims may differ significantly from actual experience. These adjustments will also impact on the amount of profit recognized in a reporting period.

The acquisition of O'Connell required management to make judgments and estimates regarding the fair value of the identifiable assets and liabilities acquired. The estimated fair value of property and equipment and the intangible assets relating to backlog, customer relationships and trade names were based on a forecast of future cash flows attributable to the assets, discounted to the present value using a market based cost of capital.

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

The Company is authorized to issue an unlimited number of common shares. The Company has a total of 42,153,846 common shares outstanding at September 30, 2012 and December 31, 2011.

Under the terms of the Company's Stock Option Plan, on March 7, 2012, the Company's Board of Directors approved the award of 625,000 stock options with a grant date of March 15, 2012 to eligible Company employees. The total number of stock options is exercisable in equal amounts on the first through fourth anniversary dates from the grant date. Details of the Company's stock options outstanding are outlined in the notes to the September 30, 2012 Unaudited Condensed Consolidated Interim Financial Statements.

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

## **CONTROLS AND PROCEDURES:**

### **Disclosure Controls and Procedures**

Based on their evaluations as of September 30, 2012, 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 September 30, 2012, under the supervision of and with the participation of management, including the CEO and CFO, internal controls over financial reporting, including the controls of O'Connell, 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 nine months ended September 30, 2012 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **RISKS RELATING TO THE BUSINESS:**

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 7, 2012, which is available through the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

### **Economy and Cyclicalities**

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. Investment decisions by our industrial 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 client's 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. A decrease in construction activity in this sector could have an adverse effect on the Company's financial performance and results of operations. Furthermore, most 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, who 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 in 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 make-up 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 projects in the PPP market and other large projects, a strong balance sheet 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. All levels of government are now expected to come under pressure to address budget deficits and it is expected that governments may reduce their capital spending programs. 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 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 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 its estimates of the project costs may be in error resulting in a loss or lower-than-anticipated profit. All significant cost estimates are reviewed by senior management prior to 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. If subcontractors fail to satisfactorily perform their portion of the work, Bird may be required to engage alternate subcontractors to do 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 subcontract, Bird may require surety bonds or other security from the subcontractor in order to mitigate this risk. Bird closely monitors all subcontractor and trades person capacity concerns in order to mitigate any effect on operations. 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 happen. 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 worksites 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 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. Bird adheres to a performance management process whereby objectives are established for every employee for the next year and a performance review is completed at least on an annual basis. Bird sponsors both inside and outside training programs to allow its employees the opportunity to advance their career at Bird. Management also updates its succession plan regularly to ensure a continuous supply of qualified candidates is available to perform more senior level positions within the Company.

## TERMINOLOGY:

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.
- **"Adjusted Net Income Measure (Non-GAAP Information)"** adjusts net income for the amount of amortization expense related to intangible assets resulting from business combinations and transaction expenses relating to the combinations which are expensed in the period incurred.
- **"Lost Time Incident Frequency"** is the number of lost time incidents recorded per 200,000 man-hours of work by Bird employees.

## FORWARD LOOKING INFORMATION:

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 7, 2012 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.