

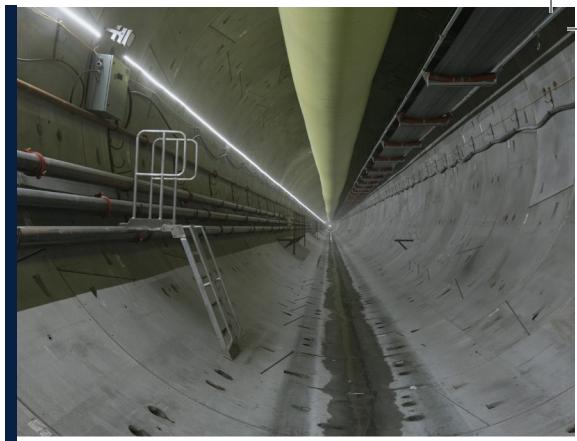


2022

ANNUAL REPORT



“Aecon is focused on achieving solid execution on its projects and selectively adding to backlog through a disciplined bidding approach that supports long-term margin improvement, with a strategic focus on projects linked to the energy transition, targeting prudent balance sheet leverage and liquidity, and preserving capital for long-term growth and concession opportunities.”



Cover Photo: BC Hydro Telkwa Relocation Transmission Project – Telkwa, BC

Image Credit: GE Hitachi Nuclear Energy

Dear Shareholders,

Aecon's 2022 results were driven by record full year revenue of \$4.7 billion, representing an 18% year-over-year increase. While overall profitability was impacted by a net operating loss of \$120 million on four legacy projects, execution and margin performance across the rest of the business was solid. Backlog¹ at the end of the year was \$6.3 billion, diversified across Aecon's operating sectors.

Strong revenue growth, and new awards in the year of \$4.8 billion, were underpinned by a strategic focus on clean energy and decarbonization projects. This past year, Aecon continued to work with clients to help them meet their sustainable infrastructure needs and harness the opportunities that are expected to come from the transition to a net zero economy.

Aecon was also pleased to be awarded contracts for major projects that were procured and will be delivered through more collaborative models than have traditionally been used, especially as these awards were for projects linked to the energy transition.

A consortium in which Aecon is a participant is delivering the long-term GO Expansion On-Corridor Works project in Ontario under a progressive design, build, operate and maintain contract model, which commenced with a two-year development phase, leading into both the construction phase and a 25-year operations and maintenance component. Another consortium in which Aecon is the lead partner is delivering the Scarborough Subway Extension Stations, Rail and Systems project in Ontario under a progressive design-build model, beginning with an 18-month development phase leading into the implementation phase under a target price contract. None of the anticipated work from these two long-term projects is yet reflected in backlog.

Subsequent to year-end, an Aecon partnership executed a six-year alliance agreement to deliver North America's first grid-scale Small Modular Reactor through Ontario Power Generation's Darlington New Nuclear Project. In addition, Oneida Energy Storage Limited Partnership (Oneida LP), a consortium in which Aecon Concessions will be an approximately 10% equity partner upon financial close, executed an agreement with the Independent Electricity System Operator (IESO) for the Oneida Energy Storage Project to deliver a 250 megawatt / 1,000 megawatt-hour energy storage facility in Ontario, which would currently represent the largest battery storage project in Canada. Under the agreement, Aecon was awarded an Engineering, Procurement and Construction contract by Oneida LP.

Also subsequent to year-end, Aecon announced it entered into two definitive agreements which are consistent with its goal of targeting prudent balance sheet leverage and liquidity, preserving capital for long-term growth and concession opportunities, and reducing the overall capital intensity of Aecon's business:

- A purchase agreement with Green Infrastructure Partners Inc. (GIP), under which Aecon has agreed to sell its Aecon Transportation East (ATE) roadbuilding, aggregates and materials businesses in Ontario for \$235 million in cash. In 2022, ATE's revenue represented approximately 7% of Aecon's consolidated revenue. The transaction is expected to close in the second quarter of 2023 and is subject to customary adjustments and closing conditions, including obtaining all necessary regulatory approvals; and
- An agreement with Connor, Clark & Lunn Infrastructure (CC&L Infrastructure) to sell a 49.9% minority interest in the L.F. Wade International Airport (Bermuda International Airport) concessionaire, Bermuda Skyport Corporation Limited, for US\$128.5 million in cash. Aecon Concessions will retain the management contract for the airport. The transaction is subject to customary closing conditions and is expected to close in the second quarter of 2023.

Aecon continues its focus on achieving its greenhouse gas emissions reduction goals, including a 30% reduction in direct CO₂ emissions (scopes 1 and 2) by 2030 as compared to 2020 and net zero (scopes 1, 2 and 3) by 2050, which are intensity-based targets based on economic output and represent tonnes of CO₂ per million dollars of revenue. In 2022, Aecon Sustainability Solutions was launched, establishing a single point of entry to its sustainability capabilities and offering integrated project management throughout a project's lifecycle to assist clients in navigating the complexities of decarbonization and energy transition opportunities. Aecon looks forward to publishing its 2022 Sustainability Report in April 2023, celebrating key accomplishments and goals in its Environmental, Social and Governance (ESG) practices.

Building on Aecon's inaugural Reconciliation Action Plan (RAP) released this past year, Aecon also looks forward to publishing its progress in collaboratively seeking meaningful ways to engage in reconciliation by working together with Indigenous Peoples.

Moving forward with \$6.3 billion of backlog as at December 31, 2022 Aecon believes it is positioned to achieve further revenue growth over the next few years, further supported by growing recurring revenue programs and ongoing recovery in airport traffic in Bermuda. Aecon and its joint venture partnerships are also prequalified on a number of project bids due to be awarded during the next 12 months, representing a pipeline of opportunities to further add to backlog over time.

While volatile global and Canadian economic conditions are impacting inflation, interest rates, and overall supply chain efficiency, these factors have stabilized to some extent and have largely been and will continue to be reflected in the pricing and commercial terms of the Company's recent and prospective project awards and bids. However, certain ongoing joint venture projects that were bid some years ago have experienced impacts related, in part, to those factors, that will require satisfactory resolution of claims with the respective clients – see Section 5 "Recent Developments", Section 10.2 "Contingencies" and Section 13 "Risk Factors" in the Company's December 31, 2022 MD&A regarding the risk on four large fixed-price legacy projects entered into in 2018 or earlier by joint ventures in which Aecon is a participant.

Aecon is focused on achieving solid execution on its projects and selectively adding to backlog through a disciplined bidding approach that supports long-term margin improvement. In addition to expecting an ongoing recovery in travel through the Bermuda International Airport in 2023, there are a number of opportunities to add to the existing portfolio of Canadian and international concessions in the next 12 to 24 months, including projects with private sector clients that support a collective focus on sustainability and the transition to a net zero economy.

Aecon remains dedicated to the *Moving Aecon Forward Together 2022–2024 Strategic Plan* and its key focus areas designed to motivate a culture of safety, adaptive risk management, innovation, operational excellence and continuous improvement while unlocking people's potential and executing targeted and disciplined growth.²

Thank you for your continued support.

Sincerely,



John M. Beck
Chairman



Jean-Louis Servranckx
President and Chief Executive Officer

¹ Refer to Section 4 – Non-GAAP and Supplementary Financial Measures in the Company's December 31, 2022 MD&A dated February 28, 2023 for more information on backlog.

² This Annual Report, including the letter to shareholders, includes certain forward-looking statements which may constitute forward-looking information under applicable securities laws. For information on these forward-looking statements, related risks and assumptions, and additional information, please refer to Section 2 – Forward-Looking Information in the Company's December 31, 2022 MD&A and the Statement on Forward-Looking Information in Aecon's March 1, 2023 and March 15, 2023 news releases concerning the sale transactions involving GIP and CC&L Infrastructure, respectively, available on the Company's SEDAR profile (www.sedar.com).

2022 Sustainability Highlights

Helping Build a Sustainable Future

Sustainability Offerings: Three Areas of Opportunity

Aecon's sustainability offerings are concentrated in three key areas:

- **Climate change adaptation and mitigation:** Aecon's climate and sustainability insights complement its core construction capabilities that have helped build essential projects including transportation, power generation and water treatment infrastructure.
- **Pathways to net zero:** Aecon is implementing technologies associated with the energy transition, from renewable energy generation to battery storage, and has formed strategic partnerships and expanded its portfolio of green energy projects and solutions for homeowners and businesses throughout Canada. Aecon has also been investing with the aim of building teams and technologies that serve municipalities, utilities, transportation agencies and other clients as they work toward net zero.
- **Sustainable construction:** Aecon has developed tools and expertise to support clients seeking to meet or exceed industry expectations for sustainable construction practices. Aecon is fluent in LEED, Envision, and critical practices in Environmental Management Plans, as well as a range of sustainable project financing and funding strategies.

What We Build and How We Build are Evolving

Aecon is building infrastructure projects that are helping drive the transition to a net zero future – from advanced transit networks and utility-scale sustainable energy systems to green home energy technology. As we work on today's ambitious construction initiatives, we continue to invest in new skills and capabilities to meet the needs of tomorrow. In addition to what we build, we are focused on how we build. Aecon continues to build expertise in sustainable construction practices by adopting zero-emission equipment and piloting new technologies such as low carbon construction materials. Aecon strives for continuous improvement in the environmental performance of its operations in areas ranging from decreasing construction waste to reducing its greenhouse gas (GHG) emissions. Aecon is focused on achieving its GHG emissions reduction goals, including a 30% intensity-based¹ reduction in direct CO₂ emissions (scopes 1 and 2) by 2030 (compared to 2020 levels) and net zero (scopes 1, 2 and 3) by 2050. Aecon's GHG emissions per million dollars of revenue was unchanged relative to 2021, maintaining a 14%² reduction since 2020. Aecon remains focused on achieving its target of a 30% reduction in direct emissions on an intensity basis by 2030.

Awards and Recognition

In 2022, Aecon received the following sustainability awards and recognition:

- **Sustainable Infrastructure Company of the Year Award – Canada**
North America Business Awards
- **Best 50 Corporate Citizens List**
Corporate Knights
- **Green Building Culture Award**
Toronto Construction Association, Best of the Best Awards
- **Platinum Status**
ReNew Canada Top100 Projects Report (Recognizing Aecon's role in 6 of Canada's 10 largest infrastructure projects and in 16 of the Top100)

Sustainability Report

To read our latest Sustainability Report and discover more about Aecon's ESG performance, please visit aecon.com/sustainability.

¹ The 2030 target is intensity-based (CO₂ equivalent per million dollars of revenue).

² 2020 and 2021 GHG emissions have been restated following the acquisition of historical data for a project.

Performance Highlights

Sustainability Scorecard	Metric / Unit	2022 Performance
Financial / Operational		
Hydrocarbon-related project backlog ³	\$ millions	535
Renewable energy project backlog ³	\$ millions	375
Non-energy projects associated with climate change mitigation backlog ³	\$ millions	945
Governance		
Gender diversity – Executive officer level (as at December 31, 2022)	%	25
Gender diversity – Board level (as at December 31, 2022)	%	33
Gender diversity – Company level (as at December 31, 2022)	%	<i>Permanent</i> Women: 32, Men: 68 <i>Union</i> Women: 4, Men: 96
Code of conduct employee training	%	100
People and Suppliers		
Aecon Diversity in Trades program hires	Number	101
Aecon Women in Trades program graduates	Number	76
Lost-time injury frequency rate	Number	0.01
Indigenous goods and services procured	\$ millions	233
Suppliers screened for ethical compliance	Number	175
Suppliers screened using environmental criteria (*metric changed in 2021 to align with Aecon’s sustainability linked loan)	%	30
Environment		
GHG Emissions – Total	tCO ₂ e	193,650
GHG Emissions – Scope 1	tCO ₂ e	186,875
GHG Emissions – Scope 2	tCO ₂ e	3,528
GHG Emissions – Scope 3	tCO ₂ e	3,247
GHG Intensity (Scopes 1 & 2) (revenue basis)	tCO ₂ e/\$M	40
Year-over-year reduction in Scope 1 and 2 emissions	%	0.1
Community Investment		
Donations to charities and non-profits	\$ thousands	981

³ Task Force on Climate-related Financial Disclosures (TCFD) & Sustainability Account Standards Board Metric.

Aecon Group Inc.

**Management's Discussion and Analysis
of Operating Results and Financial Condition**

December 31, 2022

Management's Discussion and Analysis of Operating Results and Financial Condition

December 31, 2022

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Management’s Discussion and Analysis of Operating Results and Financial Condition (“MD&A”)

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. (“Aecon” or the “Company”) should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto for the year ended December 31, 2022. This MD&A has been prepared as at February 28, 2023. Additional information on Aecon is available through the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com and includes the Company’s Annual Information Form and other securities and continuous disclosure filings.

1. INTRODUCTION

Aecon currently operates in two principal segments within the infrastructure development industry: Construction and Concessions.

The Construction segment includes all aspects of the construction of both public and private infrastructure, primarily in Canada and, on a selected basis, internationally, and focuses primarily on the following market sectors:

- Civil Infrastructure;
- Urban Transportation Solutions;
- Nuclear Power Infrastructure;
- Utility Infrastructure; and
- Industrial Infrastructure.

Activities within the Concessions segment include the development, financing, build and operation of construction projects, primarily by way of public-private partnership contract structures, as well as integrating the services of all project participants, and harnessing the strengths and capabilities of Aecon. The Concessions segment focuses primarily on providing the following services:

- Development of domestic and international Public-Private Partnership (“P3”) projects;
- Private finance solutions;
- Developing strategic partnerships;
- Leading and/or actively participating in development teams; and
- Operations and maintenance.

The infrastructure development industry in Canada is seasonal in nature for companies like Aecon that perform a significant portion of their work outdoors, particularly road construction and utilities work. As a result, less work is performed in the winter and early spring months than in the summer and fall months. Accordingly, Aecon has historically experienced a seasonal pattern in its operating results, with the first half of the year, and particularly the first quarter, typically generating lower revenue and profit than the second half of the year. Therefore, results in any one quarter are not necessarily indicative of results in any other quarter, or for the year as a whole.

