



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

## 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, 2017 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 8, 2018. This MD&A has been prepared as of November 7, 2018. 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

(in thousands of Canadian dollars, except per share amounts)	For the nine months ended September 30,	
	2018	2017 (restated) <sup>(1)</sup>
<b>Income Statement Data</b>		
Revenue	\$ 995,930	\$ 1,053,005
Net income (loss)	(7,392)	6,846
Basic and diluted earnings (loss) per share	(0.17)	0.16
<b>Cash Flow Data</b>		
Net decrease in cash and cash equivalents during the period	(55,255)	(164,165)
Cash flows used in operations	15,459	(123,762)
Additions to property and equipment <sup>(2)</sup>	12,548	12,287
Cash dividends paid	12,436	13,746
Cash dividends declared per share	0.29	0.29
	<b>September 30,</b>	<b>December 31, 2017</b>
	<b>2018</b>	<b>(restated)<sup>(1)</sup></b>
<b>Balance Sheet Data</b>		
Total assets	648,377	713,872
Working capital	73,807	84,078
Loans and borrowings (current and non-current)	30,632	18,598
Shareholders' equity	133,994	153,816

<sup>(1)</sup> 2017 reported figures have been restated applying IFRS 15. See "Accounting Policies - New Accounting Standards Adopted"

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

## 2018 HIGHLIGHTS

- During the third quarter of 2018, the Company recorded a net income of \$4.4 million on construction revenue of \$381.4 million, compared with a net income of \$5.9 million on \$388.8 million of construction revenue respectively in 2017. The year-over-year decline in third quarter net income is reflective of lower volume recognized in the Company's higher margin self-perform mining operations in eastern Canada, a result of client driven project delays experienced in 2018.
- During the first nine months of 2018, the Company recorded a net loss of \$7.4 million on construction revenue of \$995.9 million compared with net income of \$6.8 million on \$1,053.0 million of construction revenue in 2017. In addition to the delay in mining projects noted above, the industrial operations in western Canada were also impacted by project delays primarily in the first half of 2018. The Company was negatively impacted in the second quarter by a labour strike at one of the Company's primary mining clients, resulting in a minimal work program combined with higher maintenance costs. In addition, one of the Company's offices experienced execution issues on several projects that were largely design related, and the Company is seeking recovery accordingly. The Company has recorded provisions to account for the expected increase in construction costs on these projects and has taken steps to mitigate further impacts on results. In addition, the first quarter of 2018 was negatively impacted by the adoption of IFRS 15, Revenue from Contracts with Customers, which impacted the timing of recognition of revenue on a significant amount of change orders and claims related to a PPP project that achieved substantial completion during the first quarter of 2018 that was constrained to zero. Through the dispute resolution

process and as the constraints on the variable consideration are removed, revenue from the change orders and claims will be recognized at that time.

- In the first nine months of 2018, the Company secured \$1,044.9 million of new contract awards and change orders and executed \$995.9 million of construction revenues. The new contract awards through the first nine months of the year contributed to a Backlog of \$1,235.0 million for the Company at September 30, 2018, an increase of \$49.0 million, or 4.1% from the \$1,186.0 million of Backlog recorded at December 31, 2017.
- In the first half of 2018, the Company was awarded multiple work packages totaling \$72.0 million for seven pump stations on the Enbridge Line 3 project. Work commenced late in the second quarter and is expected to contribute positively to financial results for the balance of 2018 and 2019.
- The Company announced that it has a 50% interest in a construction joint venture that is part of the Hartland Resource Management Group consortium that will design and build the residuals treatment facility for the Capital Regional District (“CRD”) in Victoria, BC. The Company also has taken a minority equity interest in the concession responsible for the design, construction, financing, operations and maintenance of the project through Bird Capital, a wholly owned subsidiary.
- In the second quarter, the Company was contracted to build a hotel and conference centre in Iqaluit, Nunavut for the Qikiqtaaluk Corporation. The project will use Stack Modular to supply modular units as part of the hotel.
- In the third quarter, the Company executed a contract for the Ontario Provincial Police (OPP) Modernization Phase 2 project to design, build and finance OPP detachments in nine Ontario communities. Bird will undertake the design and build and will also own the concession responsible for the financing of the project through Bird Capital. In 2012, the Company successfully completed Phase 1 of the modernization program.
- In the third quarter, the Company was selected as first negotiations proponent as part of the CBS JV Corp to execute, under an Integrated Project Delivery (“IPD”) contract model, the construction of the Advanced Nuclear Materials Research Centre (“ANMRC”) for Canadian Nuclear Laboratories (“CNL”) located in Chalk River, Ontario. Bird is part of the joint venture that will lead the construction of the project. The project has not yet been added to Backlog as CBS JV Corp is working through the validation phase, which confirms the project’s financial viability and is expected to be completed in the second quarter of 2019.
- The Company achieved substantial completion on two Public Private Partnership and alternative finance (“PPP”) projects in the nine months ended September 30, 2018:
  - East Rail Maintenance Facility - At more than 500,000 sq. ft. and built on 76 acres, construction included progressive maintenance bays, coach maintenance shops, locomotive maintenance shops, paint booth, wheel shop, wash bays, fuel storage, a track maintenance building, track, and track switches.
  - Moncton Downtown Events Centre - The 8,800 seat, 250,000 sq. ft. facility is the largest project the City of Moncton has procured and completed. The centre will serve as a catalyst for downtown development in the City, will be the host for major sports and entertainment.
- In the first nine months of 2018, cash and cash equivalents decreased \$54.7 million net of the effects of foreign exchange to \$78.4 million, from the \$133.1 million balance at the end of 2017. The majority of the decrease in cash and equivalents during the nine months ended September 30, 2018 relate to changes in the non-cash net current asset/liability position which can fluctuate significantly in the normal course of business.

