



MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 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, 2016 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, 2017. This MD&A has been prepared as of November 8, 2017. 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 Canadian dollars, except per share amounts)   | For the nine months ended September 30, |                          |
|---|---|--------------------------|
|   | 2017                                    | 2016                     |
| <b>Income Statement Data</b>                                |   |                          |
| Revenue   | \$ 1,040,726                            | \$ 1,159,152             |
| Net income <sup>(1)</sup>                                   | 6,884                                   | 19,204                   |
| Basic and diluted earnings per share                        | 0.16                                    | 0.45                     |
| <b>Cash Flow Data</b>                                       |   |                          |
| Net decrease in cash and cash equivalents during the period | (165,366)                               | (16,515)                 |
| Cash flows used in operations                               | (124,543)                               | (9,231)                  |
| Additions to property and equipment <sup>(2)</sup>          | 12,287                                  | 3,922                    |
| Cash dividends paid   | 13,746                                  | 24,223                   |
| Cash dividends declared per share                           | 0.29                                    | 0.57                     |
|   | <u>September 30, 2017</u>               | <u>December 31, 2016</u> |
| <b>Balance Sheet Data</b>                                   |   |                          |
| Total assets  | 728,674                                 | 817,383                  |
| Working capital   | 94,023                                  | 118,043                  |
| Loans and borrowings (current and non-current)              | 19,209                                  | 11,388                   |
| Shareholders' equity  | 158,027                                 | 163,566                  |

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

<sup>(2)</sup> includes computer software purchases classified as intangible assets

## 2017 HIGHLIGHTS

- During the third quarter of 2017, the Company generated a net income of \$5.5 million on construction revenue of \$385.1 million compared with net income of \$6.0 million and \$407.7 million of construction revenue in 2016. The year-over-year decline in the amount of third quarter net income is reflective of the lower construction revenues in the quarter.
- During the first nine months of 2017, the Company generated a net income of \$6.9 million on construction revenue of \$1,040.7 million compared with net income of \$19.2 million and \$1,159.2 million of construction revenue in 2016. The decrease in the amount of year to date 2017 earnings is reflective of the low volume of industrial project backlog carried into 2017 as several large industrial projects were substantially completed in the fourth quarter of 2016. In the first nine months of 2016, the Company benefited from a higher proportion of higher margin industrial work than in 2017, which has shifted to predominantly commercial and institutional projects.
- In the first nine months of 2017, the Company secured \$1,250.3 million of new contract awards and change orders which is 52% higher year-over-year, and executed \$1,040.7 million of construction revenues. The success in securing new work through the first nine months of the year contributed to a Backlog of \$1,346.6 million for the Company at September 30, 2017, an increase of \$209.6 million from the \$1,137.0 million of Backlog recorded at December 31, 2016.
- In the third quarter of 2017, the Company announced that it was part of the Niagara Falls Entertainment Partners consortium that had executed a contract to design, build, finance and maintain an entertainment facility for the Ontario Lottery and Gaming Corporation in the City of Niagara Falls. The Company will design and build the project and has taken a minority equity interest in the concession responsible for the design, construction, financing and maintenance of the project through Bird Capital, a wholly owned subsidiary.

- In September 2017, the Company announced that it had acquired 50% of the outstanding shares of Stack Modular Structures Ltd. and 50% of Stack Modular Structures Hong Kong Limited (together the “Stack Modular Group of Companies” or “Stack”). The purchase price and related transaction expenses were funded with existing working capital. Stack is a modular construction company with production operations in China. Stack produces steel frame modules for permanent construction. The modules are suited for the hotel, senior housing, office space and general housing sectors in the North American market. Bird and Stack have complementary knowledge, resources and expertise that positions them well to serve the permanent modular construction market in Canada and the United States.
- The Company achieved substantial completion on three Public Private Partnership and alternative finance (“PPP”) projects in the nine months ended September 30, 2017:
  - Calgary Composting Facility - The plant is the largest composting facility in Canada and has an administration and educational building that is the first commercial building in Alberta registered under LEED® v4.
  - Casey House Redevelopment - The project is a four-storey addition to a heritage-designated Victorian mansion in downtown Toronto and is a specialized health care facility that will service 200 registered clients and has 14 new inpatient rooms.
  - Saskatchewan Joint-Use Schools - The Company delivered 18 new schools on nine sites in Regina and the Saskatoon region representing the largest new schools project in Saskatchewan’s history. Each joint-use site includes two schools: one public and one Catholic, along with a 90-space childcare center and community space. Joint-use schools are co-located so that they share a roof and spaces such as gymnasiums and multipurpose rooms.
- Through its equity investments in associates to the end of September 2017, the Company has realized equity income of \$1.55 million, compared with equity investment losses recognized during the same period in 2016.
- Cash used for property and equipment additions have increased \$8.4 million compared with the first three quarters of 2016. The additions support increased activity with self-perform activities on energy and resource related projects as well as diversification of the Company’s service offerings to clients in these sectors.
- As part of the *Safe Production* strategic initiative, the Company completed an organization wide Safety Culture Assessment in the third quarter which will form the basis for the development of a long-term safety strategy for the organization.
- The Board has declared monthly eligible dividends of \$0.0325 per common share for November 2017, December 2017, January 2018 and February 2018.

## 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, Ottawa, Toronto, Winnipeg, Calgary, Edmonton, and Vancouver. The Company and its predecessors have been in operation for 97 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 process work, 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, hotels 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 that include water and wastewater treatment centres, composting facilities and biosolids treatment and management facilities. The Company has developed expertise in the construction of vertical elements and overall management of transportation related projects and will continue to enhance our abilities as governments plan to increase stimulus spending to address aging infrastructure. Bird also invests in equity in PPP projects as a means to support construction operations. In all sectors, Bird contracts with its clients

using a combination of fixed price, unit price, cost reimbursable and guaranteed maximum price, and provides services that include construction, design-build and construction management delivery methods.