2. FORWARD-LOOKING INFORMATION

The information in this Management’s Discussion and Analysis includes certain forward-looking statements which may constitute forward-looking information under applicable securities laws. These forward-looking statements are based on currently available competitive, financial and economic data and operating plans

but are subject to risks and uncertainties. Forward-looking statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, ongoing objectives, strategies and outlook for Aecon, including statements regarding: its monitoring of developments and continued mitigation of risks related to the COVID-19 pandemic and its impacts; expectations regarding the impact of the four fixed price legacy projects and expected timelines of such projects; its strategy of seeking to differentiate its service offering and execution capability and the expected results therefrom; its strategic focus on clean energy and other projects linked to sustainability and the opportunities arising therefrom; its greenhouse gas emission reduction targets and statements regarding the means to accomplish such targets; the timing of its 2022 Sustainability Report and the contents thereof; its 2022-2024 Strategic Plan including its four key areas of focus of unlocking people's potential, driving operational excellence, adaptive risk management and executing targeted and discipline growth, the means by which Aecon expects to accomplish each of these four key areas of focus and the expected results therefrom; its programs and key initiatives to advance its overall strategy in 2023; backlog and estimated duration; the impact of certain contingencies on Aecon (see: Section 10.2 "Contingencies"); expectations regarding the repayment of the outstanding convertible debentures at or before maturity and other debt obligations in 2023; its belief regarding the sufficiency of its current liquidity position including sufficient capacity with respect to letters of credit; its efforts to maintain a conservative capital position; its pursuit of contractual mechanisms to recover increased costs and/or extend time frames to complete work; it seeking to enhance access to funding in order to finance the working capital associated with its growth; its approach to human capital; expectations regarding the pipeline of opportunities available to Aecon; expectations regarding the pipeline of opportunities available to Aecon; Aecon Concession's equity interest in Oneida Energy Storage L.P.; statements regarding the various phases of projects for Aecon; expectations regarding ongoing recovery in travel through Bermuda International Airport in 2023 and opportunities to add to the existing portfolio of Canadian and international concessions in the next 12 to 24 months. Forward-looking statements may in some cases be identified by words such as "will," "plans," "schedule," "forecast," "outlook," "potential," "seek," "strategy," "may," "could," "might," "can," "believes," "expects," "anticipates," "estimates," "projects," "intends," "prospects," "targets," "occur," "continue," "should" or the negative of these terms, or similar expressions. In addition to events beyond Aecon's control, there are factors which could cause actual or future results, performance or achievements to differ materially from those expressed or inferred herein including, but not limited to: the risk of not being able to drive a higher margin mix of business by participating in more complex projects, achieving operational efficiencies and synergies, and improving margins; the risk of not being able to meet contractual schedules and other performance requirements on large, fixed priced contracts; the risk of not being able to meet its labour needs at reasonable costs; the risk of not being able to address any supply chain issues which may arise and pass on costs of supply increases to customers; the risk of not being able, through its joint ventures, to enter into implementation phases of certain projects following the successful completion of the relevant development phase; the risk of not being able to execute its strategy of building strong partnerships and alliances; the risk of not being able to execute its risk management strategy; the risk of not being able to grow backlog across the organization by winning major projects; the risk of not being able to maintain a number of open, recurring and repeat contracts; the risk of not being able to accurately assess the risks and opportunities related to its industry's transition to a lower-carbon economy; the risk of not being able to oversee, and where appropriate, respond to known and unknown environmental and climate change-related risks, including the ability to recognize and adequately respond to climate change concerns or public, governmental and other stakeholders' expectations on climate matters; the risk of not being able to meet its commitment to meeting its greenhouse gas emissions reduction targets; the risks associated with the strategy of differentiating its service offerings in key end markets; the risks associated with undertaking initiatives to train employees; the risks associated with the seasonal nature of its business; the risks associated with being able to participate in large projects; the risks associated with legal proceedings to which it is a party; the ability to successfully

respond to shareholder activism; and risks associated with the COVID-19 pandemic and future pandemics and Aecon's ability to respond to and implement measures to mitigate the impact of COVID-19 and future pandemics.

These forward-looking statements are based on a variety of factors and assumptions including, but not limited to that: none of the risks identified above materialize, there are no unforeseen changes to economic and market conditions and no significant events occur outside the ordinary course of business. These assumptions are based on information currently available to Aecon, including information obtained from third-party sources. While the Company believes that such third-party sources are reliable sources of information, the Company has not independently verified the information. The Company has not ascertained the validity or accuracy of the underlying economic assumptions contained in such information from third-party sources and hereby disclaims any responsibility or liability whatsoever in respect of any information obtained from third-party sources.

Risk factors are discussed in greater detail in the Section 13 – “Risk Factors” in this MD&A. Except as required by applicable securities laws, forward-looking statements speak only as of the date on which they are made and Aecon undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

3. FINANCIAL REPORTING STANDARDS

The Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2022 were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”).

All financial information in this MD&A is presented in Canadian dollars, unless otherwise indicated.

4. NON-GAAP AND SUPPLEMENTARY FINANCIAL MEASURES

The MD&A presents certain non-GAAP and supplementary financial measures, as well as non-GAAP ratios to assist readers in understanding the Company's performance (“GAAP” refers to Generally Accepted Accounting Principles under IFRS). These measures do not have any standardized meaning and therefore are unlikely to be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Throughout this MD&A, the following terms are used, which do not have a standardized meaning under GAAP.

Non-GAAP Financial Measures

A non-GAAP financial measure: (a) depicts the historical or expected future financial performance, financial position or cash flow of the Company; (b) with respect to its composition, excludes an amount that is included in, or includes an amount that is excluded from, the composition of the most comparable financial measure presented in the primary consolidated financial statements; (c) is not presented in the financial statements of the Company; and (d) is not a ratio.

Non-GAAP financial measures presented and discussed in this MD&A are as follows:

- **“Adjusted EBITDA”** represents operating profit (loss) adjusted to exclude depreciation and amortization, the gain (loss) on sale of assets and investments, and net income (loss) from projects accounted for using the equity method, but including “Equity Project EBITDA” from projects accounted for using the equity method (refer to Section 9 “Quarterly Financial Data” for a quantitative reconciliation to the most comparable financial measure).
- **“Equity Project EBITDA”** represents Aecon’s proportionate share of the earnings or losses from projects accounted for using the equity method before depreciation and amortization, finance income, finance cost and income tax expense (recovery) (refer to Section 9 “Quarterly Financial Data” for a quantitative reconciliation to the most comparable financial measure).

Management uses the above non-GAAP financial measures to analyze and evaluate operating performance. Aecon also believes the above financial measures are commonly used by the investment community for valuation purposes, and are useful complementary measures of profitability, and provide metrics useful in the construction industry. The most directly comparable measures calculated in accordance with GAAP are operating profit and profit (loss) attributable to shareholders.

Primary Financial Statements

Primary financial statement means any of the following: the consolidated balance sheets, the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, and the consolidated statements of cash flows.

Key financial measures presented in the primary financial statements of the Company and discussed in this MD&A are as follows:

- **“Gross profit”** represents revenue less direct costs and expenses. Not included in the calculation of gross profit are marketing, general and administrative expense (“MG&A”), depreciation and amortization, income (loss) from projects accounted for using the equity method, other income (loss), finance income, finance cost, income tax expense (recovery), and non-controlling interests.
- **“Operating profit (loss)”** represents the profit (loss) from operations, before finance income, finance cost, income tax expense (recovery), and non-controlling interests.

The above measures are presented in the Company’s consolidated statements of income and are not meant to be a substitute for other subtotals or totals presented in accordance with GAAP, but rather should be evaluated in conjunction with such GAAP measures.

- **“Backlog” (Remaining Performance Obligations)** means the total value of work that has not yet been completed that: (a) has a high certainty of being performed as a result of the existence of an executed contract or work order specifying job scope, value and timing; or (b) has been awarded to Aecon, as evidenced by an executed binding letter of intent or agreement, describing the general job scope, value and timing of such work, and where the finalization of a formal contract in respect of such work is reasonably assured. Operations and maintenance (“O&M”) activities are provided under contracts that can cover a period of up to 30 years. In order to provide information that is comparable to the backlog of other categories of activity, Aecon limits backlog for O&M activities to the earlier of the contract term and the next five years.

Remaining Performance Obligations, i.e. Backlog, is presented in the notes to the Company's annual consolidated financial statements and is not meant to be a substitute for other amounts presented in accordance with GAAP, but rather should be evaluated in conjunction with such GAAP measures.

Non-GAAP Ratios

A non-GAAP ratio is a financial measure presented in the form of a ratio, fraction, percentage or similar representation, and that has a non-GAAP financial measure as one of its components and is not disclosed in the financial statements of the Company.

A non-GAAP ratio presented and discussed in this MD&A is as follows:

- **“Adjusted EBITDA margin”** represents Adjusted EBITDA as a percentage of revenue.

Management uses the above non-GAAP ratio to analyze and evaluate operating performance. The most directly comparable measures calculated in accordance with GAAP are gross profit margin and operating margin.

Supplementary Financial Measures

A supplementary financial measure: (a) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of the Company; (b) is not presented in the financial statements of the Company; (c) is not a non-GAAP financial measure; and (d) is not a non-GAAP ratio.

Key supplementary financial measures presented in this MD&A are as follows:

- **“Gross profit margin”** represents gross profit as a percentage of revenue.
- **“Operating margin”** represents operating profit (loss) as a percentage of revenue.
- **“MG&A as a percent of revenue”** represents marketing, general and administrative expense as a percentage of revenue.
- **“Debt to capitalization percentage”** represents total debt (excluding non-recourse debt and drawings on the Company's credit facility presented as bank indebtedness) as a percentage of total capitalization. The calculation of debt to capitalization percentage and management's use of this ratio is described in Section 10.5 “Capital Management” of this MD&A.

5. RECENT DEVELOPMENTS

COVID-19 Pandemic, Economic Conditions, and Certain Fixed Price Legacy Projects

The COVID-19 pandemic continued to disrupt global health and the economy in 2022 and has created an indeterminate period of volatility in the markets in which Aecon operates. The COVID-19 pandemic has impacted Aecon's operations since 2020 at varying times by way of suspensions of certain of the Company's projects and operations, either by its clients or due to a broader government directive, by disruption to the progress of projects due to the need to modify work practices to meet appropriate health and safety standards, or by other COVID-19 related impacts on air traffic, inflation, the availability of labour or to the supply chain. Aecon continues to monitor ongoing developments and mitigate risks related to the COVID-19 pandemic and the impact on Aecon's projects, operations, supply chain, and the health and safety of its employees.

Within the Construction segment, COVID-19 and recent economic conditions have had varying degrees of impact throughout 2021 and 2022, notably from supply chain disruptions, inflation related to labour and materials, and availability of labour. Although these factors impacted most projects to some extent, in most cases the impact was not significant or has now moderated or been mitigated. However, the impacts on four large fixed price legacy projects being performed by joint ventures in which Aecon is a participant (see Section 10.2 "Contingencies" and Section 13 "Risk Factors" of this MD&A) were more significant. Aecon recognized an operating loss of \$120.0 million in 2022 and \$66.2 million in 2021 from these four legacy projects. As at December 31, 2022, the remaining backlog to be worked off on these projects was \$1,079 million, with three of the four projects currently expected to be substantially complete by dates between late 2023 and early 2024, and the fourth is currently expected to be substantially complete during 2025. The four legacy projects comprised 16% of consolidated revenue in 2022 and 17% of backlog as at December 31, 2022.

Within the Concessions segment, COVID-19 and related travel restrictions and protocols, as well as the gradual recovery in air traffic now that those restrictions have largely been lifted, have impacted operations at the Bermuda International Airport Project since March 2020, including throughout 2021 and 2022. Passenger traffic levels, which are the primary driver of Aecon's results from operations in Bermuda, averaged 31% in 2021 and 59% in 2022 of 2019 pre-pandemic traffic levels. These averages reflect generally improving traffic levels over time versus pre-pandemic levels, with the fourth quarter of 2022 averaging 67% of the same period in 2019. Offsetting this impact on operational volume to some extent was a minimum revenue guarantee from the Bermudan government to cover any shortfall in cash flow for debt-service requirements related to the Bermuda International Airport Redevelopment Project.

6. BUSINESS STRATEGY

Aecon's overall strategic goal is to be the number one Canadian infrastructure company that safely, profitably, and sustainably delivers integrated services, products and solutions to meet its clients' needs.

Current Position

For over a decade, Aecon has sought to build scale in core markets, achieve diversity and balance in geographic and end-market sectors, and embed a culture of operating excellence, enhanced risk management and consistent performance using a "One Aecon" approach to meeting the needs of its clients, up to and including large, sophisticated turnkey projects. In recent years, this effort has been highlighted by

the development of a growing portfolio of concession investments tied to major Canadian and international infrastructure projects, establishment of the Urban Transportation Solutions team focused on designing, building, and integrating complex transit projects, execution of a number of strategic tuck-in acquisitions, and divestiture of a number of non-core operations to allow for an increased focus on Aecon's chosen end-markets.

Aecon's core strategy continues to seek to differentiate its service offering and execution capability, leading to opportunities to secure higher-return projects with a lower risk profile by increasing the sophistication and efficiency of the work being performed and improving the Company's competitive advantage through its ability to provide value to its clients. As part of this differentiation, Aecon is committed to working with its clients to develop collaborative alternative procurement and contracting models with the goal to reduce risk during construction and accelerate the Company's growth in long-term recurring revenue programs through related operations and maintenance contracts. Revenue from recurring revenue programs increased to \$850 million in 2022 from \$679 million in 2021. In addition, Aecon will continue to focus on developing its approach to embracing sustainability at the core of its operations and in meeting its clients' sustainable infrastructure needs.

The Company is increasingly focused on integrating sustainability into its business strategy to mitigate environmental, social and governance ("ESG") risks and to harness the opportunities that are expected to come from the transition to a net zero economy through decarbonization. The Company is particularly focused on projects that support the clean-energy transition, including battery storage, solar, hydrogen, nuclear, hydro-electric generation and transmission, and other technologies to replace fossil fuels through electrification. In addition to undertaking clean energy projects, Aecon is also aiming to mitigate its own climate change impact – in 2021, the Company announced a target to reach net-zero by 2050, with an initial interim target to achieve a 30% reduction in direct CO₂ emissions by 2030 as compared to 2020. Aecon's greenhouse gas ("GHG") emission reduction targets are intensity-based targets based on economic output and represent tonnes of CO₂ per million dollars of revenue. In 2021, the Company achieved a 15% year-over-year reduction in CO₂ emissions on an intensity basis. Aecon is in the process of completing its 2022 GHG emissions inventory which will determine the % change in its emissions from 2021 to 2022, with results anticipated to be published in the Company's 2022 Sustainability Report in April 2023. During 2022 Aecon was named one of Canada's Best 50 Corporate Citizens by Corporate Knights, recognizing corporate sustainability leadership and progress in ESG performance relative to industry peers.

Moving Aecon Forward Together 2022 – 2024 Strategic Plan

In 2019, Aecon adopted the Aecon Forward 2022 Strategic Plan outlining an ambition to be the number one Canadian infrastructure company. In 2022, the Company built upon this plan with the Moving Aecon Forward Together 2022 – 2024 Strategic Plan (the "Strategic Plan"), focused on building what matters to enable future generations to thrive. The Strategic Plan outlines four key focus areas, and specific priority actions within each area, that Aecon is undertaking throughout the organization in continued pursuit of its ambition. The four key focus areas of the Strategic Plan are as follows:

1) Unlocking People's Potential

Aecon is committed to developing its employees and building on its strong foundation of people practices and culture. A focus on driving progressive leadership skill development, maximizing career development outcomes, and helping prepare the Company to navigate a competitive labour environment in the industry, are all key to fulfilling Aecon's growth potential.

Equipping its leaders and workforce with the necessary knowledge, skills, and experience to thrive in the future is a key to the Company's future success. Developing leaders capable of managing growth and diversity, fostering innovation, entering new markets, adapting and developing collaborative contract delivery models, and leveraging emerging and sustainable construction practices are key focus areas for training and career advancement. In 2022, the Company made strategic enhancements to some of its key learning programs including Building Smarter Academy, Project Management Academy, and Champions for Diversity in Leadership.

The Company is committed to continuing to take steps to be seen as a first-choice employer, drawing top talent from within and outside of the construction industry. A focus on equity, diversity, and inclusion, while demonstrating a culture of safety and sustainability, is an important competitive differentiator in the construction industry, and Aecon's approach on these factors is designed to place the Company at the forefront of attracting and retaining the best talent needed to support its strategic goals. In 2022, Aecon introduced new professional development opportunities in support of this strategic objective, including Anti-Black Racism in Construction, Accessibility for Canadians, and Gender in the Workplace.

2) Driving Operational Excellence

Aecon embraces project complexity and is focused on the safe, on-time, on-budget delivery of its projects. To support operational teams across the Company with shared best practices that aim to increase efficiency and effectiveness on construction projects, eliminate wasteful activities, and ultimately add value for all stakeholders, the Company broadened its structured approach to continuous improvement in 2022 beyond targeted, high-priority projects and toward embedding a culture of continuous improvement across the business through its new Building Smarter program.

Building Smarter has become a continuous improvement centre of excellence with an expanded team of experienced professionals to support projects through lean construction methodology and a suite of tools, mobile-accessible platforms, training and resources tailored to Aecon's operations. This approach seeks to further strengthen the Company's self-perform capabilities which the Company believes can provide a competitive advantage with respect to bidding and executing certain construction projects. Aecon believes that efficiencies are also derived from the depth and breadth of its capabilities, allowing it to participate in projects beyond the scope of any one discipline or business unit.