- The Board has declared monthly eligible dividends of \$0.0325 per common share for November 2018, December 2018, January 2019 and February 2019.

## 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 98 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, construction management and integrated project 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 second full year of implementation in 2018 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 consisted of PPP and large design-build projects in the institutional sector as well as smaller midstream oil & gas capital projects in western Canada. In the coming years, this will also include projects in the nuclear market in Ontario as well as Maintenance, Repair and Operations ("MRO") opportunities for our energy clients. For Bird Heavy Civil (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**

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### *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 was the ongoing development of the Edmonton Commercial office which, coupled with our office in Calgary, will broadly service the institutional, municipal and commercial sectors in the Alberta region. While the market conditions are expected to remain difficult in 2018, the offices in Alberta will continue efforts to organically grow their 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. (rebranded Bird Heavy Civil) into industrial markets in western Canada, enhancing our existing relationships and self-perform operations. More recently, the Company plans to leverage its 2017 investment in Stack which 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. The Company 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. 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 with 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, Bird Heavy Civil 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, Ontario and northern Canada to diversify from Bird Heavy Civil's historical focus 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 market conditions seen in the resource sector in recent years.

### *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 to project execution and less to 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**

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### *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**

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### *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 1st Attitude*

A primary initiative of the Build Relationships pillar, the Creating a Customer 1st 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.

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 \$1,235.0 million at September 30, 2018 increased compared with \$1,186.0 million at December 31, 2017. In the first nine months of 2018, the Company announced that it was part of the consortium that has been contracted to design and build a biosolids facility for CRD in Victoria, BC, representing another strategic win and building on the Company's expanding portfolio of environmental projects. The Company also announced that it has executed a contract for the OPP Modernization Phase 2 project and also announced it was selected as first negotiations proponent as part of the CBS JV Corp to execute, under an IPD contract model, for the construction of the Advanced Nuclear Materials Research Centre for CNL located in Chalk River, Ontario. Bird is part of the joint venture that will lead the construction of the project. The Advanced Nuclear Research Centre is not yet included in Backlog as the contract is being finalized.

(in thousands of Canadian dollars)	<b>September 30, 2018</b>	September 30, 2017	December 31, 2017
Backlog	\$ 1,235,030	\$ 1,346,600	\$ 1,186,000

Once the Company has secured a contract, the profitability of that contract, measured by the Gross Profit Percentage, is primarily a function of management's ability to control costs, achieve productivity objectives



associated with the contract and resolve outstanding commercial issues as they arise. The following table shows the Gross Profit Percentage realized by the Company in the comparative periods.

	<b>Nine months ended September 30, 2018</b>	(restated) Nine months ended September 30, 2017	(restated) Year ended 2017
Gross Profit Percentage	<b>3.5%</b>	<b>4.8%</b>	5.0%

During the first nine months of 2018 the Company realized a Gross Profit Percentage of 3.5% compared with 4.8% in the first nine months of 2017. In general, the Company realizes a lower Gross Profit Percentage in the first half relative to the rest of the year, a reflection of seasonality, particularly in the first quarter, and the lower contribution from our higher margin industrial work programs. The reduction in both gross profit and Gross Profit Percentage in 2018 is a result of several factors. In the first quarter of 2018, the Company incurred additional costs, including financing costs from lenders, on a PPP project that was late in achieving substantial completion. The Company has submitted a claim against the client for delay and the resulting impacts, although no revenue recovery has been recorded to date, in accordance with IFRS 15, as it is variable consideration that has been constrained to zero. Further impacting gross profit and Gross Profit Percentage in 2018 was lower volumes recognized in the Company's higher margin self-perform operations in both the industrial operations in western Canada and mining operations in eastern Canada, a result of project delays and a labour strike at one of Company's primary mining clients. In the second quarter of 2018, the Company incurred a significant amount of repair and maintenance costs on its heavy civil mining fleet to take advantage of the equipment downtime realized due to the labour strike at one of its primary mining clients. The Company expects to recoup this expense with higher equipment utilization in the balance of 2018 as the work program comes back online. In addition, late in the second quarter, it became apparent one of the Company's offices was experiencing difficulty in the execution of several projects primarily due to design related issues. The Company has recorded provisions to account for the expected increase in construction costs on these projects, has taken steps to mitigate further impacts on results, and is seeking recovery accordingly. The Gross Profit Percentage in the third quarter of 2018 increased to 5.1% and reflects the impact of a growing contribution from industrial projects and a more diversified and balanced work program overall for the Company.