While Bird self-performs some elements of its projects, particularly in the industrial market 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 subcontractor not be able to meet its 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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In 2016, the Company undertook a comprehensive strategic review to assess its market position and re-establish medium and long-term goals. This process culminated in the Company's Board of Directors endorsing the *Build Bird* five-year strategic plan that has been developed to further enhance the Company's position as a premier Canadian contractor driven by the passion and dedication of a team of construction professionals. The *Build Bird* five-year strategic plan is in its first full year of implementation in 2017 and features three core pillars: *Build the Business*, *Build the Team* and *Build Relationships*. Each pillar is further articulated by three primary initiatives.

Broadly, Bird's strategic focus is to secure projects in markets with higher profit margins, which, in 2017, will consist of PPP and large design-build projects in the institutional sector as well as smaller midstream capital projects. In the coming years, this will also include more Maintenance Repair and Operations ("MRO") related opportunities in western Canada's energy sector. For the Bird Heavy Civil division (formerly known as H.J. O'Connell) efforts will focus on diversifying the customer base on select mining support and environmental projects. Details of each pillar and primary initiatives are expanded below.

## BUILD THE BUSINESS

### *Diversification and Growth*

The diversification of the Company's work program and earnings base is intended to strengthen the Company by making it healthier and more resilient during economic downturns. As part of the overall strategy, Bird will continue to focus on larger and more complex construction projects, which typically offer greater profit margins. *Diversification and Growth*, will be realized through several methods including geographic expansion of existing services, introduction of new services and the development of new clients. The Company will be very selective in its execution of the strategy to ensure it grows and diversifies profitably.

The Company will continue to express its preference for design-build construction contracts where its proven experience provides Bird with a source of competitive advantage in the construction market. The primary focus for geographic expansion in 2017 is the ongoing development of the Edmonton Commercial district which will service the institutional, municipal and commercial sectors in the Edmonton region. While the market conditions are expected to remain difficult in 2017, the district will continue its efforts to organically grow its work program and build momentum for the future. The Company will also seek opportunities to expand commercial and institutional expertise into additional markets in Canada by way of joint venture arrangements or through acquisition.

New service offerings will also contribute to Bird's diversification and growth strategy. The Company will continue to leverage the acquisition of Nason Contracting Group Ltd. completed in 2013 to secure greater participation in the MRO market in northern Alberta through the execution of self-perform mechanical process work for existing clients. Also, the Company will further leverage its earth moving and civil capabilities gained through the acquisition of H.J. O'Connell Ltd. into industrial markets in western Canada, enhancing our existing

relationships and self-perform operations. Additional service offerings will be introduced to help secure opportunities presented by the federal government's mandate to invest in indigenous communities, environmental initiatives and transportation projects. The Company's goal is to leverage its areas of expertise to participate more fully in these markets on selective projects where it can develop a compelling win strategy.

As part of the Company's growth strategy, the Company will use its existing relationships in established markets to expand its work program. As one of only a few general contractors in Canada that possess a national footprint, Bird looks to deepen its relationship with existing commercial clients that have a portfolio of properties and development opportunities both regionally and across Canada while also seeking to foster new client relationships. Historically, in western Canada the Company's industrial work program has been focused on the oil sands where it has secured a reputation as a safe, reliable and cost effective general contractor. In the coming years, the Company will leverage these proven capabilities to develop clients and work programs in central and western Canadian provinces. Similarly, the Bird Heavy Civil subsidiary will broaden its established activities in the Labrador Trough region to secure similar opportunities in eastern Canada. This wider geographical scope will also support the need to develop additional clients, primarily in Quebec and Ontario, and reduce the division's reliance on the iron ore market. These efforts to develop new clients will require a commitment to business development and a recognition that program accomplishments will take time to mature, particularly given the current market conditions in the resource sector.

#### *Build Efficiencies*

As a primary initiative of the *Build the Business* pillar, Bird's strategy for *Build Efficiencies* is to drive business process improvements to extract potential savings from overheads. These savings will be reinvested into the Company's strategic initiatives. Increasing process efficiency, particularly for the operations team will also lead to greater engagement amongst the employee group and is anticipated to positively impact production as project teams will be able to dedicate more energy on project execution and less on administrative tasks.

#### *Safe Production*

At Bird, the single most important value is Safety and the goal is zero harm. Building on a highly reputable and proven safety program, this ongoing initiative will further the Company's commitment to embedding a *Safe Production* mindset throughout the project lifecycle, from estimating through to post-job assessment. It will require driving greater involvement and commitment from subcontractors and suppliers, and will further extend to fostering the safe planning and execution of Bird employee activities off the job. This holistic approach reflects the Company's fundamental belief that thinking and acting safely is not a switch that can, or should be, activated when arriving at or leaving the job site or workplace. Rather, it is a mindset that must be encouraged, nurtured and supported so that safe behaviours become a habit; repeatable, sustainable, and embedded in everything Bird staff do.

## **BUILD THE TEAM**

#### *Drive Positive Engagement & Become the Employer of Choice*

The primary initiative of the *Build the Team* pillar features a wide range of human resource program initiatives intended to enhance the employee experience, *Drive Positive Engagement*, and create a more mobile, better trained, better led, and more productive workforce. Bird's success is highly 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 by *Becoming the Employer of Choice*, which is the second initiative of *Build the Team*. Through the strategic planning process, a number of key priorities and challenges pertaining to the recruitment, development and retention of employees were identified. The Company will work to improve its human resource management processes to better support its recruitment, onboarding, and performance management programs. This will help elevate the employee experience at Bird by facilitating effective talent management and mobility across the organization.