3) Adaptive Risk Management

A key pillar of Aecon's approach to risk management is to seek to maintain balance in terms of sectors, clients, contract models, and geographies with the goal of reducing the risk of being over-exposed in any one of these areas. This approach is complemented by a focus on identifying, mitigating and managing the risks inherent in every project the Company undertakes. Aecon has developed a number of strategies

and tools to manage the risk associated with complex construction work, each of which are assessed and refined on an ongoing basis as needed. Accordingly, over the last year, an integrated team comprising of representatives from operations, finance and legal undertook a comprehensive historical performance review of the Company's major projects with a view to calibrating risk factors in project delivery models to enhance its approach to bid strategy and integrated project delivery. This included leveraging lessons learned from prior major projects, particularly incorporating experiences in recent years navigating the challenges of COVID-19, supply chain disruption, inflation, and other related impacts.

In 2022, consortiums in which Aecon is a member were awarded projects in Ontario designed to mitigate and manage major project risks through more collaborative procurement models. A consortium in which Aecon is a member was selected to deliver the multi-billion-dollar GO Expansion On-Corridor Works project under a progressive design, build, operate and maintain contract model, and a separate Aecon consortium in which Aecon is a member was selected to deliver the Scarborough Subway Extension Stations, Rail and Systems project under a progressive design-build model.

4) Executing Targeted & Disciplined Growth

Aecon leverages its construction and concessions experience to pursue a wide mix of projects across various market sectors, including new collaborative alternative procurement projects with both government and private clients in Canada and internationally. Building on its experience in the design, build, finance, maintenance and operations of Canadian and international infrastructure development, through both its construction and concession capabilities, Aecon is increasing the number and diversifying the type of targeted project opportunities that require this experience and capability going forward. The Company is continuing to build capacity in this area, including a dedicated international development team focused on opportunities outside Canada and the United States (the "U.S."). In 2021, Aecon created an integrated corporate and operations team focused on renewable energy and other sustainability-focused projects. In 2022, this team launched Aecon Sustainability Solutions, providing a single point of entry to Aecon's capabilities and offering integrated project management throughout a project's lifecycle to assist clients in navigating the complexities of decarbonization and energy transition opportunities.

In Canada, acquisitions of specialty businesses to complement self-perform capabilities or geographic coverage continue to provide opportunities to grow in Aecon's chosen end-markets and this remains part of the strategic focus going forward. Aecon acquired The Hayter Group in 2022, adding to Aecon's capabilities in renewable energy solutions for residential and commercial customers in Ontario, and integrated its acquisition of Pacific Electrical Installations, acquired in the fourth quarter of 2021, providing capabilities in maintenance, construction, and emergency and live line restoration services for critical electrical infrastructure in British Columbia.

While the Company's growth within Canada remains its primary focus, the U.S. infrastructure development and construction market provides an opportunity to continue to diversify the business over time, both organically and through targeted acquisitions. Combined with the activities of the international development team, these U.S. opportunities are intended over the long term to diversify Aecon's geographic presence and provide greater growth potential and earnings stability through economic cycles. In 2022, Aecon was awarded two contracts for the Savannah River Nuclear Solutions Demolition and Removal and Temporary HVAC projects in Aiken, South Carolina, and a contract by the Washington State Department of Transportation to design and build the Interstate-90 / State Road-18 to Deep Creek Interchange Improvements and Widening project near Snoqualmie, Washington, demonstrating continued progress in

its U.S. expansion initiatives. Aecon was also awarded a contract for the Kingstown Port Modernisation Project Works, Lot 1: Primary Cargo Port, in Saint Vincent and the Grenadines in 2022, leveraging the efforts of the international development team. Revenue from U.S. and international markets increased by \$89 million or 89% in 2022 versus 2021.

The Company's growth initiatives are primarily directed towards investment in areas designed to reduce at-risk work and increase activities with lower risk profiles, including recurring revenue opportunities, long-term concessions and related operations and maintenance opportunities, renewable energy and decarbonization, and other projects linked to sustainability initiatives. Revenue from non-fixed price work increased to 49% of total revenue in 2022 from 39% of total revenue in 2021, and reported backlog as at December 31, 2022 was comprised of 49% non-fixed price work versus 36% at the end of 2021. As noted above in "Adaptive Risk Management", in 2022 consortiums in which Aecon is a member were awarded projects in Ontario designed to mitigate and manage major project risks through more collaborative procurement models, in line with the Company's goal to target growth in projects with lower risk profiles. Aecon is also continuing its focus towards construction activities linked to sustainability, with 60% of 2022 revenue tied to sustainability projects. Included in sustainability projects are activities that help to preserve and protect the environment, or which help to preserve the ability of society to sustain itself. Sustainability projects also include, but are not limited to, projects that reduce emissions, support the transition to a net-zero economy, support clean water use and conservation, and that reduce or recycle waste. The definition of sustainability projects is based on the Sustainability Accounting Standards Board's ("SASB") definition of renewable energy projects combined with the Federal Government's definition of Green Infrastructure under the Investing in Canada Infrastructure Program.

Strategic Plan Economic Goals

The strategy outlined in the four key focus areas is centred around the goal of creating a framework that motivates a culture of innovation, sustainability, operational excellence, continuous improvement, and risk management towards improving operating margins, prudent and balanced growth, and discipline in the allocation of capital, all ultimately designed to deliver increased value for shareholders:

- Profit: Seek to achieve best-in-class operating margin in the Construction segment relative to Canadian and international peers;
- Growth Capacity and Risk Management: Target prudent balance sheet leverage and liquidity and a balanced and diversified revenue risk profile;
- Success Sharing: Foster an ownership culture across the Company and a rewarding profit-sharing structure; and
- Shareholder Return: Drive improvements in return on equity and dividend increases over time through growth in cash flow and earnings.

Particular Focus for 2023 – the Company is focused on a number of programs and key initiatives to advance its overall strategy in 2023, including:

- 1) advancing the Company's key Environment, Health and Safety ("EHS") priority areas of critical risk management, digitization of EHS programs and management systems, and continued strengthening of its safety performance culture;
- 2) enhancing the Company's recruitment and retention strategy for tradespeople, with a focus on building early awareness of opportunities for younger workforce participants, leveraging Canada's immigration programs to maximize opportunities from and for newcomers to Canada, and ongoing efforts to improve diversity in Aecon's workforce;
- 3) building on the progress from lean manufacturing initiatives on specific projects to embed Building Smarter best practices and a culture of continuous improvement across the Company, thereby driving operational excellence to increase efficiency, reduce waste and improve margin;
- 4) advancing negotiations and resolution of claims related to four large fixed price legacy projects and in conjunction strengthen Aecon's balance sheet through various initiatives including reducing working capital related to these projects (see Section 10.2 "Contingencies" and Section 13 "Risk Factors" of this MD&A);
- 5) promoting a progressive procurement and project delivery approach with clients to better allocate, mitigate, and manage execution risks and optimize delivery of major projects;
- 6) implementing initiatives to meet the Company's interim and long-term emissions reduction goals with a focus on expanding net-zero construction practices while further operationalizing sustainability into Aecon's business strategy to support its clients' sustainable infrastructure needs;
- 7) continuing to evaluate the overall portfolio of businesses Aecon operates to identify opportunities for complementary tuck-in acquisitions and / or potential divestments to further refine the Company's focus on key growth segments and surface value opportunities; and
- 8) building on Aecon's P3 experience in government infrastructure projects to target sustainable and innovative development and concession opportunities in decarbonization and energy transition related markets in which Aecon has existing or growing capability in construction, operations and maintenance.

7. CONSOLIDATED FINANCIAL HIGHLIGHTS

\$ millions (except per share amounts)	Three months ended		Year ended	
	December 31		December 31	
	2022	2021	2022	2021
Revenue	\$ 1,266.8	\$ 1,088.6	\$ 4,696.5	\$ 3,977.3
Gross profit	98.7	94.4	356.0	366.8
Marketing, general and administrative expense	(48.1)	(47.9)	(196.4)	(182.3)
Income from projects accounted for using the equity method	5.9	4.7	17.7	15.1
Other income	8.1	1.6	14.1	7.6
Depreciation and amortization	(23.9)	(22.0)	(94.2)	(88.4)
Operating profit	40.7	30.7	97.2	118.8
Finance income	2.0	0.2	2.9	0.6
Finance cost	(16.9)	(12.0)	(57.1)	(45.6)
Profit before income taxes	25.8	19.0	43.0	73.8
Income tax expense	(6.1)	(6.9)	(12.6)	(24.1)
Profit	\$ 19.7	\$ 12.1	\$ 30.4	\$ 49.7
Gross profit margin⁽³⁾	7.8%	8.7%	7.6%	9.2%
MG&A as a percent of revenue⁽³⁾	3.8%	4.4%	4.2%	4.6%
Adjusted EBITDA⁽¹⁾	\$ 67.5	\$ 61.3	\$ 219.2	\$ 238.9
Adjusted EBITDA margin⁽²⁾	5.3%	5.6%	4.7%	6.0%
Operating margin⁽³⁾	3.2%	2.8%	2.1%	3.0%
Earnings per share – basic	\$ 0.32	\$ 0.20	\$ 0.50	\$ 0.82
Earnings per share – diluted	\$ 0.26	\$ 0.19	\$ 0.47	\$ 0.78
Backlog (as at end of period)			\$ 6,296	\$ 6,198

- (1) This is a non-GAAP financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP financial measure.
- (2) This is a non-GAAP ratio. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP ratio.
- (3) This is a supplementary financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each supplementary financial measure.

Revenue for the year ended December 31, 2022 of \$4,696 million was \$719 million, or 18%, higher compared to 2021. Revenue was higher in the Construction segment (\$706 million) driven by higher revenue in civil (\$412 million), utilities (\$111 million), nuclear (\$96 million), industrial (\$78 million), and urban transportation solutions (\$9 million). In the Concessions segment, revenue was \$7 million higher in the year ended December 31, 2022 compared to the prior year primarily due to an increase in commercial flight operations at the Bermuda International Airport. Inter-segment revenue eliminations decreased by \$6 million in the year ended December 31, 2022 compared to the prior year, due to lower revenue between the Concessions and Construction segments.

Operating profit of \$97.2 million for the year ended December 31, 2022 decreased by \$21.6 million compared to operating profit of \$118.8 million in 2021. Operating profit in 2021 included net positive impacts from amounts related to the Canada Emergency Wage Subsidy (“CEWS”) of \$31.9 million, recorded as cost recovery within gross profit in the Construction segment of \$38.7 million and as an increase in marketing, general and administrative expense (“MG&A”) of \$6.8 million.

Within operating profit, gross profit year-over-year was lower by \$10.8 million. Excluding the year-over-year impact of CEWS on gross profit of \$38.7 million, the favourable gross profit variance of \$27.9 million occurred largely in the Construction segment, where gross profit increased by \$22.5 million. This was primarily from higher volume in civil operations, and from higher volume and gross profit margin in utilities and nuclear operations partially offset by lower gross profit margin in industrial operations and lower gross profit in urban transportation solutions. Lower gross profit in urban transportation solutions was driven by negative gross profit on two light rail transit (“LRT”) projects in the year of \$117.7 million compared to a negative gross profit on these two projects of \$66.8 million in 2021. These two LRT projects are included in the four fixed price legacy projects discussed in Section 5 “Recent Developments”, Section 10.2 “Contingencies” and Section 13 “Risk Factors” in this MD&A. In the Concessions segment, gross profit in 2022 increased by \$5.4 million primarily due to the Bermuda International Airport where airport operations continued to recover from the impacts of the COVID-19 pandemic on travel.

MG&A increased in 2022 by \$14.1 million compared to 2021. The increase in MG&A was primarily due to higher personnel, consulting, and other discretionary costs driven by higher volume, partially offset by lower project pursuit and bid costs, as well as the year-over-year impact on MG&A from CEWS of \$6.8 million noted in the preceding paragraphs. MG&A as a percentage of revenue decreased from 4.6% in 2021 to 4.2% in 2022.

Aecon’s participation in projects that are classified for accounting purposes as a joint venture or an associate, as opposed to a joint operation, are accounted for using the equity method of accounting. Aecon reported income of \$17.7 million in 2022 from projects accounted for using this method of accounting, compared to \$15.1 million in 2021. The higher income in 2022 was driven by an increase in management and development fees in the Concessions segment (\$2.6 million). For details on Aecon’s interest in these joint ventures, see Note 12 of the Company’s audited consolidated financial statements for the year ended December 31, 2022.

Other income of \$14.1 million in 2022 was \$6.5 million higher compared to 2021. The increase is primarily related to higher gains on the sale of equipment and other assets in the Construction segment and from higher foreign exchange gains.

Depreciation and amortization expense of \$94.2 million in 2022 was \$5.8 million higher than in 2021. Depreciation and amortization expense increased year-over-year in the Construction segment (\$4.7 million) due to an increase in equipment deployed to support higher volume, and in the Concessions segment (\$1.1 million) from higher amortization expense related to the Bermuda International Airport.

Net financing expense of \$54.2 million in 2022, consisting of finance cost of \$57.1 million less finance income of \$2.9 million, was \$9.2 million higher than in 2021. The increase is primarily related to increased borrowings and higher interest rates on Aecon’s revolving credit facility compared to the prior year.

Set out in Note 22 of the Company’s audited consolidated financial statements for the year ended December 31, 2022 is a reconciliation between the expected income tax expense for 2022 and 2021 based on statutory income tax rates and the actual income tax expense reported for both these periods. In both 2022 and 2021, the effective income tax rate was higher than the Canadian statutory income tax rate of 26.40% and 26.20%, respectively, mainly due to the geographic mix of earnings, largely related to international projects and in particular the Bermuda International Airport Redevelopment Project.

Reported backlog as at December 31, 2022 of \$6,296 million compares to backlog of \$6,198 million as at December 31, 2021. New contract awards of \$4,795 million were booked in 2022 compared to \$3,721 million in 2021.

Backlog \$ millions	As at December 31	
	2022	2021
Construction	\$ 6,197	\$ 6,116
Concessions	99	82
Consolidated	<u>\$ 6,296</u>	<u>\$ 6,198</u>

Estimated backlog duration \$ millions	As at December 31			
	2022		2021	
Next 12 months	\$ 3,035	48%	\$ 2,701	44%
Next 13-24 months	1,853	29%	1,474	24%
Beyond	1,408	23%	2,023	32%
	<u>\$ 6,296</u>	<u>100%</u>	<u>\$ 6,198</u>	<u>100%</u>

The timing of work to be performed for projects in backlog as at December 31, 2022 is based on current project schedules, taking into account the current estimated impacts of COVID-19, supply chain disruptions, and availability of labour. It is possible that these estimates could change in the future based on changes in these or other factors impacting the schedule of these projects.

Aecon does not report as backlog contracts and arrangements in hand where the exact amount of work to be performed cannot be reliably quantified or where a minimum number of units at the contract specified price per unit is not guaranteed. Examples include time and material and some cost-plus and unit priced contracts where the extent of services to be provided is undefined or where the number of units cannot be estimated with reasonable certainty. Other examples include the value of construction work managed under construction management advisory contracts, concession agreements, multi-year operating and maintenance service contracts where the value of the work is not specified, supplier of choice arrangements and alliance agreements where the client requests services on an as-needed basis. None of the expected revenue from these types of contracts and arrangements is included in backlog. Therefore, Aecon's anticipated future work to be performed at any given time is greater than what is reported as backlog.

Further detail for each segment is included in the discussion below under Section 8 "Reportable Segments Financial Highlights".

8. REPORTABLE SEGMENTS FINANCIAL HIGHLIGHTS

8.1. CONSTRUCTION

Financial Highlights

\$ millions	Three months ended		Year ended	
	December 31		December 31	
	2022	2021	2022	2021
Revenue	\$ 1,246.3	\$ 1,073.3	\$ 4,620.8	\$ 3,914.5
Gross profit	\$ 90.9	\$ 87.9	\$ 325.0	\$ 341.3
Adjusted EBITDA ⁽¹⁾	\$ 57.5	\$ 57.1	\$ 192.5	\$ 212.2
Operating profit	\$ 43.6	\$ 38.7	\$ 120.9	\$ 143.4
Gross profit margin ⁽³⁾	7.3%	8.2%	7.0%	8.7%
Adjusted EBITDA margin ⁽²⁾	4.6%	5.3%	4.2%	5.4%
Operating margin ⁽³⁾	3.5%	3.6%	2.6%	3.7%
Backlog (as at end of period)			\$ 6,197	\$ 6,116

(1) This is a non-GAAP financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP financial measure.