### 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)	<b>September 30, 2018</b>	(restated) September 30, 2017	(restated) December 31, 2017
Working capital	\$ 73,807	\$ 91,200	\$ 84,078
Shareholders' equity	\$ 133,994	\$ 155,966	\$ 153,816

At September 30, 2018, the Company had working capital of \$73.8 million compared with \$84.1 million at December 31, 2017, a decline of \$10.3 million. In the first nine months of 2018, the Company invested in capital additions, net of financing, of \$4.6 million and paid dividends of \$12.4 million, which served to reduce cash and negatively impact working capital. This was partially offset by \$4.0 million of equity investments that the

Company has decided to sell and now are classified as current assets. The Company experienced a net loss of \$7.4 million, and increased its long-term loans and borrowing by \$10.0 million, generating additional cash.

The \$19.8 million decrease in the amount of the Company's shareholders' equity since December 31, 2017 is a result of the \$12.4 million dividends declared in the first nine months of 2018 combined with the net loss of \$7.4 million generated in the first nine months of 2018.

## 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 employees 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 our job sites. As part of the Safe Production strategic initiative, the Company completed an organization wide Safety Culture Assessment in the third quarter of 2017 which will form the basis for the development of a long-term safety strategy for the organization.

In 2018, Bird executed 2,919,600 man-hours of work, incurring zero lost time incidents (LTI) for an LTI frequency of 0.00.

	<b><u>Nine months ended September 30, 2018</u></b>	Nine months ended September 30, 2018	Year ended <u>December 31, 2017</u>
LTI frequency	<b>0.00</b>	0.23	0.16

## RESULTS OF OPERATIONS

### **NINE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2017**

During the first nine months of 2018, the Company recorded a net loss of \$7.4 million on construction revenue of \$995.9 million compared with a net income of \$6.8 million on \$1,053.0 million of construction revenue in 2017. Construction revenue of \$995.9 million was \$57.1 million or 5.4% lower than the \$1,053.0 million recorded in first nine months of 2017. Volume in the third quarter was relatively flat year-over-year, with a decline in revenues generated from mining offset by improvements in industrial operations in western Canada. Volume in the second quarter was negatively impacted by several factors in the markets which the Company serves, including a labour strike at one of the Company's primary mining clients in eastern Canada that put active projects on hold until the strike ended late in the second quarter. In addition, delays in mining and industrial projects in both eastern Canada and western Canada, largely impacting self-perform operations, combined with extension of the procurement timelines of several PPP projects, primarily in the Ontario region, has resulted in lower volumes executed in the third quarter. These factors coupled with an industrial work program that

had lower backlog entering the year from a historical perspective contributed to lower volume in the first nine months.

The Company's gross profit of \$34.8 million in the first nine months of 2018 was \$15.6 million or 30.9% lower than the \$50.4 million recorded in the first nine months of 2017. In the first nine months of 2018, the Gross Profit Percentage of 3.5% was 1.3% lower than the Gross Profit Percentage of 4.8% recorded in the first nine months of 2017. Gross profit in the third quarter was above 5%, so the year-over-year reduction in both gross profit and Gross Profit Percentage in 2018 is primarily a result of several factors that have transpired through the first half of 2018. In the first quarter of 2018, the Company incurred additional costs, including financing costs from lenders, on a PPP project that was late in achieving substantial completion. The Company has submitted a claim against the client for delay and the resulting impacts, although no revenue recovery has been recorded to date, in accordance with the adoption of the new IFRS 15 accounting standard as it relates to constrained variable consideration. Further impacting gross profit and Gross Profit Percentage in 2018 was lower volumes recognized in the Company's higher margin self-perform operations in both the industrial operations in western Canada and mining operations in eastern Canada, a result of project delays and a labour strike at one of the Company's primary mining clients. In the second quarter of 2018, the Company incurred a significant amount of repair and maintenance costs on its heavy civil mining fleet to take advantage of the equipment downtime realized due to the labour strike at one of its primary mining clients. The Company expects to recoup this expense with higher equipment utilization in the balance of 2018 as the work program comes back online. In addition, late in the second quarter, it became apparent one of the Company's offices was experiencing difficulty in the execution of several projects primarily due to design related issues. The Company has recorded provisions to account for the expected increase in construction costs on these projects, has taken steps to mitigate further impacts on results, and is seeking recovery accordingly.