#### *Grow Our Talent*

While creating a positive and safe work environment at Bird is non-negotiable, the Company is equally committed to providing employees, and potential employees, with interesting and challenging work and opportunities to *Grow Our Talent* in a welcoming environment where people can build a successful career in every aspect of the business. Contributing to talent growth is the development of improved employee resource materials including an updated employee handbook, onboarding resources and the delivery of updated Bird Core Construction

Training modules across the Company. A key element in the Company's talent growth plan is the enhancement of a meaningful employee recognition program. By continuously developing and refining policies and programs to engage 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, the Company is able to recruit, develop and retain top talent while ensuring compensation programs remain market competitive.

## **BUILD RELATIONSHIPS**

### *One Bird*

Recognizing that the construction industry has evolved and projects are getting more complex, Bird has deployed the *One Bird* initiative that considers a holistic, company-wide approach to work more efficiently and effectively. One of the primary goals of this initiative is to identify and share the expertise across the Company to enhance effective deployment of human resources on the best opportunities, regardless of employees' geographic location. By promoting a more mobile workforce and increasing collaboration the Company will leverage its talent for targeted opportunities to secure greater outcomes.

### *Creating a Customer 1<sup>st</sup> Attitude*

A primary initiative of the *Build Relationships* pillar, the *Creating a Customer 1<sup>st</sup> Attitude*, targets the development of stronger client relationships. The Company has traditionally focused on operational excellence and execution of its work program as a means to develop client relationships. While this has served the Company well in terms of delivering consistent results and developing repeat clients, there is a need to invest more resources in strengthening existing client relationships and developing new ones. This is consistent with Bird's strategy of targeting work with clients that welcome innovation and position the Company to add value. Bird will continue to target complex work, a market the Company has successfully performed in and one where the competition will be like-minded contractors with similar cost structures and approaches to risk and reward. Clients that seek a longer term, mutually beneficial relationship align well with the *Build Bird* five-year strategic plan.

### *Corporate Social Responsibility*

Bird believes in being a good corporate citizen and supporting the communities in which it works and its employees live. In addition, employees increasingly wish to align themselves with a company that gives back and is socially responsible. Bird's *Corporate Social Responsibility* initiative includes Indigenous Cultural Awareness training for all employees which builds upon the Company's Indigenous Engagement Policy. Furthermore, establishment of the *Bird Foundation*, a formal conduit for tabulating and communicating Bird community donations and contributions, will provide greater direction to the Company's community engagement while driving increased employee participation and engagement.

## **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 in various economic conditions. 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 successfully delivering high quality projects that fully meet the needs of the customer, which enables the Company to secure repeat business from existing clients and win work with new 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 \$1,346.6 million at September 30, 2017 increased compared with \$1,137.0 million at December 31, 2016. In the first nine months of 2017, the Company announced it had signed contracts for the design and construction of the Mental Health Facility and Energy Centre at Royal Columbian Hospital and to design, build, finance, operate and maintain

the Hamilton Biosolids project. In the third quarter of 2017, the Company announced that it is part of the Niagara Falls Entertainment Partners consortium that has executed a contract to design, build, finance and maintain an entertainment facility for the Ontario Lottery and Gaming Corporation in the City of Niagara Falls. As of September 30, 2017, the Company was actively pursuing eight PPP projects and had submitted its proposal for one other project. In addition, there are two more PPP opportunities that the Company has been shortlisted on and is awaiting the issuance of the request for proposals, and a third that the Company has responded to the request for qualification and is awaiting confirmation of the shortlist of proponents.

| (in thousands of Canadian dollars) | <u>September 30</u><br><u>2017</u> | <u>September 30</u><br><u>2016</u> | <u>December 31,</u><br><u>2016</u> |
|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Backlog                            | \$ 1,346,600                       | \$ 1,328,200                       | 1,137,000                          |

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.

|                         | <u>Nine months ended</u><br><u>September 30, 2017</u> | <u>Nine months ended</u><br><u>September 30, 2016</u> | <u>Year ended</u><br><u>December 31, 2016</u> |
|-------------------------|---|---|---|
| Gross Profit Percentage | 4.8%  | 5.9%  | 5.8%  |

In the first nine months of 2017, the Company realized a Gross Profit Percentage of 4.8% compared with 5.9% in the same period a year ago. The reduction in Gross Profit Percentage reflects the year-over-year decrease in contribution from the industrial work program. Specifically, in the first nine months of 2016 the Company was working on several larger scale industrial projects. Those projects were substantially completed in the fourth quarter of 2016. The Gross Profit Percentage realized on those projects was higher than the Gross Profit Percentage earned on the current work program, which is comprised of predominately commercial and institutional projects. In addition, through the course of 2016 the Company aligned the cost structure of the business with the progressive decline of the industrial work program. However, in the first nine months of 2017, the Company carried expenses associated with a number of key resources required to execute work identified in the balance of 2017, negatively impacting gross profit. As a result of these factors, the Gross Profit Percentage reported in the first nine months of 2017 is comparatively lower than the same period a year ago.

### 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 shareholders' equity of the Company in the comparative reporting periods.

| (in thousands of Canadian dollars) | <u>September 30,</u><br><u>2017</u> | <u>September 30,</u><br><u>2016</u> | <u>December 31,</u><br><u>2016</u> |
|------------------------------------|-------------------------------------|-------------------------------------|------------------------------------|
| Working capital                    | \$ 94,023                           | \$ 112,958                          | \$ 118,043                         |
| Shareholders' equity               | \$ 158,027                          | \$ 165,834                          | \$ 163,566                         |

Cash flows from operations before changes in non-cash working capital of \$16.9 million was insufficient to offset dividend payments of \$13.7 million, investment in associates of \$10.5 million and income taxes paid of \$19.3



million, which were the primary drivers resulting in a decline of working capital of \$24.0 million in the first nine months of the year.