(2) This is a non-GAAP ratio. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP ratio.

(3) This is a supplementary financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each supplementary financial measure.

For the year ended December 31, 2022, revenue in the Construction segment of \$4,621 million was \$706 million, or 18%, higher than in 2021. The largest increase in revenue occurred in civil operations (\$412 million) driven by an increase in major projects, roadbuilding construction, and foundations work. Revenue was also higher in utilities operations (\$111 million) from an increase in telecommunications and high-voltage electrical transmission work, in nuclear operations (\$96 million) driven by a higher volume of refurbishment work at nuclear generating stations located in both Ontario and the U.S., and in industrial operations (\$78 million) driven by increased activity on mainline pipeline work in western Canada and an increased scope of work at mining and water treatment facilities. In addition, higher revenue in urban transportation solutions (\$9 million) was primarily due to commencement of the development phase of a rail electrification project in Ontario.

Operating profit in the Construction segment of \$120.9 million in 2022 decreased by \$22.5 million compared to 2021. Construction segment operating profit in 2021 included a favourable operating profit impact related to the CEWS of \$31.9 million. Excluding the impact of CEWS amounts reported in 2021, the remaining year-over-year operating profit variance was favourable by \$9.4 million, resulting primarily from a volume driven increase in gross profit in civil operations, and from higher volume and gross profit margin in utilities and nuclear operations. These increases were also partially offset by lower gross profit margin in industrial operations, due to lower margin from pipeline projects, including Coastal GasLink (“CGL”), and an adverse year-over-year mix of conventional industrial projects in eastern Canada, and lower gross profit in urban transportation solutions. Lower gross profit in urban transportation solutions was driven by negative gross profit on two LRT projects in the year of \$117.7 million compared to a negative gross profit on these two projects of \$66.8 million in 2021. These two LRT projects are included in the four fixed price legacy projects discussed in Section 5 “Recent Developments”, Section 10.2 “Contingencies” and Section 13 “Risk Factors” in this MD&A.

Construction backlog as at December 31, 2022 was \$6,197 million, which was \$81 million higher than the same time last year. Backlog increased year-over-year in civil (\$413 million), utilities (\$149 million) and industrial operations (\$108 million) but decreased in urban transportation solutions (\$320 million) and nuclear operations (\$269 million). New contract awards in 2022 totaled \$4,702 million compared to \$3,649 million in 2021. In 2022, Aecon was awarded a number of projects including the Kingstown Port Modernisation Project Works, Lot 1: Primary Cargo Port in Saint Vincent and the Grenadines, the Interstate-90 / State Road-18 to Deep Creek Interchange Improvements and Widening project near Snoqualmie, Washington, and two contracts for the Savannah River Nuclear Solutions (“SRNS”) Demolition and Removal and the SRNS Temporary HVAC projects in Aiken, South Carolina. In addition, a joint venture in which Aecon is a participant was awarded the contract for the Buffalo Pound Water Treatment Plant Renewal Project in Saskatchewan, and awards were also made to various partnerships in which Aecon is a participant including the contract for the Montréal-Trudeau International Airport REM Station project in Québec, as well as the Annacis Water Supply Tunnel project and the first phase of the John Hart Dam Seismic Upgrade project, both located in British Columbia.

As discussed in Section 7 “Consolidated Financial Highlights”, the Construction segment’s anticipated future work to be performed at any given time is greater than what is reported as backlog.

8.2. CONCESSIONS

Financial Highlights

\$ millions	Three months ended		Year ended	
	December 31		December 31	
	2022	2021	2022	2021
Revenue	\$ 20.6	\$ 18.7	\$ 75.9	\$ 68.6
Gross profit	\$ 8.3	\$ 6.3	\$ 31.0	\$ 25.6
Income from projects accounted for using the equity method	\$ 4.1	\$ 3.4	\$ 14.2	\$ 11.7
Adjusted EBITDA⁽¹⁾	\$ 19.3	\$ 16.2	\$ 71.0	\$ 63.7
Operating profit	\$ 7.1	\$ 4.5	\$ 22.1	\$ 14.0
Backlog (as at end of period)			\$ 99	\$ 82

(1) This is a non-GAAP financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP financial measure.

Aecon holds a 100% interest in Bermuda Skyport Corporation Limited (“Skyport”), the concessionaire responsible for the Bermuda airport’s operations, maintenance and commercial functions, and the entity that is managing and coordinating the overall delivery of the Bermuda International Airport Redevelopment Project over a 30-year concession term that commenced in 2017. On December 9, 2020, Skyport opened the new passenger terminal building at the L.F. Wade International Airport. Aecon’s participation in Skyport is consolidated and, as such, is accounted for in the Company’s audited consolidated financial statements and the notes thereto for the year ended December 31, 2022 by reflecting, line by line, the assets, liabilities, revenue and expenses of Skyport. However, Aecon’s concession participation in the Eglinton Crosstown LRT, Finch West LRT, Gordie Howe International Bridge, Waterloo LRT, and GO Expansion On-Corridor Works projects are joint ventures that are accounted for using the equity method.

For the year ended December 31, 2022, revenue in the Concessions segment of \$76 million was \$7 million higher than in 2021. Higher year-over-year revenue was primarily due to an increase in commercial flight operations at the Bermuda International Airport. Commercial flight operations in Bermuda continue to operate at a reduced volume due to COVID-19 compared to pre-pandemic levels but continued to recover in 2022 from the more severe impacts experienced in 2020 and 2021. In 2022, passenger traffic levels in Bermuda averaged 58% of 2019 pre-pandemic traffic compared to 33% in 2021.

Operating profit in the Concessions segment of \$22.1 million for the year ended December 31, 2022 improved by \$8.1 million compared to an operating profit of \$14.0 million in 2021. The higher operating profit resulted primarily from an improvement in commercial flight operations at the Bermuda International Airport.

Except for “O&M” activities under contract for the next five years and that can be readily quantified, Aecon does not include in its reported backlog expected revenue from concession agreements. As such, while Aecon expects future revenue from its concession assets, no concession backlog, other than from such O&M activities for the next five years, is reported.

9. QUARTERLY FINANCIAL DATA

Set out below is quarterly financial data for the most recent eight quarters:

\$ millions (except per share amounts)

	2022				2021			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Revenue	\$ 1,266.8	\$ 1,320.5	\$ 1,123.2	\$ 985.9	\$ 1,088.6	\$ 1,163.4	\$ 971.3	\$ 754.0
Adjusted EBITDA ⁽¹⁾	67.5	92.6	38.4	20.6	61.3	95.5	61.2	20.8
Earnings (loss) before income taxes	25.8	46.5	(8.0)	(21.3)	19.0	52.0	23.7	(20.9)
Profit (loss)	19.7	34.5	(6.4)	(17.4)	12.1	38.4	17.6	(18.4)
Earnings (loss) per share:								
Basic	0.32	0.57	(0.10)	(0.29)	0.20	0.64	0.29	(0.31)
Diluted	0.26	0.45	(0.10)	(0.29)	0.19	0.56	0.27	(0.31)

(1) This is a non-GAAP financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP financial measure.

Earnings (loss) per share for each quarter has been computed using the weighted average number of shares issued and outstanding during the respective quarter. Any dilutive securities, which increase the earnings per share or decrease the loss per share, are excluded for purposes of calculating diluted earnings per share. Due to the impacts of dilutive securities, such as convertible debentures, and share issuances and repurchases throughout the periods, the sum of the quarterly earnings (losses) per share will not necessarily equal the total for the year.

Set out below is the calculation of Adjusted EBITDA for the most recent eight quarters:

\$ millions

	2022				2021			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Operating profit (loss)	\$ 40.7	\$ 61.0	\$ 5.1	\$ (9.6)	\$ 30.7	\$ 63.7	\$ 34.6	\$ (10.2)
Depreciation and amortization	23.9	23.8	23.6	22.9	22.0	22.1	21.4	22.8
(Gain) loss on sale of assets	(7.6)	(2.5)	(0.3)	(2.1)	(1.7)	(1.0)	(4.8)	(0.9)
Income from projects accounted for using the equity method	(5.9)	(5.0)	(3.7)	(3.0)	(4.7)	(4.0)	(3.8)	(2.6)
Equity Project EBITDA ⁽¹⁾	16.4	15.4	13.8	12.4	15.0	14.7	13.8	11.7
Adjusted EBITDA ⁽¹⁾	\$ 67.5	\$ 92.7	\$ 38.5	\$ 20.6	\$ 61.3	\$ 95.5	\$ 61.2	\$ 20.8

(1) This is a non-GAAP financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP financial measure.

Set out below is the calculation of Equity Project EBITDA for the most recent eight quarters:

\$ millions

	2022				2021			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Aecon's proportionate share of projects accounted for using the equity method ⁽¹⁾								
Operating profit	\$ 16.2	\$ 15.2	\$ 13.6	\$ 12.2	\$ 14.8	\$ 14.5	\$ 13.6	\$ 11.5
Depreciation and amortization	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Equity Project EBITDA ⁽²⁾	16.4	15.4	13.8	12.4	15.0	14.7	13.8	11.7

(1) Refer to Note 12 “Projects Accounted for Using the Equity Method” in the Company's audited consolidated financial statements for the year ended December 31, 2022.

(2) This is a non-GAAP financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP financial measure.

Set out below is the calculation of Adjusted EBITDA by segment for the three months and years ended December 31, 2022 and 2021:

\$ millions

	Three months ended December 31, 2022				Year ended December 31, 2022			
	Construction	Concessions	Other costs and eliminations	Consolidated	Construction	Concessions	Other costs and eliminations	Consolidated
Operating profit (loss)	\$ 43.6	\$ 7.1	\$ (9.9)	\$ 40.7	\$ 120.9	\$ 22.1	\$ (45.9)	\$ 97.2
Depreciation and amortization	17.7	5.6	0.5	23.9	70.9	21.7	1.5	94.2
(Gain) on sale of assets	(7.6)	-	-	(7.6)	(12.6)	-	-	(12.6)
Income from projects accounted for using the equity method	(1.8)	(4.1)	-	(5.9)	(3.5)	(14.2)	-	(17.7)
Equity Project EBITDA ⁽¹⁾	5.7	10.7	-	16.4	16.7	41.4	-	58.1
Adjusted EBITDA ⁽¹⁾	\$ 57.5	\$ 19.3	\$ (9.4)	\$ 67.5	\$ 192.5	\$ 71.0	\$ (44.3)	\$ 219.2

\$ millions

	Three months ended December 31, 2021				Year ended December 31, 2021			
	Other costs and eliminations				Other costs and eliminations			
	Construction	Concessions	eliminations	Consolidated	Construction	Concessions	eliminations	Consolidated
Operating profit (loss)	\$ 38.7	\$ 4.5	\$ (12.5)	\$ 30.7	\$ 143.4	\$ 14.0	\$ (38.6)	\$ 118.8
Depreciation and amortization	16.6	5.0	0.4	22.0	66.2	20.6	1.5	88.4
(Gain) on sale of assets	(1.7)	-	-	(1.7)	(8.3)	-	-	(8.3)
Income from projects accounted for using the equity method	(1.3)	(3.4)	-	(4.7)	(3.4)	(11.7)	-	(15.1)
Equity Project EBITDA ⁽¹⁾	4.9	10.1	-	15.0	14.4	40.8	-	55.2
Adjusted EBITDA ⁽¹⁾	\$ 57.1	\$ 16.2	\$ (12.1)	\$ 61.3	\$ 212.2	\$ 63.7	\$ (37.1)	\$ 238.9

(1) This is a non-GAAP financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP financial measure.

Set out below is the calculation of Equity Project EBITDA by segment for the three months and years ended December 31, 2022 and 2021:

\$ millions

Aecon's proportionate share of projects accounted for using the equity method ⁽¹⁾	Three months ended December 31, 2022				Year ended December 31, 2022			
	Other costs and eliminations				Other costs and eliminations			
	Construction	Concessions	eliminations	Consolidated	Construction	Concessions	eliminations	Consolidated
Operating profit	\$ 5.5	\$ 10.7	\$ -	\$ 16.2	\$ 16.0	\$ 41.4	\$ -	\$ 57.4
Depreciation and amortization	0.2	-	-	0.2	0.7	-	-	0.7
Equity Project EBITDA ⁽²⁾	\$ 5.7	\$ 10.7	\$ -	\$ 16.4	\$ 16.7	\$ 41.4	\$ -	\$ 58.1

\$ millions

Aecon's proportionate share of projects accounted for using the equity method ⁽¹⁾	Three months ended December 31, 2021				Year ended December 31, 2021			
	Other costs and eliminations				Other costs and eliminations			
	Construction	Concessions	eliminations	Consolidated	Construction	Concessions	eliminations	Consolidated
Operating profit	\$ 4.7	\$ 10.1	\$ -	\$ 14.8	\$ 13.8	\$ 40.8	\$ -	\$ 54.6
Depreciation and amortization	0.2	-	-	0.2	0.6	-	-	0.6
Equity Project EBITDA ⁽²⁾	\$ 4.9	\$ 10.1	\$ -	\$ 15.0	\$ 14.4	\$ 40.8	\$ -	\$ 55.2

(1) Refer to Note 12 “Projects Accounted for Using the Equity Method” in the Company’s audited consolidated financial statements for the year ended December 31, 2022.

(2) This is a non-GAAP financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP financial measure.

Quarterly Financial Highlights

\$ millions	Three months ended December 31			
	Revenue		Operating profit	
	2022	2021	2022	2021
	Construction	\$ 1,246.3	\$ 1,073.3	\$ 43.6
Concessions	20.6	18.7	7.1	4.5
Other costs and eliminations	-	(3.4)	(9.9)	(12.5)
Consolidated	\$ 1,266.8	\$ 1,088.6	\$ 40.7	\$ 30.7

The analysis of operating results for each of the first three quarters of 2022 is included in Management's Discussion and Analysis included in the Interim Reports to Shareholders for each respective quarter. The construction industry in Canada is seasonal in nature for companies like Aecon that perform a significant portion of their work outdoors, particularly road construction and utilities work. As a result, a larger portion of this work is performed in the summer and fall months than in the winter and early spring months.

For the three months ended December 31, 2022, revenue in the Construction segment of \$1,246 million was \$173 million, or 16%, higher than the fourth quarter of 2021. Construction segment revenue was higher in civil operations (\$129 million), from an increase in major projects and roadbuilding construction work; in urban transportation solutions (\$22 million), primarily from an increase due to development work related to a rail electrification project in Ontario; in utilities operations (\$25 million), due to an increased volume of telecommunications and high-voltage electrical transmission work; and in nuclear operations (\$21 million), primarily driven by a higher volume of refurbishment work at nuclear generating stations located in Ontario and the U.S. Partially offsetting these increases was lower revenue in industrial operations (\$24 million), primarily due to lower activity at gas and chemical facilities, partially offset by higher volume at mining and water treatment facilities.

Operating profit in the Construction segment of \$43.6 million in the fourth quarter of 2022 increased by \$4.9 million compared to operating profit of \$38.7 million in the fourth quarter of 2021. Construction segment operating profit in the fourth quarter of 2021 included a favourable impact related to the CEWS of \$4.1 million. Excluding the impact of CEWS amounts reported in the fourth quarter of 2021, the remaining quarterly operating profit variance in the fourth quarter of 2022 was favourable by \$9.0 million, resulting primarily from higher volume and gross profit margin in nuclear and utilities operations as well as from a volume driven increase in gross profit in civil operations. These increases were partially offset by lower volume and gross profit margin in industrial operations and from lower gross profit margin in urban transportation solutions driven by an operating loss on two LRT projects in the quarter of \$62.9 million compared to an operating loss on these two projects of \$49.7 million in the fourth quarter of 2021. These two LRT projects are included in the four fixed price legacy projects discussed in Section 10.2 "Contingencies" and Section 13 "Risk Factors" in this MD&A.