Income from equity accounted investments in the first nine months of 2018 was \$0.4 million, compared with \$1.6 million in the first nine months of 2017. Early in project lifecycles, equity investments in associates generally operate at a loss and typically generate positive equity income later in the project lifecycle. In third quarter 2017, the Company realized equity income from the completion of certain projects.

In the first nine months of 2018, general and administrative expenses of \$44.1 million (4.4% of revenue) was \$1.5 million higher than \$42.6 million (4.0% of revenue) in the first nine months of 2017. During the first nine months, the Company spent \$2.3 million in third-party pursuit costs which is \$1.1 million lower than the amount recorded in 2017. Compensation expense was \$3.0 million higher year-over-year primarily due to a loss recorded in the total return swap program resulting from the decline in the Company's share price in the first nine months of 2018.

Finance income in the first nine months of 2018 of \$0.9 million is comparable to the \$0.9 million recorded in the first nine months of 2017.

Finance and other costs of \$2.2 million in the first nine months of 2018 was \$1.4 million higher than the \$0.8 million reported in the first nine months of 2017. The increase is due to higher interest costs associated with increased loans and borrowings as a well as non-recourse project financing.

In the first nine months of 2018, income tax recovery was \$2.9 million, compared to income tax expense of \$2.6 million recorded in the first nine months of 2017.

## THREE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2017

During the third quarter of 2018, the Company recorded a net income of \$4.4 million on construction revenue of \$381.4 million compared with a net income of \$5.9 million on \$388.8 million of construction revenue respectively in 2017. Delays in mining projects in eastern Canada, largely impacting self-perform operations, combined with extension of the procurement timelines of several PPP projects, primarily in the Ontario region, has resulted in lower volumes executed in the current quarter. The delays were partially offset by year-over-year increases in industrial projects in western Canada.

The Company's third quarter gross profit of \$19.4 million was \$2.8 million or 12.8% lower than the \$22.2 million recorded a year ago. The decrease in the amount of third quarter 2018 gross profit is partially due to the lower total gross profit realized on lower quarterly construction revenues. The Company's third quarter 2018 Gross Profit Percentage of 5.1% was 0.6% lower than the Gross Profit Percentage of 5.7% recorded a year ago. On a year-over-year comparative basis, gross profit and Gross Profit Percentage in 2018 was negatively impacted by lower volumes recognized in the Company's higher margin self-perform operations in the industrial mining operations in eastern Canada, a result of client driven project delays.

Income from equity accounted investments in the third quarter of 2018 was a loss of \$0.3 million, compared with income of \$0.9 million in same period of 2017. The income in 2017 was driven by earnings in entities that achieved substantial completion whereas in 2018, there are entities that are in the early stages of construction.

In the third quarter of 2018, general and administrative expenses of \$12.8 million (3.4% of revenue) was \$2.2 million lower than \$15.0 million (3.9% of revenue) in the comparable period a year ago. During the third quarter, the Company had minimal third-party pursuit costs which is \$2.4 million lower than the amount recorded in 2017. Compensation expense was \$0.4 million higher than the amount recorded a year ago primarily due to a loss recorded in the total return swap program resulting from the decline in the Company's share price.

Finance income of \$0.3 million in the third quarter of 2018 is comparable to the \$0.3 million recorded in the same period of 2017.

Finance and other costs of \$0.5 million were \$0.3 million higher than the \$0.2 million reported in the third quarter of 2017. The increase is due to higher interest costs associated with loans and borrowings and non-recourse project financing.

In the third quarter of 2018, income tax expense was \$1.7 million, compared to income tax expense of \$2.3 million recorded in the third quarter of 2017.

## FUTURE OPERATING PERFORMANCE

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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 and margin improvement being key areas of focus.

At September 30, 2018, the Company was carrying a Backlog of \$1,235.0 million, representing an increase from the \$1,186.0 million carried at the end of 2017. The increase in backlog in the nine months of 2018 demonstrates the success in the diversification efforts of the Company, with securements across a broad range of market sectors. Additions in 2018 year-to-date include a PPP project for a residuals treatment facility for the Capital Region District in Victoria in which the Company has taken a minority equity interest in the concession and the OPP Modernization Phase 2 project for Ontario Infrastructure and Lands Corporation in which the Company will design, build and finance nine Ontario Provincial Police (OPP) detachments across Ontario.

The current backlog is still predominately characterized by institutional work, a result of securing a significant number of awards in this sector over the past several years. While backlog attributable to the industrial work program in western Canada has increased through the first nine months of 2018, it remains modest from a historical perspective. For mining operations in eastern Canada, backlog has remained low but stable to the end of September, although the Company has been awarded two contracts that will commence in the fourth quarter that will provide an increase in revenue and income through to the second quarter of 2019. As a result,

the Company expects a stronger first half of 2019, which has historically had more limited activity levels for mining operations due to seasonality and the annualized nature of the work programs.