The decrease in the amount of the Company's shareholders' equity since December 31, 2016 is mainly a result of the \$12.4 million dividends declared exceeding the net income of \$6.9 million generated in the first nine months of 2017.

The Company has adequate amounts of both working capital and equity to operate the business. The Company expects resource prices to remain low through 2017 and recognizes that the construction industry generally lags the recovery of the underlying resource prices. These market conditions and the subsequent reduction of the industrial work program combined with the anticipated increase in PPP project activity, which requires a healthy balance sheet, led to a decision in November 2016 by the Company and its Board of Directors to reduce the amount of dividends paid commencing January 2017. The reduction in the amount of the monthly dividend will help the Company maintain adequate equity and working capital to support execution of the Company's diversification strategy that otherwise would not have been attainable if the previous dividend rate was maintained.

## 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 nine months of 2017, Bird executed 2,626,011 person-hours of work, incurring three lost time incidents (LTI) for an LTI frequency of 0.23.

### Lost Time Incident Frequency

| Nine months ended<br>September 30, 2017 | Nine months ended<br>September 30, 2016 | Year ended<br>December 31, 2016 |
|---|---|---------------------------------|
| 0.23                                    | 0.00                                    | 0.00                            |

## RESULTS OF OPERATIONS

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### NINE MONTHS ENDED SEPTEMBER 30, 2017 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2016

In the first nine months of 2017, the Company recorded net income of \$6.9 million on construction revenue of 1,040.7 million compared with net income of \$19.2 million on \$1,159.2 million of construction revenue recorded

in the same period of 2016. In the current year, construction revenue of \$1,040.7 million to the end of September was \$118.5 million or 10.2% lower than the \$1,159.2 million recorded in the comparable period a year ago. As expected, the Company's industrial revenues declined relative to those recorded in 2016, primarily owing to a reduced work program resulting from the successful completion of several large scale projects in late 2016 and the general state of the market in a low commodity price environment. The Company continues to successfully execute on its significant commercial and institutional work program, including multiple PPP projects.

The Company's gross profit of \$49.9 million in the first nine months of 2017 was \$18.0 million or 26.5% lower than \$67.9 million recorded in the comparable period a year ago. In 2017, the Gross Profit Percentage of 4.8% realized to the end of September compares to 5.9% recorded in the comparable period in 2016. The decrease in the amount of gross profit in the first nine months of 2017 is reflective of the low volume of industrial project backlog carried into 2017 as several large industrial projects were substantially completed in the fourth quarter of 2016. In the first nine months of 2016, the Company benefited from a higher proportion of industrial work than in 2017 which was predominantly characterized by more commercial and institutional projects. Current year results to the end of September were further negatively impacted by carrying the expense associated with key resources required for future work identified in the industrial market.

In the first nine months of 2017, general and administrative expenses of \$42.6 million (4.1% of revenue) compares with \$42.9 million (3.7% of revenue) in 2016. In the first nine months of 2017, the Company spent \$3.4 million in third-party pursuit costs which is \$1.9 million higher than the amount recorded in the comparable period a year ago, however this was more than offset by a reduction of employee compensation expense.

Finance income in the first nine months of 2017 of \$3.0 million is comparable to the \$3.3 million recorded in the same period of 2016.

Finance and other costs of \$0.9 million to the end of September 2017 were \$1.5 million lower than the \$2.4 million reported in the comparable period of 2016. The decrease is primarily due to the Company observing year-over-year improvement in equity income from investments in associates (PPP projects where the Company has an equity position) in the first nine months of 2017.

Current year income tax expense of \$2.6 million to the end of September was \$4.1 million lower than the \$6.7 million expense recorded for the comparable period in 2016, consistent with lower earnings in the first nine months of 2017.

### **THREE MONTHS ENDED SEPTEMBER 30, 2017 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2016**

During the third quarter of 2017, the Company generated net income of \$5.5 million on construction revenue of \$385.1 million compared with \$6.0 million and \$407.7 million, respectively in the comparable quarter of 2016. The decrease in the amount of third quarter 2017 earnings is primarily due to the lower gross profit realized on lower quarterly construction revenue.

Construction revenue of \$385.1 million was \$22.6 million or 5.5% lower than \$407.7 million recorded in the third quarter of 2016. The decrease in construction revenues has been driven by the reduction in the Company's industrial work program. As expected, the Company's industrial revenues declined relative to those recorded in 2016, primarily due to the reduction in the capital spending programs of many of our industrial clients in response to low commodity prices. Commercial and institutional revenues grew marginally year-over-year.

The Company's third quarter gross profit of \$21.6 million was \$1.5 million or 6.3% lower than \$23.0 million recorded a year ago. The decrease in the amount of third quarter 2017 gross profit is primarily due to the lower total gross profit realized on lower quarterly construction revenues. The Company's third quarter 2017 Gross Profit Percentage of 5.6% compares to 5.6% recorded a year ago, characterized by a year-over-year improvement in the Gross Profit Percentage on the commercial and institutional work program, offset by a decline in the Gross Profit Percentage realized in the industrial work program.

In the third quarter of 2017, general and administrative expenses of \$15.0 million (3.9% of revenue) was comparable to the \$15.4 million (3.8% of revenue) in 2016. In the third quarter of 2017, the Company spent \$2.4 million in third-party pursuit costs which is \$1.0 million higher than the third quarter of 2016. This increase was

more than offset with lower compensation expense year-over-year. Coupled with lower year-over-year revenue, general and administrative expenses as a percentage of revenue was comparable to 2016.

Finance income in the third quarter of 2017 of \$1.1 million was comparable to the \$1.2 million recorded in the same period of 2016.

Finance and other costs were \$0.7 million lower than the \$0.7 million reported in the comparable period of 2016. The decrease is primarily due to the Company observing year-over-year improvement in equity income from investments in associates in the third quarter of 2017.