Revenue in the Concessions segment in the fourth quarter of 2022 of \$21 million was higher by \$2 million when compared to the same period in 2021, primarily due to an increase in commercial flight operations at the Bermuda International Airport. In the fourth quarter of 2022 passenger traffic levels in Bermuda averaged 63% of fourth quarter 2019 pre-pandemic traffic, compared to 49% in the fourth quarter of 2021.

Concessions segment operating profit of \$7.1 million in the fourth quarter of 2022 was \$2.5 million higher than the same period in 2021 as a result of the above noted increase in airport operations and lower operating costs at the Bermuda International Airport.

MG&A expense increased in the fourth quarter of 2022 by \$0.2 million compared to the same period in 2021, largely due to higher personnel costs partially offset by lower project pursuit and bid costs. MG&A as a percentage of revenue decreased from 4.4% in the fourth quarter of 2021 to 3.8% in the same period in 2022.

Aecon reported income from projects accounted for using the equity method of \$5.9 million in the fourth quarter of 2022 compared to \$4.7 million in the same period in 2021. The higher income in the fourth quarter of 2022 was driven by civil projects in the Construction segment (\$0.5 million) and an increase in management and development fees in the Concessions segment (\$0.7 million).

Other income of \$8.1 million in the fourth quarter of 2022 was \$6.6 million higher compared to the same period in 2021, primarily related to higher gains on the sale of equipment and other assets in the Construction segment and from higher foreign exchange gains.

Depreciation and amortization expense of \$23.9 million in the fourth quarter of 2022 was \$1.9 million higher than the same period in 2021 with increases in both the Construction (\$1.2 million) and Concessions segments (\$0.7 million).

Net financing expense of \$14.9 million in the fourth quarter of 2022, consisting of finance cost of \$16.9 million less finance income of \$2.0 million, was \$3.1 million higher than the same period in 2021 primarily due to increased borrowings and higher interest rates on Aecon's revolving credit facility.

New contract awards for the three months ended December 31, 2022 were \$1,288 million compared to \$1,244 million in the same period in 2021.

Selected Annual Information

Set out below is selected annual information for each of the last three years.

(\$ millions, except per share amounts)	2022	2021	2020
Total revenue	\$ 4,696.5	\$ 3,977.3	\$ 3,643.6
Operating profit	97.2	118.8	149.9
Profit	30.4	49.7	88.0
Per share:			
Basic	0.50	0.82	1.47
Diluted	0.47	0.78	1.29
Total assets	3,567.0	3,286.8	3,287.4
Non-current financial liabilities at December 31	778.6	903.7	883.7
Cash dividends declared per common share	0.74	0.70	0.64

10. FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

10.1. INTRODUCTION

Aecon's participation in joint arrangements classified as joint operations is accounted for in the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2022 by reflecting, line by line, Aecon's share of the assets held jointly, liabilities incurred jointly, and revenue and expenses arising from the joint operations.

Aecon's participation in joint arrangements classified as joint ventures, as well as Aecon's participation in project entities where Aecon exercises significant influence over the entity but does not control or jointly control the entity (i.e. associates), is accounted for using the equity method.

For further information, see Note 12 to the Company's audited consolidated financial statements for the year ended December 31, 2022.

10.2. CONTINGENCIES

Coastal GasLink Pipeline, Sections 3 and 4

The project has been delayed and impacted by various events for which SA Energy Group (“SAEG”), a partnership in which the Company holds a 50% interest, asserts Coastal GasLink is contractually responsible, including, but not limited to, significant scope changes and delays by the client, unforeseen site conditions, compensable adverse weather impacts and a suspension implemented by the client as a result of regulatory restrictions imposed due to the COVID-19 pandemic. SAEG asserts that it is entitled to additional compensation for costs associated with those delays and impacts and commenced an arbitration in the second quarter of 2021 pursuant to the terms of the contract to resolve the matter. In the third quarter of 2022, CGL issued a counterclaim, alleging breach of contract and damages arising therefrom; CGL has not articulated the amount of damages it may seek. While this commercial dispute could result in a material impact to Aecon’s earnings, cash flow, and financial position if not resolved favourably through ongoing negotiations or arbitration, the ultimate results cannot be predicted at this time.

Kemano Generating Station Second Tunnel Project

During the second quarter of 2020, Rio Tinto issued a notice of termination of contract to the joint venture in which Aecon holds a 40% interest with respect to the Kemano Generating Station Second Tunnel Project. Rio Tinto also issued notice to the joint ventures’ sureties asserting a claim on the 50% performance bonds; the sureties entered into a cooperation agreement with Rio Tinto but have not taken a position on the validity of this claim on the bonds. In the third quarter of 2020, the joint venture issued a notice of civil claim seeking approximately \$105 million in damages from Rio Tinto. The joint venture also registered and perfected a builders’ lien against project lands, providing security over approximately \$97 million of the claimed damages. In the first quarter of 2021, Rio Tinto issued a counterclaim against the joint venture but did not articulate the amount of damages it may seek from the joint venture; such amount is expected to be material. While it is possible that this commercial dispute could result in a material impact to Aecon’s earnings and cash flow if not resolved, the ultimate results cannot be predicted at this time. The aforementioned notice of civil claim was commenced in the Supreme Court of British Columbia between Frontier Kemper Constructors and Frontier Kemper – Aecon Joint Venture as plaintiffs/defendants by counterclaim and Rio Tinto Alcan Inc. and Aluminum Company of Canada Limited/Aluminum Du Canada Limitee as the defendants/plaintiffs by counterclaim.

K+S Potash Canada

During the second quarter of 2018, the Company filed a statement of claim in the Court of King’s Bench for Saskatchewan (the “Court”) against K+S Potash Canada (“KSPC”) and KSPC filed a statement of claim in the Court against the Company. Both actions relate to the Legacy mine project in Bethune, Saskatchewan. The Company is seeking \$180 million in payments due to it pursuant to agreements entered into between the Company and KSPC with respect to the project plus approximately \$14 million in damages. The Company has recorded \$140 million of unbilled revenue and accounts receivable as at December 31, 2022. Offsetting this amount to some extent, the Company has accrued \$45 million in trade and other payables for potential payments to third parties pending the outcome of the claim against KSPC. KSPC is seeking an order that the Company repay to KSPC approximately \$195 million already paid to the Company pursuant to such agreements. The Company has also been brought into two other lawsuits in the same Court between KSPC and various other contractors involved with the Legacy mine project, both relating to matters which

the Company believes are materially covered by insurance coverage, to the extent of any liability. In the fourth quarter of 2022, the Court issued a decision allowing an application by Aecon to add KSPC's parent company K+S Aktiengesellschaft ("KSAG") as a defendant to the lawsuit arising from KSAG's conduct in inducing KSPC to breach its contract with Aecon. These claims may not be resolved for several years. While the Company considers KSPC's claim to be without merit and does not expect that the resolution of these claims will cause a material impact to its financial position, the ultimate results cannot be predicted at this time.

Critical Accounting Estimates – Certain Fixed Price Legacy Projects

Four large fixed price legacy projects being performed by joint ventures in which Aecon is a participant (see Section 13 "Risk Factors" of this MD&A), are being negatively impacted due to additional costs for which the joint ventures assert that the owners are contractually responsible, including for, among other things, unforeseeable site conditions, third party delays, COVID-19, supply chain disruptions, and inflation related to labour and materials. Revenue and income from these contracts is determined by the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs at completion of the project. The Company has a process whereby progress to completion is reviewed by management on a regular basis and estimated costs to complete are updated as necessary. Claims are amounts in excess of the agreed contract price, or amounts not included in the original contract price, that the relevant joint venture seeks to collect from clients for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs that the Company and the relevant joint venture believes the owner is contractually responsible. Due to unforeseen changes in estimates of the nature or cost of the work to be completed and / or changes in estimates of related revenue, contract profit can differ significantly from earlier estimates (See Section 13 "Risk Factors": "Large Project Risk", "Certain Fixed Price Legacy Projects", "Contractual Factors", "Litigation Risk and Claims Risk", "Increases in the Cost of Raw Materials", "Supply Chain Disruption", "Risks Related to the COVID-19 Pandemic and Associated Supports under Government Assistance Programs" and "Force Majeure Events"). In 2022, due to the factors discussed above that impacted these four fixed price legacy projects during the year, Aecon recognized an operating loss of \$120.0 million related to these four projects. See also Section 5 "Recent Developments".

10.3. CASH AND DEBT BALANCES

Cash balances at December 31, 2022 and December 31, 2021 are as follows:

\$ millions		December 31, 2022		
		Balances excluding Joint Operations	Joint Operations	Consolidated Total
Cash and cash equivalents	(1)	\$ 20	\$ 357	\$ 377
Restricted cash	(2)	107	-	107
Marketable securities		-	1	1
Bank indebtedness	(3)	(121)	-	(121)
		December 31, 2021		
		Balances excluding Joint Operations	Joint Operations	Consolidated Total
Cash and cash equivalents	(1)	\$ 13	\$ 520	\$ 533
Restricted cash	(2)	98	-	98
Bank indebtedness	(3)	(23)	-	(23)

(1) Cash and cash equivalents include cash on deposit in bank accounts of joint operations which Aecon cannot access directly.

(2) Restricted cash is cash held by Bermuda Skyport Corporation Limited.

(3) Bank indebtedness represents borrowings on Aecon's revolving credit facility.

Total long-term recourse debt of \$409.1 million as at December 31, 2022 compares to \$398.8 million as at December 31, 2021, the composition of which is as follows:

\$ millions	December 31, 2022	December 31, 2021
	\$	\$
Current portion of long-term debt – recourse	56.6	58.6
Current portion of convertible debentures	178.9	-
Long-term debt – recourse	173.6	166.3
Long-term portion of convertible debentures	-	173.9
Total long-term recourse debt	409.1	398.8
Current portion of project debt – non-recourse	3.3	3.0
Long-term project debt – non-recourse	375.7	354.6
Total project debt – non-recourse	379.0	357.6

The \$10.3 million net increase in total long-term recourse debt results from an increase in equipment leases of \$5.7 million and convertible debentures of \$5.0 million related to the accretion of notional interest. These increases were partially offset by a decrease in equipment financing of \$0.4 million.

The \$21.4 million increase in long-term non-recourse project debt, which all relates to the financing of the Bermuda International Airport Redevelopment Project, is the net effect of debt repayments of \$3.0 million more than offset by the impact of the change in the U.S.:Canadian dollar exchange rate since December 31, 2021.

As at December 31, 2022, Aecon had a committed revolving credit facility of \$600 million, of which \$121 million was drawn and \$3 million utilized for letters of credit. As at December 31, 2022, cash drawings under the revolving credit facility bear interest at rates between prime and prime plus 1.85% per annum. The revolving credit facility, when combined with an additional \$900 million performance security guarantee

facility to support letters of credit provided by Export Development Canada, brings Aecon's committed credit facilities for working capital and letter of credit requirements to a total of \$1,500 million. On December 31, 2023, convertible debentures with a face value of \$184 million will mature. The Company has no other debt or working capital credit facility maturities in 2023, except equipment and property loans and leases in the normal course. As at December 31, 2022, Aecon was in compliance with all debt covenants related to its credit facility.

Aecon's financial position, liquidity and capital resources are subject to the risks and uncertainties described in Section 10.2 "Contingencies" of this MD&A regarding certain pending legal proceedings to which Aecon is a party. Aecon and its joint venture partners also continue to advance negotiations and work towards resolution of claims for additional costs related to the four fixed price legacy projects, and in conjunction strengthen the Company's balance sheet through reducing working capital related to these projects. While the Company believes each relevant joint venture has a strong claim to recover at least a substantial portion of these costs, the ultimate outcome of these matters cannot be predicted at this time (see Section 13 "Risk Factors": "Certain Fixed Price Legacy Projects" of this MD&A). Aecon's operations also remain subject to uncertainties related to the unpredictability of future potential impacts related to COVID-19 and global economic conditions, notably from supply chain disruptions, inflation related to labour and materials, and availability of labour (see Section 5 "Recent Developments" of this MD&A). As such, while the Company remains subject to risks which individually or in the aggregate, could result in material impacts to Aecon's earnings, cash flow, liquidity and financial position, the Company believes that its current liquidity position, including its cash position, unused credit capacity, and cash generated from its operations, is sufficient to fund its operations.

In the first quarter of 2022, Aecon's Board of Directors approved an increase in the dividend to be paid to all holders of Aecon common shares. Quarterly dividends increased to \$0.185 per share (annual dividend of \$0.74 per share). Prior to this increase, Aecon paid a quarterly dividend of \$0.175 per share (annual dividend of \$0.70 per share). The first quarterly dividend payment of \$0.185 per share was paid on April 4, 2022.

10.4. SUMMARY OF CASH FLOWS

The construction industry in Canada is seasonal in nature for companies like Aecon that perform a significant portion of their work outdoors, particularly road construction and utilities work. As a result, a larger portion of this work is performed in the summer and fall months than in the winter and early spring months. Accordingly, Aecon has historically experienced a seasonal pattern in its operating cash flow, with cash balances typically being at their lowest levels in the middle of the year as investments in working capital increase. These seasonal impacts typically result in cash balances peaking near year-end or during the first quarter of the year.

A summary of sources and uses of cash during the three months ended and year ended December 31, 2022 and 2021 is as follows:

\$ millions	Three months ended		Year ended	
	December 31		December 31	
	2022	2021	2022	2021
Operating Activities				
Cash provided by (used in):				
Cash flows from operations before changes in working capital	\$ 34.5	\$ 38.3	\$ 95.0	\$ 98.7
Lower (higher) investments in working capital	3.3	35.2	(207.9)	(130.1)
Cash provided by (used in) operating activities	\$ 37.8	\$ 73.5	\$ (112.9)	\$ (31.4)
Investing Activities				
Cash provided by (used in):				
Decrease (increase) in restricted cash balances held by Skyport to finance the Bermuda International Airport project	\$ (13.2)	\$ (12.7)	\$ (2.9)	\$ 13.0
Expenditures made by Skyport related to the construction of the new airport terminal in Bermuda	-	-	-	(3.6)
Expenditures (net of disposals) on property, plant and equipment and intangible assets	(10.7)	(6.9)	(28.8)	(27.6)
Cash outflow related to acquisitions	-	(24.6)	(5.8)	(24.6)
Cash distributions received from projects accounted for using the equity method	1.2	0.3	3.2	3.1
Cash used for investments in long-term financial assets	(0.8)	(0.1)	(0.8)	0.1
Increase in marketable securities	-	-	(0.8)	-
Cash used in investing activities	\$ (23.5)	\$ (44.0)	\$ (35.9)	\$ (39.6)
Financing Activities				
Cash provided by (used in):				
Increase (decrease) in bank indebtedness associated with borrowings under the Company's revolving credit facility	\$ (89.0)	\$ (26.7)	\$ 97.7	\$ 23.3
Increase in long-term recourse debt borrowings	4.3	7.3	15.4	37.3
Repayments of long-term recourse debt relating primarily to property and equipment financing arrangements	(27.6)	(18.4)	(77.5)	(71.6)
Repayment of non-recourse project debt of the Bermuda International Airport project	-	-	(3.0)	-
Cash used for dividends paid	(11.3)	(10.6)	(44.5)	(41.3)
Cash used in financing activities	\$ (123.6)	\$ (48.4)	\$ (11.9)	\$ (52.3)
Decrease in cash and cash equivalents	\$ (109.3)	\$ (18.9)	\$ (160.7)	\$ (123.3)
Effects of foreign exchange on cash balances	(1.2)	(0.2)	5.2	(2.3)
Cash and cash equivalents – beginning of period	487.7	551.8	532.7	658.3
Cash and cash equivalents – end of period	\$ 377.2	\$ 532.7	\$ 377.2	\$ 532.7

In 2022, Aecon acquired, either through purchase or lease, property, plant and equipment totaling \$79.9 million (excluding property, plant and equipment acquired from business combinations). Of this amount, \$8.6 million related mainly to long-term office property leases in Alberta and Ontario and \$4.8 million related mainly to

the purchase of aggregate property in Saskatchewan, with the balance of the investment in property, plant and equipment primarily related to the purchase or lease of new machinery and construction equipment as part of normal ongoing business operations in the Construction segment. In 2021, Aecon acquired, either through purchase or lease, property, plant and equipment totaling \$83.7 million (excluding property, plant and equipment acquired from business combinations). Of this amount, \$11.6 million related to the purchase of equipment yards and buildings in Alberta for use by civil operations and \$5.8 million related to long-term property leases in utilities operations, with the balance of the investment in property, plant and equipment primarily related to the purchase or lease of new machinery and construction equipment as part of normal ongoing business operations in the Construction segment.