The Company is also projecting significant growth in its Backlog over the next several quarters as it has been awarded projects but have not yet been contracted totaling more than \$500 million that can be added to Backlog. Two of these awards include previously announced projects, the 4,500-person Cedar Valley Lodge Workforce Accommodation Centre for LNG Canada located in Kitimat, British Columbia which is expected to be booked to Backlog in the fourth quarter of 2018 and the Advanced Nuclear Materials Research Centre for Canadian Nuclear Laboratories located in Chalk River, Ontario which is expected to be booked to Backlog in the second quarter of 2019. In addition, there are several projects in the institutional sector that are awarded including a design build project in Alberta expected to be booked to Backlog in the fourth quarter 2018 and a larger scale construction management project in British Columbia that is currently in the preconstruction phase and is expected to proceed in the first quarter of 2019.

With respect to the PPP market, the pipeline of projects remains robust, although there continue to be delays in tendering timelines, primarily for transportation related projects in Ontario. As of September 30, 2018, the Company has submitted on one project and is awaiting results and is in the pursuit phase for three additional projects that are scheduled for submission in the next several quarters. The Company has also been shortlisted on two more projects and is awaiting the request for proposals, although timing is uncertain, and is in the request for qualification stage for two others. The award of any of these project opportunities will primarily benefit 2019 and beyond.

The Company expects to see an improvement in earnings attributable to its higher margin self-perform industrial work programs in the balance of 2018 and expects overall earnings in the fourth quarter 2018 to exceed those recorded in the third quarter of 2018.

Heading into 2019, the Company expects to have a work program that is more balanced and diversified than it has been over the past several years, supporting progress towards returning to historical levels of profitability and growth. The Company anticipates double digit year-over-year revenue growth in 2019 and third-party pursuit costs that will return to more modest levels, which is a byproduct of both the Company being selective on PPP opportunities and on timing. Taking into consideration the favourable trends noted above, the Company expects earnings in 2019 to ramp up towards the \$25.0 million of net income level recorded in 2016.

### Backlog

During the nine months ended September 30, 2018, the Company secured \$1,044.9 million in new construction contracts (including change orders to existing contracts) and put in place \$995.9 million of work resulting in a Backlog at September 30, 2018 of \$1,235.0 million. The following table outlines the changes in the amount of the Company's Backlog throughout the current and prior fiscal years.

<b>Backlog</b>	
(in millions of Canadian dollars)	
December 31, 2016	\$ 1,137.0
Securement and change orders in 2017	1,467.6
Realized in construction revenues in 2017	(1,418.6)
December 31, 2017	<u>\$ 1,186.0</u>
Securement and change orders in 2018	1,044.9
Realized in construction revenues in 2018	(995.9)
	<u><u>\$ 1,235.0</u></u>

## ACCOUNTING POLICIES

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The Company's significant accounting policies are outlined in the notes to the audited December 31, 2017 and 2016 Consolidated Financial Statements. The consolidated financial statements were prepared using the same accounting policies as our 2017 consolidated financial statements except for new accounting standards adopted January 1, 2018.

### **New Accounting Standards Adopted**

Refer to the notes to the unaudited interim condensed consolidated financial statements at September 30, 2018 for a summary of the new accounting standards adopted.

### **Future accounting changes**

#### **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 are of low value. A lessee is required to recognize a right-of-use 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 impact of the standard has not yet been determined.

#### **IFRIC 23, Uncertainty over Income Tax Treatments:**

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The Company does not expect the Interpretation to have a material impact on the financial statements.

## SUMMARY OF QUARTERLY RESULTS

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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. In some cases, variations in earnings may occur where costs incurred to date may be recoverable from insurance policies or claims to customers at a future date but cannot be recorded in the current quarter. In the case of insurance claims, financial recovery is not recorded until certainty of the recovery is attained, in accordance with the Company's contingent asset accounting policy. Or in the case of claims to customers that are considered constrained variable consideration, revenue is not recorded until it is highly probable that there will not be a significant reversal of cumulative revenue to date, in accordance with the Company's revenue recognition accounting policy. 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 a prior quarter, and may fluctuate based on timing of resolution of claims.

There are also several 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, except for seasonality in the first quarter of each year.

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

	IFRS 15							
	2016 <sup>(1)</sup>	2017 <sup>(2)</sup>				2018		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	430,716	313,858	350,339	388,808	365,552	294,422	320,126	381,382
Net income/ (loss)	5,798	(2,216)	3,168	5,894	1,990	(6,408)	(5,344)	4,360
Earnings / (loss) per share	0.14	(0.05)	0.07	0.14	0.05	(0.15)	(0.13)	0.10

Notes:

<sup>(1)</sup> Results provided for 2016 have not been restated in accordance with IFRS 15.