In the third quarter of 2017, income tax expense of \$2.1 million was comparable to 2016.

## FUTURE OPERATING PERFORMANCE

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At September 30, 2017, the Company was carrying a Backlog of \$1,346.6 million, representing an increase from the \$1,137.0 million carried at the end of 2016 and an increase of \$102.7 million from June 30, 2017. Backlog has grown in the first nine months of 2017 after declining through 2016. The primary driver of the increase in backlog was the award of the Mental Health Facility and Energy Centre at the Royal Columbian Hospital and more recently the Niagara Falls Entertainment Centre. In addition, the Company has been successful in securing smaller but strategic projects, including a biosolids management facility in Hamilton. The current Backlog is characterized by a higher composition of commercial and institutional work compared with the last several years, a result of the success in securing a significant number of contract awards in this sector since 2015. As anticipated, the Backlog attributable to the industrial work program has declined over the past several years as clients continue to limit capital spending in response to the low commodity price environment.

The Company expects activity in the industrial and resource sectors to remain modest through the remainder of 2017. The improvement in commodity prices experienced later in 2016 has fluctuated through the first nine months of the year and the environment remains challenging. Despite this fact, the Company has observed an increase in bidding activity, particularly in the mid-stream oil and gas market in western Canada and for mining opportunities in eastern Canada. For opportunities that are available to bid in the industrial market sector, competition is heightened, placing downward pressure on fees and the award cycle is more drawn out as clients continue to have a measured approach to spending. The Company, however, is beginning to realize success in its efforts to diversify its industrial work program, successfully securing design-build contracts for an administration building and a warehouse for a client in the nuclear industry in Ontario. In addition, the Company has been awarded several mechanical process related contracts, including a maintenance contract for an oil sands client in northern Alberta. In eastern Canada, the Company has been successful in securing mining related work with a new client, a result of focused business development efforts. With respect to the commercial and institutional market sector, there is a healthy pipeline of opportunities anticipated in 2017 and 2018, characterized by numerous PPP projects. As of September 30, 2017, the Company was actively pursuing eight PPP projects and had submitted its proposal for one other project. In addition, there are two more PPP opportunities that the Company has been shortlisted on and is awaiting the issuance of the request for proposals, and a third that the Company has responded to the request for qualification and is awaiting confirmation of the shortlist of proponents. These are all indications that the anticipated activity in this market sector is materializing generally as expected. In addition to the growth in volume of work expected from this activity, the Company anticipates that margin opportunities in this sector will also improve. The results in the fourth quarter of 2017 are expected to compare favorably to the unadjusted results recorded in the same period in 2016.

Looking towards 2018, the Company expects to benefit from its strong position in the PPP market, while experiencing tangible progress in our diversification efforts particularly for our industrial, resource and modular service offerings. The Company anticipates moderate revenue growth in 2018 coupled with third party pursuit costs at historically high levels, a byproduct of the robust PPP market. The Company will continue to make investments in both people and technology as it executes on the *Build Bird* strategic plan, with diversification of our earnings base remaining a key area of focus. While Management does not expect earnings in 2018 to outpace those achieved in 2016, the Company's financial performance is anticipated to improve relative to our expectations for the current year as the Company continues along its path of rebuilding its earnings base.

## Backlog

During the first nine months of 2017, the Company secured \$1,250.3 million in new construction contracts (including change orders to existing contracts) and put in place \$1,040.7 million of work resulting in a Backlog at September 30, 2017 of \$1,346.6 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>                            |                          |
|---|--------------------------|
| (in millions of Canadian dollars)         |                          |
| December 31, 2015                         | \$ 1,662.8               |
| Securement and change orders in 2016      | 1,064.1                  |
| Realized in construction revenues in 2016 | <u>(1,589.9)</u>         |
| December 31, 2016                         | \$ 1,137.0               |
| Securement and change orders in 2017      | 1,250.3                  |
| Realized in construction revenues in 2017 | <u>(1,040.7)</u>         |
| September 30, 2017                        | <u><u>\$ 1,346.6</u></u> |

## ACCOUNTING POLICIES

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The Company's significant accounting policies are outlined in the notes to the audited December 31, 2016 and 2015 Consolidated Financial Statements. The condensed consolidated interim financial statements were prepared using the same accounting policies as our 2016 consolidated financial statements.

### Future accounting changes

#### IFRS 9, Financial Instruments:

On July 24, 2014, the IASB issued the complete 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. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company expects IFRS 9 to affect the following three areas:

- a) IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, 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 financial assets are subsequently measured at amortized costs, fair value through profit and loss or fair value through other comprehensive income. Based on its initial assessment, the Company does not expect a material impact on the classification and measurement of its financial assets, as the majority are currently classified and measured at amortized cost.
- b) IFRS 9 replaces the incurred loss model from IAS 39 by introducing a new 'expected credit loss' model for calculating impairment of financial assets. IFRS 9 specifies different approaches for measuring and recognizing expected credit losses, by considering only defaults in the next 12 months and/or the full remaining life of the financial asset. The expected credit loss model requires a credit loss to be reflected in profit and loss immediately after an asset or receivable is acquired and subsequent changes in expected credit losses at each reporting date reflecting the change in credit risk. IFRS 9 provides a simplified approach for certain trade receivables and IFRS 15 contract assets. As a result of adopting the new standard, the Company expects earlier recognition of provisions for credit losses, which are not yet incurred. However, based on its initial assessment, the Company does not expect a material impact from the expected credit loss model.
- c) IFRS 9 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. The Company does not currently elect hedge accounting and is not intending to apply hedge accounting under IFRS 9 and so does not expect a material impact.

#### **IFRS 15, Revenue from Contracts with Customers:**

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. 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 and the clarifications in its financial statements for the annual period beginning on January 1, 2018.