10.5. CAPITAL MANAGEMENT

For capital management purposes, the Company defines capital as the aggregate of its shareholders' equity and debt. Debt includes the current and non-current portions of long-term debt (excluding non-recourse debt) and the current and non-current long-term debt components of convertible debentures.

The Company's principal objectives in managing capital are:

- to ensure sufficient liquidity to adequately fund the ongoing operations of the business;
- to provide flexibility to take advantage of contract and growth opportunities that are expected to provide returns to shareholders;
- to maintain a strong capital base;
- to provide a rate of return in excess of its cost of capital to its shareholders; and
- to comply with financial covenants required under its various borrowing facilities.

The Company manages its capital structure and adjusts it in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new debt or repay existing debt, issue new shares, issue convertible debt, or adjust the quantum of dividends paid to shareholders. Financing decisions are generally made on a specific transaction basis and depend on such things as the Company's needs, capital markets and economic conditions at the time of the transaction.

Although the Company monitors capital on a number of bases, including liquidity and working capital, total debt (excluding non-recourse debt and drawings on the Company's credit facility presented as bank indebtedness) as a percentage of total capitalization (debt to capitalization percentage) is considered by the Company to be the most important metric in measuring the strength and flexibility of its consolidated balance sheets. As at December 31, 2022, the debt to capitalization percentage including convertible debentures as debt was 30% (December 31, 2021 - 30%). If the convertible debentures were to be excluded from debt and added to equity on the basis that they could be redeemed for equity, either at the Company's option or at the holder's option, then the adjusted debt to capitalization percentage would be 17% as at December 31, 2022 (December 31, 2021 - 17%). While the Company believes these debt to capitalization percentages are acceptable, because of the cyclical nature of its business and the uncertainties described in Section 10.2 "Contingencies," Section 13 "Risk Factors", and Section 5 "Recent Developments" of this MD&A, the Company will continue its current efforts to maintain a conservative capital position.

Debt to capitalization percentage is presented in Note 32 of the Company's audited consolidated financial statements for the year ended December 31, 2022. Set out below is the calculation of the Company's debt to capitalization percentage as at December 31, 2022 and 2021 using the definitions provided in the preceding paragraphs:

\$ millions	December 31, 2022	December 31, 2021
Current portion of long-term debt	\$ 56.6	\$ 58.6
Long-term debt	173.6	166.3
Current portion of convertible debentures	178.9	-
Convertible debentures	-	173.9
Debt	\$ 409.1	\$ 398.8
Shareholder's equity	\$ 954.0	\$ 913.6
Capitalization	\$ 1,363.1	\$ 1,312.4
Debt to capitalization percentage	30%	30%
	December 31, 2022	December 31, 2021
Current portion of long-term debt	\$ 56.6	\$ 58.6
Long-term debt	173.6	166.3
Debt	\$ 230.2	\$ 224.9
Shareholder's equity	\$ 954.0	\$ 913.6
Convertible debentures	178.9	173.9
Shareholders' equity and convertible debentures	\$ 1,132.9	\$ 1,087.5
Capitalization	\$ 1,363.1	\$ 1,312.4
Debt (excluding convertible debentures) to capitalization percentage	17%	17%

10.6. FINANCIAL INSTRUMENTS

From time to time, the Company enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar but does not hold or issue such financial instruments for speculative trading purposes. In addition, some of the Company's investments in projects accounted for using the equity method enter into derivative financial instruments, namely interest rate swaps, to hedge the variability of interest rates related to non-recourse project debt.

The Company discloses information on the classification and fair value of its financial instruments, as well as on the nature and extent of risks arising from financial instruments, and related risk management in Note 31 "Financial Instruments" to the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2022.

11. NEW ACCOUNTING STANDARDS

Note 6 “*New Accounting Standards*” to the Company’s audited consolidated financial statements and the notes thereto for the year ended December 31, 2022 includes new IFRS standards that became effective for the Company on January 1, 2022, and Note 7 discusses IFRS standards and interpretations that are issued, but not yet effective as at December 31, 2022.

12. SUPPLEMENTAL DISCLOSURES

Disclosure Controls and Procedures

The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), together with management, evaluated the design and operating effectiveness of the Company’s disclosure controls and procedures as at the financial year ended December 31, 2022. Based on that evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2022 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities and that information required to be disclosed by the Company in its annual and interim filings and other reports submitted under securities legislation was recorded, processed, summarized and reported within the periods specified in securities legislation.

Internal Controls over Financial Reporting

The CEO and CFO, together with management, evaluated the design and operating effectiveness of the Company’s internal controls over financial reporting as at the financial year ended December 31, 2022. Based on that evaluation, the CEO and the CFO concluded that the design and operation of internal controls over financial reporting were effective as at December 31, 2022 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s audited consolidated financial statements and the notes thereto for the year ended December 31, 2022 for external purposes in accordance with IFRS. In designing and implementing such controls, it should be recognized that any system of internal control over financial reporting, no matter how well designed and operated, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect all misstatements due to error or fraud.

See also the section on “*Internal and Disclosure Controls*” in Section 13 “Risk Factors” in this MD&A.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company’s internal controls over financial reporting during the year ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

Previous restrictions related to the COVID-19 pandemic, including the transition to working from home or a hybrid working model for office-based employees, has resulted in modified work practices that have the potential to impact the design and performance of internal controls over financial reporting at the Company. While no material changes in the Company’s internal controls over financial reporting are anticipated at

this time, the Company continues to monitor and mitigate any risks associated with changes to its control environment in response to COVID-19 and trends related to more flexible working arrangements with respect to location.

Contractual Obligations

Aecon has commitments for equipment, premises under lease, and convertible debentures as follows:

\$ millions	Finance lease payments	Equipment and other loans	Convertible debentures ⁽¹⁾
2023	\$ 51.4	\$ 12.2	\$ 193.2
2024 - 2027	115.7	41.2	-
Beyond	19.9	12.7	-
	<u>\$ 187.0</u>	<u>\$ 66.1</u>	<u>\$ 193.2</u>

(1) Assumes all convertible debentures are redeemed at maturity for cash.

Commitments related to non-recourse project debt are as follows:

\$ millions	Non- recourse project debt
2023	\$ 25.9
2024 - 2027	118.7
Beyond	539.1
	<u>\$ 683.7</u>

As at December 31, 2022, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was \$6,296 million.

Defined Benefit Pension Plans

Aecon's defined benefit pension plans (the "Pension Plans") had a combined deficit of \$0.9 million as at December 31, 2022 (2021 – a combined surplus of \$1.1 million). Details relating to Aecon's defined benefit plans are set out in Note 23 to the Company's audited consolidated financial statements for the year ended December 31, 2022.

The latest actuarial valuation of the Pension Plans for statutory and contribution purposes was completed as at December 31, 2021. Under current pension benefits regulations, the next actuarial valuation of the Pension Plans must be performed with a valuation date of no later than December 31, 2024. Accordingly, unless an earlier valuation date is adopted, no change in contributions will be required before 2024 and any changes thereafter will reflect December 31, 2024 market conditions.

The defined benefit obligations and benefit cost levels will change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future remeasurement gains or losses, none of which have been anticipated at this time. Emerging experience, differing from the assumptions, will result in gains or losses that will be revealed in future accounting valuations. Consequently, the accounting for Pension Plans involves a number of assumptions including those that are disclosed in Note 23 to the Company's audited consolidated financial

statements for the year ended December 31, 2022. As a result of the uncertainty associated with these estimates, there is no assurance that the Pension Plans will be able to earn the assumed rate of return on plan assets, and furthermore, market driven changes may result in changes to discount rates and other variables which would result in Aecon being required to make contributions to the Pension Plans in the future that may differ significantly from estimates. As a result, there is a significant amount of measurement uncertainty involved in the actuarial valuation process. This measurement uncertainty may lead to potential fluctuations in financial results attributable to the selection of actuarial assumptions and other accounting estimates involved in the determination of pension expense and obligations. A significant actuarial and accounting assumption impacting the reporting of Pension Plans is the discount rate assumption. As at December 31, 2022, Aecon used a discount rate of 5.0% in its Pension Plan calculations for consolidated financial statement purposes. The impact of a 0.5% decrease in the discount rate assumption would have resulted in an increase in the pension benefit obligation of approximately \$1.4 million as at December 31, 2022 and an increase in the estimated 2023 pension expense of approximately \$0.1 million.

For additional details, see Note 24 “Contingencies”, Note 31 “Financial Instruments” and Note 34 “Remaining Performance Obligations” to the Company’s audited consolidated financial statements and the notes thereto for the year ended December 31, 2022.

Related Party Transactions

Related party transactions are disclosed in Note 35 “Related Parties” to the Company’s audited consolidated financial statements for the year ended December 31, 2022. Other than transactions with certain equity accounted investees as part of the normal course of operations, there were no other significant related party transactions in 2022.

Critical Accounting Estimates and Judgements

The reader is referred to the detailed discussion on critical accounting estimates and judgements found in Note 4 to the Company’s audited consolidated financial statements for the year ended December 31, 2022.

13. RISK FACTORS

1. Business and Operational Risks

a. Large Project Risk

A substantial portion of Aecon’s revenue is derived from large projects, some of which are conducted through joint ventures. These projects provide opportunities for significant revenue and profit contributions but, by their nature, carry significant risk and, as such, can result and have occasionally resulted in significant losses. Contracts for large projects typically involve a transfer of risks to a contractor beyond those contained in smaller project contracts. As such, a failure to properly execute or complete a large project, a change in project conditions, or a protracted or unsuccessful dispute resolution with a client about entitlement to extra compensation on a large project may subject Aecon to significant losses. The risks associated with such large projects are often proportionate to their size and complexity. For greater detail, see “Risk Factors – Contractual Factors” herein.

Joint ventures are often formed to undertake a specific project, jointly controlled by the partners, and are dissolved upon completion of the project. Aecon selects its joint venture partners based on a variety of criteria, including relevant expertise, past working relationships, as well as an analysis of prospective partners' financial capacity and construction capabilities. Joint venture agreements spread risk between the partners and they generally state that companies will supply their proportionate share of operating funds and share profits and losses in accordance with specified percentages. Nevertheless, each participant in a joint venture is usually liable to the client for completion of the entire project in the event of a default by any of its partners. Therefore, in the event that a joint venture partner fails to perform its obligations due to financial or other difficulties or is disallowed from performing or is otherwise unable to perform its obligations as a result of the client's determination, whether pursuant to the relevant contract or because of modifications to government or agency procurement policies or rules or for any other reason, Aecon may be required to make additional investments or provide additional services which may reduce or eliminate profit, or even subject Aecon to significant losses with respect to the joint venture. As a result of the complexity and size of many of the joint venture projects that Aecon undertakes or is likely to undertake going forward, the failure of a joint venture partner on a large project could have a significant impact on Aecon's results and financial condition.

The contract price on large projects is based on cost estimates using a number of assumptions. Given the size of these projects, if assumptions prove incorrect, whether due to faulty estimates, unanticipated circumstances, or a failure to properly assess risk, profit may be materially lower than anticipated or, in a worst-case scenario, result in a significant loss.

The recording of the results of large project contracts can distort revenues and earnings on both a quarterly and an annual basis and can, in some cases, make it difficult to compare the financial results between reporting periods. For greater detail on the potential impact of contractual factors, including unpriced change orders, see "Risk Factors – Contractual Factors" herein.

Aecon has a number of commitments and contingencies. If Aecon was called upon to honour these contingent obligations, its financial results could be adversely affected. For additional details, see Note 24 "Contingencies", Note 31 "Financial Instruments" and Note 34 "Remaining Performance Obligations" to the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2022 filed on Aecon's SEDAR profile at www.sedar.com.

b. Certain Fixed Price Legacy Projects

Four large fixed price legacy projects entered into in 2018 or earlier by joint ventures of which Aecon is a participant, including the CGL pipeline project, are being negatively impacted due to additional costs for which the joint ventures assert that the owners are contractually responsible, including for, among other things, unforeseeable site conditions, third party delays, COVID-19, supply chain disruptions, and inflation related to labour and materials. During 2022 these impacts became more pronounced and have resulted, or are now expected to result, in increased costs to the relevant joint ventures above those originally forecast, in some cases materially. Each relevant joint venture has submitted claims for compensation for these additional costs. Other than the CGL pipeline project, none are currently in litigation or arbitration. While Aecon and its partners continue to work toward resolution of these claims for additional costs with the respective owners of these projects, delayed and/or unfavourable outcomes, whether individually or in the aggregate, could result in material impacts to Aecon's earnings, cash flow, liquidity and financial position. The fact that there are four projects experiencing similar impacts concurrently (referred to as the four legacy projects) elevates this risk. While the Company believes each relevant joint venture has a strong

claim to recover at least a substantial portion of these costs, the ultimate outcome of these matters cannot be predicted at this time. See Section 10.2. “Contingencies” of this MD&A and other Risk Factors herein including under the headings “Risks Related to the COVID-19 Pandemic and Associated Supports under Government Assistance Programs”, “Large Project Risk”, “Contractual Factors”, “Litigation Risk and Claims Risk”, “Increases in the Cost of Raw Materials”, “Ongoing Financing Availability”, “Adjustments in Backlog” and “Force Majeure Events”.

c. Contractual Factors

Aecon performs construction activities under a variety of contract types, including fixed price, unit price, cost reimbursable, design-build, design-build-finance, and various permutations of design, build, finance, operation, maintenance and rehabilitation responsibilities. Some forms of construction contracts carry more risk than others. Aecon attempts to maintain a diverse mix of contracts to prevent over-exposure to the risk profile of any particular contractual structure; however, conditions influencing both private sector and public authority clients may alter the mix of available projects and contractual structures that Aecon undertakes.

Historically, a substantial portion of Aecon’s revenue is derived from contracts pursuant to which a commitment is provided to the owner to complete the project at a fixed price. In fixed price projects, in addition to the risk factors of a unit price contract (as described below), any errors in quantity estimates, schedule delays or productivity losses, for which contracted relief is not available, must be absorbed within the fixed price, thereby adding a further risk component to the contract. Such contracts, given their inherent risks, may in the future and from time-to-time result in significant losses. The failure to properly assess a wide variety of risks, appropriately execute such contracts, or reach satisfactory resolution to contractual disputes may have a material adverse impact on financial results.

Aecon is also involved in fixed unit price construction contracts under which the Company is committed to provide services and materials at a fixed unit price (e.g. dollars per tonne of asphalt or aggregate). While this shifts the risk of estimating the quantity of units to the contract owner, any increase in Aecon’s cost over the unit price bid, whether due to estimating error, inefficiency in project execution, inclement weather, cost escalation, or other factors, will negatively affect Aecon’s profitability.

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

Aecon is also involved in design-build contracts under which Aecon takes responsibility for the design in addition to the responsibilities and risks of a unit price or fixed price construction contract. This form of contract adds the risk of Aecon’s liability for design errors as well as additional construction costs that might result from such design errors.

Certain of Aecon’s contractual requirements may also involve financing elements, where Aecon is required to provide one or more letters of credit, performance bonds, financial guarantees or equity investments. For greater detail, see “Risk Factors – Access to Bonding, Pre-qualification Rating and Letters of Credit” herein.