<sup>(2)</sup> 2017 reported figures have been restated applying IFRS 15. See "Accounting Policies - New Accounting Standards Adopted".

## 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, 2018	December 31, 2017 (restated)
<b>Financial Position Data</b>		
Cash and cash equivalents	\$ 78,532	\$ 133,055
Non-cash working capital	(4,725)	(48,977)
Working capital	73,807	84,078
Non-current loans and borrowings	25,502	13,843
Shareholders' equity	133,994	153,816

The Company has adequate amounts of both working capital and equity and expects to be able to maintain its current dividend rate until earnings are rebuilt to pre-2017 levels, which is expected to result from progress executing the Company's diversification strategy. As a component of working capital, the Company maintains a balance of cash and cash equivalents. At September 30, 2018, this balance amounted to \$78.5 million. Included in cash and cash equivalents is \$40.4 million of cash in special purpose joint operation bank accounts (\$46.2 million at December 31, 2017).

The non-cash net current asset/liability position was in a net liability position of \$4.7 million at September 30, 2018, compared to a net liability position of \$49.0 million at December 31, 2017 which accounted for \$44.3 million of the \$54.5 million decrease in cash. In the first nine months of 2018, the Company invested in capital additions, net of financing, of \$4.6 million and paid dividends of \$12.4 million, which served to reduce cash and negatively impact working capital. This was partially offset by \$4.0 million of equity investments that the Company has decided to sell and now are classified as current assets. The Company experienced a net loss of \$7.4 million, and increased its long-term loans and borrowing by \$10.0 million, generating additional cash.

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 the timing in the settlement of income taxes payable. The Company's cash balances absorb these fluctuations with no net impact to the Company's net working capital position or ability to access contract surety support. The Company believes it has sufficient working capital to support its current contract requirements for 2018. The Company has submitted proposals and is waiting for the clients' award decision on several large industrial opportunities that if contracted to the Company would significantly increase Backlog and may require access to additional liquidity. If the Company is successful in securing some of these larger opportunities, the Company has access to adequate financing from its lead banking partner.

## 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 \$85.0 million, with a Canadian chartered bank. The term of the facility matures December 31, 2021. 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, 2018, the Company has \$25.3 million in letters of credit outstanding on this facility (December 31, 2017 - \$26.4 million) and has drawn \$15.0 million on this facility (December 31, 2017 - \$5.0 million). The \$15.0 million draw is presented as loans and borrowings on the Company's statement of financial position as the facility matures in 2021.

### Letters of Credit Facilities

The Company has available \$80.0 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. At September 30, 2018, the Company has \$10.5 million in letters of credit outstanding on this facility (December 31, 2017 - \$25.0 million).

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, 2018</u>	<u>September 30, 2017</u>	<u>December 31, 2017</u>
Committed revolving line of credit	\$ 85,000	\$ 55,000	\$ 70,000
Letters of credit facilities	\$ 80,000	\$ 122,000	\$ 105,000
Letters of credit issued	\$ 35,889	\$ 51,134	\$ 51,506
Collateral pledged to support letters of credit	\$ 5,667	\$ 22,066	\$ 20,253
Guarantees provided by EDC	\$ 4,891	\$ 4,891	\$ 4,891

The decrease in the amount of outstanding letters of credit at the end of September 30, 2018 compared to the end of 2017 is primarily the result of the cancellation of letters of credit that were issued in respect to the Calgary Composting Facility project and reductions in the collateralized letters of credit issued related to the East Rail Maintenance Facility and the Stanton Territorial Hospital Redevelopment Project.

### Equipment Financing

The Company and its subsidiaries have term credit facilities of up to \$40.0 million to be used to finance equipment purchases. Borrowings under the facilities are secured with a first charge on the equipment being financed. As of September 30, 2018, there is \$6.6 million outstanding on the facilities (December 31, 2017 - \$5.8 million). Interest on the facilities 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, 2017 - \$42.5 million) with the financing arms of several major heavy equipment suppliers to finance the purchase of equipment. Draws under this facility are typically recognized as finance leases or operating leases



for accounting purposes. At September 30, 2018, the Company has used \$7.1 million under the facilities (\$6.0 million at December 31, 2017). The Company's total lease commitments are outlined under Contractual Obligations.

At September 30, 2018, the Company was in compliance with all debt covenants relating to its operating and equipment lines of credit.

### Loans and Borrowings

In 2018, the Company entered into a new fixed-rate term loan for \$3.7 million, a variable loan borrowing of \$10.0 million and entered into finance leases for \$3.7 million to finance equipment purchases. The Company made \$5.3 million in principal repayments (including finance lease repayments).