The Company has initiated IFRS 15 planning and work group sessions and has developed an adoption plan. The associated revenue contracts in scope of IFRS 15 have been identified and analysis has been undertaken. The next steps will involve completing the overall analysis, assessing any potential impact to IT systems and internal controls and reviewing additional disclosures required by the new standard. Based on the Company's assessment, the main impacts of adopting IFRS 15 are expected to be on timing of revenue recognition, determining the transaction price, and additional disclosures. The adoption of IFRS 15 will not impact cash flows as cash will continue to be collected according to the Company's contractual terms with its customers. Although the Company has conducted an assessment on the effects of the application of IFRS 15, management has not completed its entire analysis of the potential impacts.

#### *Timing of revenue recognition:*

The Company recognizes contract revenue in profit or loss in proportion to the stage of completion of the contract. Under the new revenue standard, revenue is recognized upon the satisfaction of the Company's performance obligations, which occurs when control of a good or service transfers to the customer. Control can transfer either at a point in time or over time. Based on our initial assessment, we do not expect any significant changes to the timing of revenue.

#### *Determining the transaction price:*

The transaction price is the consideration that the Company expects to be entitled to in exchange for satisfying its performance obligations. This determination is more complex when the contract price is variable. Revenue related to awards or incentive payments, claims and liquidated damages might be recognized at a different time under the new standard. Claims are accounted for as variable consideration. They are included in the contract revenue using either an expected value or a most likely amount approach provided it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the claim is subsequently resolved. The Company is currently evaluating the impact of this standard to the Company's current practice of recognizing claims.

Construction contracts often require amounts to be retained by customers for reasons other than to provide financing. This retainage is intended to protect the customer from the contractor failing to adequately complete some or all its obligations under contract. Under the new standard, this type of retainage does not include a significant financing component and does not reflect the time value of money in the transaction price. We expect to no longer record interest income relating to accretion of the holdback receivables.

#### *Other presentations and disclosure requirements:*

IFRS 15 contains presentation and disclosure requirements which are more detailed than the current standards. The presentation requirements represent a change from current practice and will increase the disclosures required in the financial statements. The Company is currently evaluating the systems, internal controls, policies and procedures necessary to collect and disclose the required information.

IFRS 15 can be applied using one of the following two methods: i) retrospectively to each prior reporting period or ii) retrospectively with the cumulative effect of initially applying IFRS 15 recognised at the date of initial

application. The Company expects to adopt the first method, retrospectively adjusting to each prior reporting period subject to further analysis of the transition methods prescribed under IFRS 15.

#### IFRS 16, Leases:

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. 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, with the exception of seasonality in the first quarter of each year.

(in thousands of Canadian dollars, except per share amounts)

|                           | 2015    |         | 2016    |         |         | 2017    |         |         |
|---------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
|                           | Q4      | Q1      | Q2      | Q3      | Q4*     | Q1      | Q2      | Q3      |
| Revenue                   | 413,443 | 338,294 | 413,195 | 407,663 | 430,716 | 309,755 | 345,881 | 385,090 |
| Net income/(loss)         | 11,556  | 9,343   | 3,886   | 5,975   | 5,798   | (1,141) | 2,497   | 5,528   |
| Earnings/(loss) per share | 0.28    | 0.22    | 0.09    | 0.14    | 0.14    | (0.03)  | 0.06    | 0.13    |

Notes: \* The fourth quarter 2016 includes a net non-cash after-tax impairment charge of \$2.7 million.

## FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

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

| (in thousands of Canadian dollars) | September 30, 2017 | December 31, 2016 |
|------------------------------------|--------------------|-------------------|
| <b>Financial Position Data</b>     |                    |                   |
| Cash and cash equivalents          | \$ 96,510          | \$ 261,876        |
| Non-cash working capital           | (2,487)            | (143,833)         |
| Working capital                    | 94,023             | 118,043           |
| Non-current loans and borrowings   | 14,314             | 8,623             |
| Shareholders' equity               | 158,027            | 163,566           |

Although the Company has adequate amounts of both working capital and equity, the expectation of a weaker industrial market in the near term with the resultant negative impact on earnings combined with the anticipated increase in PPP project activity, which requires a healthy balance sheet, has led to a decision by the Company and its Board of Directors to reduce the amount of dividends paid. Commencing in January 2017 for shareholders of record, the dividend was reduced from \$0.0633 to \$0.0325 per common share per month. The reduction in the amount of our monthly dividend will allow the Company to maintain equity and working capital at levels not otherwise attainable if the 2016 dividend rate was maintained and also support execution of the Company's diversification strategy.

As a component of working capital, the Company maintains a balance of cash and cash equivalents. At September 30, 2017, this balance amounted to \$96.5 million. The non-cash net current asset/liability position was in a net liability position of \$2.5 million at September 30, 2017, compared to a net liability position of \$143.8 million at December 31, 2016. The primary drivers of the change are the decrease in accounts payable and increase in income tax payments in the first quarter, and an increase in accounts receivable in the third quarter driven by an increase in project activity through the Bird Heavy Civil subsidiary. The significant reduction in accounts payable in the first quarter of 2017 compared with December 31, 2016 is due to the timing of significant collections in late December 2016 and the subsequent payment to subcontractors in January 2017. 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 and expected 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.

### Operating Lines of Credit

*a) Committed revolving line of credit:*

The Company has a committed revolving credit facility of up to \$55.0 million, with a Canadian chartered bank. The term of the facility was extended and now matures December 31, 2019. 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 September 30, 2017, the Company has \$24.7 million in letters of credit outstanding on this facility and has drawn \$5.0 million on this facility. The \$5.0 million draw is presented as loans and borrowings on the Company's statement of financial position as the facility matures in 2019.

*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 September 30, 2017, the balance drawn on this facility is \$nil.