Change orders, which modify the nature or scope of the work to be completed, are frequently issued by clients. Final pricing of these change orders is often negotiated after the changes have been started or completed. As such, disputes regarding the quantum of unpriced change orders could impact Aecon's profitability on a particular project, its ability to recover costs or, in a worst-case scenario, result in significant project losses. Until pricing has been agreed, these change orders are referred to as "unpriced change orders." Revenues from unpriced change orders are recognized to the extent of the costs incurred on executing the change order or, if lower, to the extent to which recovery is probable. Consequently, profit on such change orders is recognized only when pricing is agreed. If, ultimately, there are disputes with clients on the pricing of change orders or disputes regarding additional payments owing as a result of changes in contract specifications, delays, additional work or changed conditions, Aecon's accounting policy is to record all costs for these changes, but unpriced change orders and claims are recognized in revenue at the amount the Company expects to receive with a high probability that a significant reversal of cumulative revenue recognized will not occur once the uncertainty associated with the variable consideration is resolved. The timing of the resolution of such events can have a material impact on income and liquidity and thus can cause fluctuations in the revenue and income of Aecon in any one reporting period.

Aecon's entitlement to contractual relief for increased costs and/or extension of time to complete work due to the direct and indirect impacts of the COVID-19 pandemic vary across the many contracts that Aecon has entered into. Some contracts provide full relief, while others are vague or silent or explicitly limit the client's obligation to provide relief. From the outset of the COVID-19 pandemic, Aecon has pursued and continues to pursue various contractual entitlement mechanisms to recover increased costs and/or extend timeframes to complete work. Whether Aecon succeeds in recovering such increased costs and extending such timeframes may depend on factors that vary on a project-by-project basis, including contract type, contract language, client receptiveness, and the probability of and extent to which the COVID-19 pandemic impacts project execution.

d. Aecon Operates in a Highly Competitive Industry

Aecon operates businesses in highly competitive sectors and geographic markets in Canada, the United States and, on a select basis, internationally. Aecon competes with other major contractors, as well as many mid-size and smaller companies, across a range of industry sectors. In addition, the number of international companies operating in the Canadian marketplace makes the market more competitive. Each competitor has its own advantages and disadvantages relative to Aecon. New contract awards and contract margin are dependent on the level of competition and the general state of the markets in which the Company operates. Fluctuations in demand in the sectors in which the Company operates may impact the degree of competition for work. Competitive position is based on a multitude of factors including pricing, ability to obtain adequate bonding, backlog, financial strength, appetite for risk, reputation for safety, quality, timeliness and experience. Aecon has little control over and cannot otherwise affect what these competitive factors are. If the Company is unable to effectively respond to these competitive factors, results of operations and financial condition will be adversely impacted. In addition, a prolonged economic slump or slower than anticipated recovery may affect one or more of Aecon's competitors or the markets in which it operates, resulting in increased competition in certain market sectors, price or margin reductions or decreased demand for services, which may adversely affect results.

e. Concessionaire Risk

In addition to providing design, construction, procurement, operation, maintenance, and other services on a given project, Aecon will sometimes invest as a concessionaire in an infrastructure asset. In such instances, Aecon assumes a degree of risk (essentially equity risk) associated with the performance of the asset during the concession period. The Bermuda International Airport is a current example of such an asset. The financing arrangements on concession projects are typically based on a set of projections regarding the cash flow to be generated by the asset during the life of the concession. The ability of the asset to generate the cash flows required to provide a return to the concessionaire can be influenced by a number of factors, some of which are partially beyond the concessionaire's control, such as, among others, political or legislative changes, traffic demand and thus operating revenues, collection success and operating cost levels.

While project concession agreements often provide a degree of risk mitigation, and insurance products are available to limit some of the concession risks, the value of Aecon's investment in these infrastructure assets can be impaired, and certain limited risk guarantees can be called, if the financial performance of the asset does not meet certain requirements.

On a going forward basis, a future economic downturn, higher interest rates, constrained availability of capital, or other factors, may directly or indirectly impact the ability of Aecon to make the necessary financing arrangements to pursue all of the concession opportunities it would otherwise be interested in.

f. Dependence on the Public Sector

A significant portion of Aecon's revenue is derived from contracts with various levels of government or their agencies. Consequently, any reduction in demand for Aecon's services by the public sector, whether from traditional funding constraints, the long-term impact of weak economic conditions (including future budgetary constraints related to the COVID-19 pandemic or otherwise, concerns regarding deficits or an eroding tax base), changing political priorities, change in government, cancellation or delays in projects caused by the election process would likely have an adverse effect on the Company if that business could not be replaced from within the private sector.

Large government-sponsored projects typically have lengthy and often unpredictable lead times associated with the government review and political assessment process. The time delays and pursuit costs incurred as a result of this lengthy process, as well as the often-unknown political considerations that can be part of any final decision, constitute a significant risk to those pursuing such projects.

g. Subcontractor Performance

The profitable completion of some contracts depends to a large degree on the satisfactory performance of subcontractors, including design and engineering consultants, who complete different elements of the work. If these subcontractors do not perform to accepted standards, Aecon may be required to hire different subcontractors to complete the tasks, which may impact schedule, add costs to a contract, impact profitability on a specific job and, in certain circumstances, lead to significant losses. Disputes with subcontractors may also result in material litigation. See "Risk Factors – Litigation Risk and Claims Risk" herein. A major subcontractor default or failure to properly manage subcontractor performance could materially impact results.

h. Weather-Related Risks

Unfavourable weather conditions represent one of the most significant uncontrollable risks for Aecon to the extent that such risk is not mitigated through contractual terms, insurance or otherwise. Construction projects are susceptible to delays as a result of extended periods of poor weather, which can have an adverse effect on profitability arising from either late completion penalties imposed by the contract or from the incremental costs arising from loss of productivity, compressed schedules, or from overtime work utilized to offset the time lost due to adverse weather and additional costs to modify means and methods to perform work in different-than-expected weather. See “Risk Factors – Climate Change Factors” herein for the discussion of weather risks related to climate change.

i. Risk of Non-Payment

Credit risk of non-payment with private owners under construction contracts is to a certain degree minimized by statutory lien rights, which give contractors a high priority in the event of insolvency proceedings as well as progress payments based on percentage completion. However, there is no guarantee that these measures will in all circumstances mitigate the risk of non-payment from private owners and a significant default or bankruptcy by a private owner may significantly and adversely impact results. A greater incidence or magnitude of default (including cash flow problems) or bankruptcy amongst clients, subcontractors or suppliers related to economic conditions could also impact results.

Credit risk is typically less of a concern with public (government) owners, who generally account for a significant portion of Aecon’s business, as funds have generally been appropriated prior to the award or commencement of the project. See “Risk Factors – Dependence on the Public Sector” herein for additional discussion of the risks associated with this type of contract.

j. Labour Factors

A significant portion of Aecon’s labour force is unionized and, accordingly, Aecon is subject to the detrimental effects of a strike or other labour action, in addition to competitive cost factors.

The Company’s future prospects depend to a significant extent on its ability to attract and retain sufficient skilled workers. The construction industry is from time to time faced with a shortage of skilled labourers in some areas and disciplines. The resulting competition for labour may limit the ability of the Company to take advantage of opportunities otherwise available or alternatively may impact the profitability of such endeavours. The Company believes that its union relationships, size, and industry reputation will help mitigate this risk but there can be no assurance that the Company will be successful in identifying, recruiting or retaining a sufficient number of skilled workers.

k. Insurance Risk

Aecon maintains insurance in order to both satisfy the requirements of its various construction contracts as well as a corporate risk management strategy. Failure to secure adequate insurance coverage could lead to uninsured losses or limit Aecon’s ability to pursue some construction contracts, both of which could impact results. Insurance products from time-to-time experience market fluctuations that can impact pricing and availability. Therefore, senior management, through Aecon’s insurance broker, monitors developments in the insurance markets so that the Company’s insurance needs are met. If any of Aecon’s third-party insurers fail, refuse to renew or revoke coverage, refuse to cover claims, or otherwise cannot satisfy their requirements to Aecon, the Company’s overall risk exposure could be materially increased.

Insurance risk entails inherent unpredictability that can arise from assuming long-term policy liabilities or from uncertainty of future events. Although Aecon has in the past been able to meet its insurance needs, there can be no assurances that Aecon will be able to secure all necessary or appropriate insurance on a going forward basis. Insurance premiums or deductibles may also increase, resulting in higher costs to the Company.

l. Environmental and Safety Factors

During its history, Aecon has experienced a number of incidents, emissions or spills of a non-material nature in the course of its construction activities. Although none of these environmental incidents to date have resulted in a material liability to the Company, there can be no guarantee that any future incidents will also not be material.

Aecon is subject to, and complies with, federal, provincial and municipal environmental legislation in all of its operations. Aecon recognizes that it must conduct all of its business in such a manner as to both protect and preserve the environment in accordance with this legislation. At each place where work is performed, Aecon develops and implements a detailed quality control plan as the primary tool to demonstrate and maintain compliance with all environmental regulations and conditions of permits and approvals. Given its more than one hundred-year history in the construction industry, the large number of companies incorporated into its present structure, and the fact that environmental regulations tend not to have a statute of limitations, there can be no guarantee that a historical claim may not arise on a go forward basis. Management is not aware of any pending environmental legislation that would be likely to have a material impact on any of its operations, capital expenditure requirements or competitive position, although there can be no guarantee that future legislation (including without limitation the introduction of climate change or environmentally-focused legislation that may impact aspects of Aecon's business) will not be proposed and, if implemented, might have an impact on the Company and its financial results. Please see "Risk Factors – Climate Change Factors" herein for a discussion of climate-related risks.

Aecon is also subject to, and complies with, health and safety legislation in all of its operations in the jurisdictions in which it operates. The Company recognizes that it must conduct all of its business in such a manner as to ensure the protection of its workforce and the general public. Aecon has developed a health and safety program; nevertheless, given the nature of the industry, accidents will inevitably occur from time to time. 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 its operations, capital expenditure requirements or competitive position. Nevertheless, there can be no guarantee with respect to the impact of future legislation or accidents. Increasingly across the construction industry, safety standards, records and culture are an integral component of winning new work. Should Aecon fail to maintain its safety standards, such failure may lead to termination of contracts and/or impact future job awards, and could therefore impact financial results.

m. Cyclical Nature of the Construction Industry

Fluctuating demand cycles are common in the construction industry and can have a significant impact on the degree of competition for available projects. As such, fluctuations in the demand for construction services or the ability of the private and/or public sector to fund projects in the current economic climate could adversely affect backlog and margin and thus Aecon's results.

Given the cyclical nature of the construction industry, the financial results of Aecon, similar to others in the industry, may be impacted in any given period by a wide variety of factors beyond its control (as outlined herein) and, as a result, there may be from time to time, significant and unpredictable variations in Aecon's quarterly and annual financial results.

n. Failure of Clients to Obtain Required Permits, Licences and Approvals

The development of construction projects requires Aecon's clients to obtain regulatory and other permits, licences and approvals from various governmental licencing bodies. Aecon's clients may not be able to obtain all necessary permits, licences and approvals required for the development of their projects, in a timely manner or at all. These delays are generally outside the Company's control. The major costs associated with these delays are personnel and associated overhead that is designated for the project which cannot be reallocated effectively to other work. If the client's project is unable to proceed, it may adversely impact the demand for the Company's services. Clients may also, from time to time, proceed to award a construction contract while a permit or licence remains pending. Where a client does not obtain a permit or licence as expected or a permit or licence is revoked, the client's cash flow and project viability may be impacted, which may lead to additional costs or financial loss for Aecon.

o. International/Foreign Jurisdiction Factors

Aecon is from time to time engaged in projects in foreign jurisdictions. International projects can expose Aecon to risks beyond those typical for its activities in its home market, including without limitation, economic, geopolitical, geotechnical, military, repatriation of undistributed profits, currency and foreign exchange risks, adoption of new or expansion of existing tariffs and / or taxes or other restrictions, sanctions risk, partner or third-party intermediary misconduct risks, difficulties in staffing and managing foreign operations, and other risks beyond the Company's control including the duration and severity of the impact of global economic downturns.

The Canadian *Corruption of Foreign Public Officials Act* and similar anti-corruption laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to public officials or others for the purpose of obtaining or retaining business. While Aecon's policies mandate compliance with these anti-corruption laws, the Company may in the future operate in parts of the world that have experienced corruption to some degree. Aecon trains its employees with respect to anti-corruption issues and also expects its partners, subcontractors, suppliers, vendors, agents and others who work for Aecon or on its behalf to comply with anti-corruption laws. Aecon has procedures and controls in place to perform appropriate due diligence and monitor compliance. However, there is no assurance that Aecon's internal controls and procedures will always protect the Company from possible improper payments made by its employees or agents. If Aecon is found to be liable for violating anti-corruption laws, the Company could suffer from criminal or civil penalties or other sanctions, including contract cancellations or debarment and loss of reputation, any of which could have a material adverse effect on its business.

Money laundering and related crimes pose a threat to the stability and integrity of the financial sector and the broader economy. Consequently, the international community is increasingly prioritizing its fight against these illegal activities. Aecon is committed to all anti-money laundering regulatory requirements and has implemented procedures, processes and controls with respect to due diligence, record keeping, reporting and training in jurisdictions in which it operates where exposure to such illegal activities is attenuated.

However, there are no assurances that Aecon's procedures, processes and controls will be sufficient to prevent or detect the occurrence of money laundering and related crimes.

Aecon continually evaluates its exposure to unusual risks inherent in international projects and, where deemed appropriate in the circumstances, mitigates these risks through specific contract provisions, insurance coverage and forward exchange agreements. However, there are no assurances that such measures would offset or materially reduce the effects of such risks. For additional details, see Note 31 "Financial Instruments" to the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2022.

Transactional foreign exchange risks are actively managed and hedged where possible and considered cost effective, when directly tied to quantifiable contractual cash flows accruing directly to Aecon within periods of one or two years. Operations in foreign jurisdictions, including major projects executed through joint ventures, generally have a longer term and result in foreign exchange translation exposures that Aecon has not hedged. Such translation exposure will have an impact on Aecon's consolidated financial results. Practical and cost-effective hedging options to fully hedge this longer-term translational exposure are not generally available.

p. Internal and Disclosure Controls

Inadequate disclosure controls or ineffective internal controls over financial reporting could result in an increased risk of material misstatements in the financial reporting and public disclosure record of Aecon. Inadequate controls could also result in system downtime, give rise to litigation or regulatory investigation, fraud or the inability of Aecon to continue its business as presently constituted. Restrictions related to the COVID-19 pandemic, including the transition to working from home ("WFH") or a hybrid working model for office-based employees, have necessitated modified controls during the consolidation and finalization of financial statements.

Aecon has designed and implemented a system of internal controls and a variety of policies and procedures to provide reasonable assurance that material misstatements in the financial reporting and public disclosures are prevented and detected on a timely basis and other business risks are mitigated. Additionally, Aecon's management has adjusted the design of disclosure controls and procedures to compensate for changes in risk brought on as a result of the COVID-19 pandemic. In accordance with the guidelines adopted in Canada, Aecon assesses the effectiveness of its internal and disclosure controls using a top-down, risk-based approach in which both qualitative and quantitative measures are considered. An internal control system, no matter how well conceived and operated, can provide only reasonable – not absolute – assurance to management and the Board regarding achievement of intended results. Aecon's current system of internal and disclosure controls places reliance on key personnel across the Company to perform a variety of control functions including key reviews, analysis, reconciliations and monitoring. The failure of individuals to perform such functions or properly implement the controls as designed could adversely impact results.

q. Integration and Acquisition Risk

The integration of any acquisition raises a variety of issues including, without limitation, identification and execution of synergies, elimination of cost duplication, systems integration (including accounting and information technology), execution of the pre-deal business strategy in an uncertain economic market,

development of common corporate culture and values, integration and retention of key staff, retention of current clients as well as a variety of issues that may be specific to Aecon and the industry in which it operates. There can be no assurance that Aecon will maximize or realize the full potential of any of its acquisitions. A failure to successfully integrate acquisitions and execute a combined business plan could materially impact the future financial results of Aecon. Likewise, a failure to expand the existing client base and achieve sufficient utilization of the assets acquired could also materially impact the future financial results of Aecon.

r. Reputation in the Construction Industry

Reputation and goodwill play an important role in the long-term success of any company in the construction industry. Negative opinion may impact long-term results and can arise from a number of factors including perceived competence, losses on specific projects, questions concerning business ethics and integrity, corporate governance, environmental and climate change awareness, the accuracy and quality of financial reporting and public disclosure as well as the quality and timing of the delivery of key products and services. Aecon has implemented various procedures and policies to help mitigate this risk, including the adoption of Aecon's Code of Ethics and Business Conduct (the "Code") which all employees are expected to review and abide by, and an ethical due diligence process to vet prospective partners, international subcontractors and third-party intermediaries. Nevertheless, the adoption of corporate policies, training of employees and vetting of third parties cannot guarantee that a future breach or breaches of the Code or other corporate policies will not occur which may or may not impact the financial results of the Company.