The following table provides details of outstanding debt as at September 30, 2018, 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	\$ 21,301	\$ 2,169	\$ 1,809	\$ 1,274	\$ 15,877	172

## 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,	
	2018	2017 (restated)
<b>Cash Flow Data</b>		
Cash flows from (used in) operations before changes in non-cash working capital	\$ 877	\$ 18,608
Changes in contract assets - alternative finance projects	69,209	(552)
Changes in non-cash working capital and other	<u>(54,627)</u>	<u>(141,818)</u>
Cash flows used in operating activities	<u>15,459</u>	<u>(123,762)</u>
Investments in equity accounted entities	(1,750)	(10,536)
Capital distributions from equity accounted entities	1,593	-
Additions to property, equipment and intangible assets	(12,548)	(12,287)
Proceeds on sale of property and equipment	2,921	7,183
Purchase of short-term investments	(4,742)	(6,943)
Proceeds on maturity of short-term investments	3,107	-
Other long-term assets	(209)	(340)
Cash flows used in investing activities	<u>(11,628)</u>	<u>(22,923)</u>
Dividends paid on shares	(12,436)	(13,746)
Proceeds from non-recourse project financing	21,473	24,878
Repayment of non-recourse project financing	(76,474)	(27,662)
Proceeds from loans and borrowings	13,671	1,786
Repayment of loans and borrowings	(5,320)	(2,736)
Cash flows from (used in) financing activities	<u>(59,086)</u>	<u>(17,480)</u>
Decrease in cash and cash equivalents	\$ <u>(55,255)</u>	\$ <u>(164,165)</u>

## Operating Activities

During the first nine months of 2018, cash flows from operating activities generated cash of \$15.5 million compared with cash used of \$123.8 million in the first nine months of 2017. In the first nine months of 2018, cash flows from operations generated \$0.9 million of cash from operating activities before changes in non-cash working capital and used \$54.6 million of cash derived from changes in non-cash working capital relating to operating activities, excluding changes in contract assets - alternative finance projects. In 2017, the comparative amounts were \$18.6 million of cash generated from operations before changes in non-cash working capital and \$141.8 million cash used from changes in non-cash working capital relating to operating activities excluding changes in contract assets - alternative finance projects.

The year-over-year decrease in cash flows from operations before changes in non-cash working capital from 2017 is primarily the result of the \$7.4 million net loss in 2018 compared to \$6.8 million net income in 2017 and the change in income tax recovery year-over-year of \$2.9 million in 2018 from an income tax expense of \$2.6 million in 2017.

In the first nine months of 2018, the \$54.6 million use of cash is driven by a \$57.1 million increase in accounts receivable, partially offset by a 3.7 million increase in contract liabilities.

In the first nine months of 2017, the primary driver of the \$141.8 million use of cash from the changes in non-cash working capital and other is the \$63.4 million decrease of accounts payable. The decrease is primarily the result of payments made to subcontractors in January of 2017 following the collection late in the fourth

quarter of 2016 of a holdback receivable. There was also \$23.3 million of taxes paid, a \$45.1 million increase in accounts receivable, and a \$9.0 million increase in other contract assets.

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 2018, the Company used \$11.6 million of cash in investing activities compared to the \$22.9 million use of cash in the first nine months of 2017. The amount of cash used to purchase property, equipment and intangible assets in 2018 of \$12.5 million is an increase of \$0.2 million compared to the \$12.3 million used in the first nine months of 2017 and reflects the renewal of a portion of the equipment fleet to support upcoming self-perform work programs. During the first nine months of 2018, the Company used \$0.2 million in cash from investments, net of capital distributions from equity accounted investments, compared to a use of cash of \$10.5 million in the first nine months of 2017 which resulted from equity investments in PPP projects.

### **Financing Activities**

During the first three quarters of 2018, the Company used \$59.1 million of cash from financing activities compared with a use of cash of \$17.5 million in first three quarters of 2017. The increase in the use of cash in financing activities in first three quarters of 2018 is primarily a result of the \$76.5 million repayment of non-recourse project financing made in the third quarter of 2018 compared to a \$27.7 million repayment in the second quarter of 2017. The \$76.5 million repayment in 2018 was partially offset by the \$21.5 million in proceeds from non-recourse project finance. In addition, the amount of dividends paid were not offset by the net increase in proceeds from loans and borrowings.

### **DIVIDENDS**

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

July 1, 2017 to September 30, 2017	\$ 0.0975
October 1, 2017 to December 31, 2017	\$ 0.0975
January 1, 2018 to March 31, 2018	\$ 0.0975
April 1, 2018 to June 30, 2018	\$ 0.0975
July 1, 2018 to September 30, 2018	\$ 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 forecast. 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

At September 30, 2018, the Company has future contractual obligations of \$455.2 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 Payable	Long-Term Debt	Finance Leases	Operating Leases	Non-recourse Project Financing	Deferred payment	Total
2018	\$ 370,397	720	802	1,637	64	30	373,650
2019	83	2,134	3,186	5,168	255	726	11,552
2020	8,098	1,766	3,197	4,824	9,207	-	27,092
2021	1,242	16,173	2,294	4,100	-	-	23,809
2022	-	840	249	3,729	-	-	4,818
Thereafter	-	-	-	14,232	-	-	14,232
	\$ 379,820	21,633	9,728	33,690	9,526	756	455,153

## 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 \$44.0 million at September 30, 2018.

Further details of commitments and contingent liabilities are included in Note 23 of the September 30, 2018 unaudited interim condensed consolidated financial statements.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make judgements, 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 judgements 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, applying the new revenue recognition policy under IFRS 15.