### Letters of Credit Facilities

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 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.

| (in thousands of Canadian dollars)              | <u>September 30, 2017</u> | <u>September 30, 2016</u> | <u>December 31, 2016</u> |
|---|---------------------------|---------------------------|--------------------------|
| Committed revolving line of credit              | \$ 55,000                 | \$ 55,000                 | \$ 55,000                |
| Letters of credit facilities                    | \$ 122,000                | \$ 122,000                | \$ 122,000               |
| Letters of credit issued                        | \$ 51,134                 | \$ 31,444                 | \$ 34,028                |
| Collateral pledged to support letters of credit | \$ 22,066                 | \$ 26,628                 | \$ 29,244                |
| Guarantees provided by EDC                      | \$ 4,891                  | \$ 4,891                  | \$ 4,891                 |

The increase in the amount of outstanding letters of credit as at the end of the first nine months of 2017 compared to the end of 2016 is primarily the result of new letters of credit being issued with respect to the substantial completion of the Calgary Composting Facility project, collateral associated with Total Return Swap derivative contracts, new letters of credit issued related to Niagara Falls Entertainment Centre more than offsetting the cancelled letters of credit related to Saskatchewan Schools.

### Equipment Financing

The Company and its subsidiaries have a committed term credit facility of up to \$25.0 million to be used to finance equipment purchases. Borrowings under the facility are secured with a first charge on the equipment being financed. As of September 30, 2017, 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.

In addition, subsidiaries of the Company have equipment acquisition lines of credit for \$42.5 million (December 31, 2016 - \$62.5 million) with the financing arms of several major heavy equipment suppliers to finance the purchase of equipment. Unutilized equipment acquisition lines of credit were reduced by \$20 million in the third quarter of 2017. Draws under this facility are typically recognized as operating leases for accounting purposes. At September 30, 2017, the Company has used \$5.9 million under the facilities (\$6.4 million at December 31, 2016). The Company's total lease commitments are outlined under Contractual Obligations.

At September 30, 2017, the Company was in compliance with all debt covenants relating to its operating and equipment lines of credit.

### Loans and Borrowings

In the first nine months of 2017, the Company issued a new fixed-rate term loan for \$1.8 million and entered into finance leases for \$8.8 million to finance equipment purchases. The Company made \$2.7 million in principal repayments (including finance lease repayments).

The following table provides details of outstanding debt as at September 30, 2017, and principal repayments due over the next five years, excluding the amortization of debt financing costs, finance lease liabilities and non-recourse project financing.

| (in thousands of Canadian dollars) | <u>Amount</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> | <u>Year 5</u> |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Loans and borrowings               | \$ 10,716     | \$ 2,691      | \$ 1,356      | \$ 5,968      | \$ 701        | \$ -          |



## Cash Flow Data

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

| (in thousands of Canadian dollars)   | Nine months ended September 30, |                    |
|--|---------------------------------|--------------------|
|  | 2017                            | 2016               |
| <b>Cash Flow Data</b>  |                                 |                    |
| Cash flows from operations before changes in non-cash working capital                        | \$ 16,932                       | \$ 34,168          |
| Changes in costs and estimated earnings in excess of billings - alternative finance projects | (552)                           | (31,591)           |
| Changes in non-cash working capital and other  | (141,343)                       | (11,808)           |
| Cash flows used in operating activities  | <u>(124,963)</u>                | <u>(9,231)</u>     |
| Investments in associates  | (10,536)                        | -                  |
| Additions to property, equipment and intangible assets                                       | (12,287)                        | (3,922)            |
| Proceeds on sale of property and equipment   | 7,183                           | 452                |
| Purchase of short-term investments   | (6,943)                         | -                  |
| Other long-term assets   | (340)                           | (2,606)            |
| Cash flows used in investing activities  | <u>(22,923)</u>                 | <u>(6,076)</u>     |
| Dividends paid on shares   | (13,746)                        | (24,223)           |
| Proceeds from non-recourse project financing   | 24,878                          | 31,186             |
| Repayment of non-recourse project financing  | (27,662)                        | -                  |
| Proceeds from loans and borrowings   | 1,786                           | -                  |
| Repayment of loans and borrowings  | (2,736)                         | (8,171)            |
| Cash flows used in financing activities  | <u>(17,480)</u>                 | <u>(1,208)</u>     |
| Decrease in cash and cash equivalents  | <u>\$ (165,366)</u>             | <u>\$ (16,515)</u> |

## Operating Activities

During the first nine months of 2017, cash flows from operating activities used cash of \$125.0 million compared with cash used of \$9.2 million in 2016. In the first nine months of 2017, cash flows from operations was comprised of \$16.9 million of cash generated from operating activities before changes in non-cash working capital and a \$141.9 million use of cash derived from changes in non-cash working capital and other items. In the first nine months of 2016, the comparative amounts were \$34.2 million of cash generated from operations before changes in non-cash working capital and \$43.4 million use of cash derived from changes in non-cash working capital and other items. The year-over-year decrease in cash flows from operations before changes in non-cash working capital in the first nine months of 2017 is primarily the result of the \$6.9 million net income in the first nine months of 2017 compared to \$19.2 million net income in the first nine months of 2016 and the change in income tax expense year-over-year. In the first nine months of 2017, changes in the amount of non-cash working capital used cash in total of \$141.9 million compared to a use of cash of \$43.4 million in the first nine months of 2016. The primary drivers of the change are the decrease in accounts payable, increase in income tax payments and an increase in accounts receivable, which were partially offset by the billing and collection of costs and estimated earning in excess of billings related to the Casey House project. Proceeds and repayments of the non-recourse debt relating to alternative finance projects are included in financing activities.

## Investing Activities

During the first nine months of 2017, the Company used \$22.9 million of cash in investing activities compared to the \$6.1 million use of cash in the first nine months of 2016. The amount of cash used to purchase property,

equipment and intangible assets in the first nine months of 2017 of \$12.3 million increased by \$8.4 million compared to the \$3.9 million used in the first nine months of 2016, and reflects contract driven equipment requirements. The Company generated \$7.2 million in cash in the first nine months of 2017 from the sale of property and equipment. During the first nine months of 2017, the Company used \$10.5 million cash for equity contributions into projects that the Company has acquired minority equity interests in, compared to \$nil used in the first nine months of 2016. The Company also used \$6.9 million to purchase short-term investments in the first nine months of 2017 compared to \$nil used in the first nine months of 2016.

## Financing Activities

During the first nine months of 2017, the Company used \$17.5 million of cash from financing activities compared with a use of cash of \$1.2 million in the first nine months of 2016. The increase in the amount of cash used in financing activities in 2017 is primarily a result of a repayment of non-recourse project financing of \$27.7 million offset by the \$10.5 million reduction of dividends paid and the \$5.4 million reduction of loans and borrowings repayment. Dividend payments in the first nine months of 2017 were lower than the first nine months of 2016 due to the reduction of the 2017 monthly dividend rate to \$0.0325 per share.

## DIVIDENDS

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The Company declared monthly eligible 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:

|                                      |          |
|--------------------------------------|----------|
| July 1, 2016 to September 30, 2016   | \$0.1900 |
| October 1, 2016 to December 31, 2016 | \$0.1900 |
| January 1, 2017 to March 31, 2017    | \$0.0975 |
| April 1, 2017 to June 30, 2017       | \$0.0975 |
| July 1, 2017 to September 30, 2017   | \$0.0975 |

## 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 September 30, 2017, the Company has future contractual obligations of \$491.2 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:

| (in thousands of Canadian dollars) | Accounts   | Long-Term | Finance | Operating | Non-<br>recourse     | Total   |
|------------------------------------|------------|-----------|---------|-----------|----------------------|---------|
|                                    | Payable    | Debt      | Leases  | Leases    | Project<br>Financing |         |
| 2017                               | \$ 367,683 | 763       | 667     | 956       | 177                  | 370,246 |
| 2018                               | 7,403      | 2,575     | 2,287   | 3,361     | 56,919               | 72,545  |
| 2019                               | 8,551      | 6,219     | 2,250   | 3,183     | -                    | 20,203  |
| 2020                               | 1,203      | 1,307     | 2,228   | 3,161     | -                    | 7,899   |
| 2021                               | -          | 240       | 1,511   | 3,000     | -                    | 4,751   |
| Thereafter                         | -          | -         | -       | 15,532    | -                    | 15,532  |
|                                    | \$ 384,840 | 11,104    | 8,943   | 29,193    | 57,096               | 491,176 |

## 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 \$23.8 million at September 30, 2017.

## 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 September 30, 2017 and December 31, 2016.

At September 30, 2017, 535,000 stock options are outstanding with a weighted average exercise price of \$13.59 per common share. With the approval of the Equity Incentive Plan (EIP) in May 2017, the Board of Directors has resolved to suspend the stock option plan. All outstanding options will continue to vest in accordance with the term of the option and the vesting periods.

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 September 30, 2017, 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, 2017, 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 nine-month period ended September 30, 2017 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 dated March 14, 2017, 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 generally tied to the 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. Investment decisions by our clients are based on long-term views of the economic viability of their current and future projects, sometimes based upon the clients' view of the long-term prices of commodities which are influenced by many factors. If our clients' outlook for their current and future projects is not favourable, this may lead them to delay, reduce or cancel capital project spending and may make them more sensitive to construction costs. A 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.

As noted above, 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.

#### **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 and sometimes formally based on other factors, such as the level of services offered, safety record, construction schedule, design (if applicable), project personnel, the consortium, joint venture and subcontractor team, prior experience with the prospective client and/or the type of project, and financial strength including 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 balance sheet measured in terms of an adequate level of working capital and equity 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 or other factors, 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. Several 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 price for most 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 a contract or estimates of project costs that are 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 in an attempt to mitigate these risks.

### **Performance of Subcontractors**

Successful completion of a contract by Bird depends, in large part, on the satisfactory performance of its 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 possible damage to Bird's reputation.

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 a 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 subcontractor to mitigate Bird's exposure to the risks associated with the subcontractor's performance and completion. A significant shortage of qualified subcontractors and trades people or the bankruptcy of a subcontractor could have a material impact on Bird's financial condition and results of operations.

### **Maintaining Safe Work Sites**

Despite Bird efforts to minimize the risk of safety incidents, they can occur from time to time and, if 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 and any 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 sanctions 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 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 an attractive place to work, it could experience difficulty in hiring and retaining an adequate level of qualified staff. This could have an adverse effect on current operations of Bird and would limit its prospects and impair its future success.

### **PPP Equity Investments**

In addition to providing design and construction services on certain PPP infrastructure projects, Bird also makes investments in PPP concession entities through its wholly owned subsidiary, Bird Capital Limited. In this role, Bird arranges the financing and provides equity to some of the PPP projects it develops and assumes a degree of equity risk associated with the financial performance of the asset during the concession period.

Most PPP financing is provided on a non-recourse basis with most of the risk limited to the equity participation. Bird typically holds a minority equity investment in the concession and we usually expect to sell our investment in the concession soon after construction completion or shortly thereafter, when the terms of the concession investment requires us to hold the investment for a longer period of time.

Bird does not control the market for the investment, therefore there is a possibility that the value of the investment could become impaired. Also, a replacement of the contractors that perform the facility management services on these transactions exposes the equity investments to an erosion of the expected returns. This risk is partially mitigated by the security packages put in place by these contractors for each transaction. In addition,

Bird may be exposed to reputational risk should the project not be delivered on time or in accordance with design specifications. Exposure to the risk of non-performance could lead to a contract termination and loss of injected equity.

## 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 person-hours 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, 2017 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.