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, 2018 and December 31, 2017.

At September 30, 2018, 490,000 stock options are outstanding with a weighted average exercise price of \$13.55 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, 2018, 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, 2018, 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, 2018 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 8, 2018, 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 and Schedules/Assessing Contract Risks**

The price for most contracts performed by Bird is based, in part, on cost and schedule 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 and schedules that are in error, potentially resulting in lower than anticipated profit or significant. All significant cost and schedule 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.

### **Design**

While many contracts entered into by Bird are for construction or construction services only, certain contracts are undertaken on a design-build basis, under which Bird is responsible for both design and construction of the project, which adds design risk assumed by Bird. While Bird subcontracts all of the design scope in such design-build contracts to reputable designers, there is generally not a full transfer of design-related risks. These risks include design development and potential resulting scope creep, delays in the design process that may adversely affect the overall project schedule, and design errors and omissions.

To manage these risks, Bird manages and oversees the design process, coordinates the design deliverables with the construction process and, for significant design-build projects, purchases errors and omissions insurance.

### **Maintaining Safe Work Sites**

Despite Bird's 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 usually expects to sell the investment in the concession soon after construction completion or shortly thereafter, when the terms of the concession investment requires the Company to hold the investment for a longer period of time. All of the concession partners are required to secure their participation at financial close with letters of credit. A concession partner becoming insolvent does not represent a risk to the concession as these letters of credit ensure no short funding occurs. If the entity providing the services to the concession and/or the service provider's guarantor become insolvent, a replacement of the insolvent entity or entities might be required. If the services cannot be provided by a new entity for the same costs, there is risk that the full-value of the concession may not be realized after the project has been constructed and is operating within contractual parameters.

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.

### **Potential Fluctuations in Quarterly Financial Results**

Bird's quarterly financial results may be impacted by a variety of factors including, without limitation: the timing of recognition of revenue from existing projects, the ability to accurately estimate costs for completion of work, the availability of and competition for new projects, costs or penalties associated with unanticipated delays in project completion, fluctuations in the general economic and business conditions in the market in which Bird operates, actions by governmental authorities including the level of governmental demand for the services provided by Bird, governmental regulations and expenditures required to comply with them, labour unrest involving Bird's workers or of its subcontractors and suppliers, many of whom are unionized, seasonal weather conditions, poor or delayed performance on projects, default of its subcontractors or suppliers, and other conditions affecting revenues and expenses. Bird's operating expenses are incurred throughout each quarter. As a result, if expected revenues are not realized as anticipated, Bird's quarterly financial results could be materially adversely affected. Accordingly, there may be significant variations in the Company's consolidated quarterly financial results.



In addition, construction contracts typically extend over several quarters and sometimes over several years. For purposes of quarterly financial reporting, the Company must estimate the cost required to complete each contract to assess the 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. In some cases, variations in earnings may occur where costs incurred to date may be recoverable from insurance policies or claims to customers at a future date but cannot be recorded in the current quarter. In the case of insurance claims, financial recovery is not recorded until certainty of the recovery is attained, in accordance with the Company's contingent asset accounting policy. Or in the case of claims to customers that are considered constrained variable consideration, revenue is not recorded until it is highly probable that there will not be a significant reversal of cumulative revenue to date, in accordance with the Company's revenue recognition accounting policy. As a result, earnings may fluctuate significantly from quarter-to-quarter, depending on the size and number of contracts completed or nearing completion during the quarter, or have been completed in a prior quarter, and may fluctuate based on timing of resolution of claims.

## 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. It includes all of the Company's remaining performance obligations in its contracts with its clients. It does not include amounts for variable consideration that are constrained, agency relationship construction management projects, and estimated future work orders to be performed as part of master services agreements.
- **"Lost Time Incident Frequency"** is the number of lost time incidents recorded per 200,000 manhours of work by Bird employees.

## FORWARD-LOOKING INFORMATION

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

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. In particular, this MD&A includes many such forward-looking statements and the Company cautions the reader that such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual financial results, performance or achievements of the Company to be materially different from the Company's estimated future results, performance or achievements expressed or implied by those forward-looking statements and the forward-looking statements are not guarantees of future performance. Risks that may impact the Company's future results, performance or achievements include those described under "Risks Relating to the Business" in this MD&A and in the Company's Annual Information Form dated March 8, 2018 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.