2. Liquidity, Capital Resources and Financial Position Risks

a. Ongoing Financing Availability

Aecon's business strategy involves the selective growth of its operations through internal growth and acquisitions. Aecon requires substantial working capital during its peak busy period. Aecon relies on its cash position and the availability of credit and capital markets to meet these working capital demands. As Aecon's business grows, Aecon is continually seeking to enhance its access to funding in order to finance the working capital associated with this growth. However, given the expected demand for infrastructure services over the next several years based on announced government infrastructure programs and related investment commitments and the size of many of these projects, Aecon may be constrained in its ability to capitalize on growth opportunities to the extent that financing is either insufficient or unavailable. Further, instability or disruption of capital markets, or a weakening of Aecon's cash position could restrict its access to or increase the cost of obtaining financing. Aecon cannot guarantee that it will maintain an adequate cash flow to fund its operations and meet its liquidity needs. Additionally, if the terms of Aecon's credit facility are not met lenders may terminate Aecon's right to use its credit facility, or demand repayment of whole or part of all outstanding indebtedness, which could have a material adverse effect on Aecon's financial position. One or more third parties drawing on letters of credit or guarantees could have a material adverse effect on Aecon's cash position and operations.

Some of Aecon's clients also depend on the availability of credit to finance their projects. If clients cannot arrange financing, projects may be delayed or cancelled, which could have a material adverse effect on Aecon's growth and financial position. A reduction in a client's access to credit may also affect Aecon's

ability to collect payments, negotiate change orders, and settle claims with clients which could have a material adverse effect on Aecon's financial position.

b. Access to Bonding, Pre-qualification Rating and Letters of Credit

Many of Aecon's construction contracts require sufficient bonding, pre-qualification rating or letters of credit. The issuance of bonds under surety facilities is at the sole discretion of the surety company on a project-by-project basis. As such, even sizeable surety facilities are no guarantee of surety support on any specific individual project. Although the Company believes it will be able to continue to maintain surety capacity adequate to satisfy its requirements, should those requirements be materially greater than anticipated, or should sufficient surety capacity not be available to Aecon or its joint venture partners (see "Large Project Risk" under "Risk Factors" herein) for reasons related to an economic downturn, Aecon's financial performance or otherwise, or should the cost of bonding rise substantially (whether Aecon specific or industry wide), these events may have an adverse effect on the ability of Aecon to operate its business or take advantage of all market opportunities. The Company also believes that it has sufficient capacity with respect to letters of credit to satisfy its requirements, but should these requirements be materially greater than anticipated or should industry capacity be materially impacted by domestic or international conditions unrelated to Aecon, this may have an adverse effect on the ability of Aecon to operate its business.

c. Adjustments in Backlog

There can be no assurance that the revenues projected in Aecon's backlog at any given time will be realized or, if realized, that they will perform as expected with respect to margin. Projects may from time to time remain in backlog for an extended period of time prior to contract commencement, and after commencement may occur unevenly over current and future earnings periods. Project suspensions, terminations or reductions in scope do occur from time to time in the construction industry due to considerations beyond the control of a contractor such as Aecon and may have a material impact on the amount of reported backlog with a corresponding impact on future revenues and profitability. A variety of factors outlined in these "Risk Factors" including, without limitation, the failure to replace the revenue generated from large projects on a going forward basis, conditions in resource related sectors and the impact of economic weakness could lead to project delays, reductions in scope and/or cancellations which could, depending on severity, negatively affect the ability of the Company to replace its existing backlog, which may adversely impact results.

d. Tax Accrual Risks

Aecon is subject to income taxes in Canada and several foreign jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although Aecon believes its tax estimates are reasonable, there can be no assurance that the final determination of any tax audits and litigation will not be materially different from that reflected in historical income tax provisions and accruals. Although management believes it adequately provides for any additional taxes that may be assessed as a result of an audit or litigation, the occurrence of either of these events could have a material adverse effect on the Company's current and future results and financial condition.

e. Impairment in the Value of Aecon's Assets

New events or circumstances may lead Aecon to reassess the value of goodwill, property, plant and equipment, and other non-financial assets, and record a significant impairment loss, which could have a material adverse effect on its financial position. Aecon's non-financial assets, other than those accounted for at fair value, are assessed for indicators of impairment quarterly. Nonfinancial assets are considered impaired when there is objective evidence that estimated future cash flows of the investment have been affected by one or more events that occurred after the initial recognition of the nonfinancial asset. In such a case, Aecon may be required to reduce carrying values to their estimated fair value. Aecon's estimates of future cash flows are inherently subjective which could have a significant impact on the analysis. Further, there could be a material adverse effect on Aecon's financial position from any future write-offs or write-downs of Aecon's assets or in the carrying value of its investments.

3. Economic and Strategic Risks

a. Economic Factors

Aecon's profitability is closely tied to the general state of the economy in those geographic areas in which it operates, all of which have experienced significant adverse impacts due to the COVID-19 pandemic. More specifically, the demand for construction and infrastructure development services, which is the principal component of Aecon's operations, would typically be the largest single driver of the Company's growth and profitability. In periods of strong economic growth and in some cases in periods of economic recovery, there is generally an increase in the number of opportunities available in the construction and infrastructure development industry as capital spending increases. In periods of weak economic growth, the demand for Aecon's services from private sector and public authority clients may be adversely affected.

During 2021 and 2022, Canada's inflation rate rose following a long period of low, stable inflation rates, with the Consumer Price Index increasing 3.4% on a year-over-year basis in 2021 and a further 6.8% in 2022, leading to interest rate increases commencing in 2022 and continuing into 2023. Further increases may be implemented until inflation is back to a level deemed appropriate for a stable economy. Such a monetary tightening policy increases Aecon's borrowing costs and has resulted in increased costs for labour, raw materials, and other inputs to the extent these cannot be passed on to clients. It may also impact the decisions of private and public sector clients when considering whether to proceed with projects that might otherwise have gone ahead.

In North America, which tends to have relatively sophisticated infrastructure, Aecon's profitability is dependent both on the development, rehabilitation and expansion of basic infrastructure (such as, among others, highways, airport terminals, transit systems and power plants) and on the type of infrastructure that flows from commercial and population growth. Commercial growth demands incremental facilities for the movement of goods within and outside of the community, along with water and sewer systems and heat, light and power supplies. Population growth creates a need to move people to and from work, schools and other public facilities, and demands similar services to new homes. Growth in both of these areas, with the possible exception of road maintenance and construction, can be affected by the general state of the economy, which has experienced volatility since March 2020 initially in response to government and private sector efforts to contain the spread of COVID-19 and subsequent impacts from supply chain issues, inflation, and higher interest rates among other factors.

The ongoing uncertainties regarding the mid- to long-term economic impact of the COVID-19 pandemic, a prolonged economic downturn in the markets in which Aecon operates, related constraints on public sector funding, including as a result of government deficits due to unprecedented fiscal and monetary stimulus measures to bolster the economy in response to the impacts of the COVID-19 pandemic, and the ultimate ability of government action to contribute to a stable economy will continue to impact Aecon's clients and its business in 2023 and beyond and may have a significant adverse impact on Aecon's operations.

b. Increases in the Cost of Raw Materials

The cost of raw materials represents a significant component of Aecon's operating expenses. As contractors are not always able to pass such risks on to their customers, unexpected increases in the cost of raw materials may negatively impact the Company's results. As a result of the COVID-19 pandemic and related consumption patterns, there has been increased demand for raw materials used in construction, such as metals, cement and wood products, resulting in periodic supply shortages. Together with supply disruptions emanating from greater frictions at the U.S.-Canada border, this has contributed to an increase in raw material prices with upstream impacts through global supply chains. Tariffs on raw materials between nations may also impact the cost of raw materials from time to time. Unanticipated fluctuations in the costs of raw materials and periodic supply shortages may add a significant risk to many vendors and subcontractors, some of whom may respond by no longer guaranteeing price or availability on long-term contracts, which in turn increases the risk for contractors who are not always able to pass this risk on to their customers.

c. Resources and Commodities Sector

Delays, scope reductions and/or cancellations in previously announced or anticipated projects in the resources and commodities sector could be impacted by a variety of factors. General factors include but are not limited to: the prices of oil, natural gas and other commodities; market volatility; the impact of global economic conditions affecting demand or the worldwide financial markets; cost overruns on announced projects; efforts by owners to contractually shift risk for cost overruns to contractors; fluctuations in the availability of skilled labour; lack of sufficient governmental investment or infrastructure to support growth; the introduction or repeal of climate change or environmentally-focused legislation (such as a carbon tax); negative perception of the oil sands and gas industry and related potential environmental impact; the need for consent from or consultation with Indigenous peoples impacted by proposed projects; and a shortage of sufficient pipeline and/or transportation infrastructure to transport production to major markets.

The prices of oil, natural gas and other commodities are determined based on world demand, supply, production, speculative activities and other factors, all of which are beyond the control of the Company. Investment decisions by some of Aecon's clients are dependent on the clients' outlook on long-term commodity prices. If that outlook is unfavourable it may cause delay, reduction or cancellation of current and future projects, including pipeline projects. A material reduction in oil and gas development, commodity mining, transportation or distribution activities and capital expenditure plans of some of the Company's clients due to, among other reasons, the perception that a pandemic, war or other similarly disruptive international crisis may have lasting impacts on the consumption of oil, gas, and other commodities, could have a negative effect on the frequency, number and size of the projects for which the Company would bid (For greater detail, see "Risk Factors – Force Majeure Events" herein.).

Given the volatility of world oil, natural gas and commodity prices, a sustained period of low prices on a going forward basis for any reason may result in material differences in previously projected resource development projects. Postponements or cancellations of investment in existing and new projects could have an adverse impact on Aecon's business and financial condition.

4. Litigation, Legal and Regulatory Risks

a. Litigation Risk and Claims Risk

Disputes are common in the construction industry and, as such, in the normal course of business, the Company is involved in various legal actions and proceedings (including arbitrations) that arise from time to time, some of which may involve substantial sums of money. There is no assurance that the Company's insurance arrangements will be sufficient to cover any particular claim or claims or that a judge or arbitrator will not rule against Aecon in a proceeding with respect to a substantial amount in dispute notwithstanding the Company's confidence in the merits of its position. Furthermore, the Company is subject to the risk of: (i) claims and legal actions for various commercial and contractual matters, primarily arising from construction disputes, in respect of which insurance is not available, including, for example, late completion of a project or a disputed termination of a contract, and (ii) litigation or investigations relating to alleged or suspected violations of anti-corruption laws (see "Risk Factors – International/Foreign Jurisdiction Factors" herein). There can be no guarantee that litigation or disputes will not arise or be finally resolved in Aecon's favour which, depending on the nature of the litigation, could impact Aecon's results.

Climate change-related litigation continues to evolve in Canada and elsewhere. While most cases have not succeeded due to the difficulty of attributing climate change to one specific emitter and uncertainty about the extent to which climate change-related risks must be considered and disclosed pursuant to existing financial disclosure obligations, the pressure created by climate change-related litigation may affect the regulatory and operating environment of companies, including Aecon.

b. Public Procurement Laws and Regulations

As part of its business dealings with governmental bodies, Aecon must comply, and must take measures to ensure that the companies it partners with comply, with public procurement laws and regulations aimed at ensuring that public sector bodies award contracts in a transparent, competitive, efficient, ethical and non-discriminatory way. Although Aecon has adopted control measures and implemented policies and procedures to mitigate such risks, these control measures, policies and procedures may not always be sufficient to protect the Company from the consequences of acts prohibited by public procurement laws and regulations committed by its directors, officers, employees and agents. For a detailed description of the Company's exposure to corruption and bribery risks, see "Risk Factors – International/Foreign Jurisdiction Factors" herein. If Aecon fails to comply with these laws and regulations it could be subject to administrative or civil liabilities and to mandatory or discretionary exclusion or suspension, on a permanent or temporary basis, from contracting with governmental bodies in addition to other penalties and sanctions that could be incurred by the Company.

5. Risks Related to Information Systems, Technology and Intellectual Property

a. Cyber Interruption or Failure of Information Systems

Aecon relies extensively on information systems, data and communication networks to effectively manage its operations. Complete, accurate, available and secure information is vital to the Company's operations and any compromise in such information could result in improper decision making, inaccurate or delayed operational and/or financial reporting, delayed resolution to problems, breach of privacy and/or unintended disclosure of confidential materials.

Since the onset of the COVID-19 pandemic, Aecon has had to adapt in response to WFH as an alternative working arrangement. Aecon leveraged its recent investments in information and communications technology to facilitate WFH and to help ensure business continuity.

b. Cybersecurity Threats

Aecon has established and continues to enhance security controls which protect its information systems and infrastructure, and which meet or exceed its obligations under applicable law or professional standards. The Company's Information Services Security Group oversees the cybersecurity and risk mitigation strategy in coordination with Information Services and the Board. Aecon is IT general controls ("ITGC") certified and aligns with the International Organization for Standardization/International Electrotechnical Commission (ISO/IEC) 27001 Framework and continually monitors and reports metrics to the Risk Committee of the Board. Aecon annually conducts a comprehensive assessment with third-party auditors in order to re-certify its compliance with the ITGC principles. While audits occur annually, information security risk reviews and assessments are conducted more frequently in accordance with established processes to confirm that Aecon's security controls are protecting the Company's information systems and infrastructure on an ongoing basis. Aecon has also established safeguards so that appropriate physical access controls are in place to protect the Company's facilities and information technology resources from unauthorized access. The Company has a cyber insurance policy which provides broad coverage of cyber incidents as well as third-party costs as a result of breaches and costs to restore, recreate or recollect electronic data and has retained a cyber incident response firm to assist Aecon in managing cyber incidents.

Aecon relies on information technology systems to manage its operations, including for reporting its results of operations, collection and storage of client data, personal data of employees and other stakeholders, and various other processes and transactions. Some of these systems are managed by third-party service providers that are engaged and given access to, or storage of, Aecon data following a security risk assessment. Aecon has similar exposure to security risks faced by other large companies that have data stored on their information technology systems.

While ransomware remains the most significant cyber threat to Aecon and other organizations online, since the onset of the COVID-19 pandemic in 2020, businesses have also faced increased cyber risks related to employees working remotely. Cyber criminals are adapting their tactics, making remote work a gateway to new forms of data theft, including employees' personal information, corporate data, client and customer information, intellectual property and key infrastructure. Aecon has also observed an increase in fraudulent e-mails, spam and phishing attempts through its corporate e-mail. To reduce ransomware and other cyber risks, Aecon has: (i) provided additional mandatory training to all its employees in respect of phishing, spam and fraudulent e-mails, (ii) instituted a phishing gateway to capture, analyze and quarantine all malicious e-mail at the source prior to reaching employee e-mail inboxes, (iii) increased monitoring of devices and employees to proactively identify and correct mistakes by employees with a view to preventing the loss of corporate data and intellectual property and to address risks of corporate fraud, (iv) implemented a web content filter that blocks malicious websites or corporate policies when Aecon devices access the internet remotely, and (v) required all employees to have two-factor authentication when logging into the Company's systems. Moreover, network traffic analysis and heuristic malware scanning takes place across the Company's corporate e-mail system and on all Aecon-owned hardware, including hardware that is used from remote locations, and a third-party security operations centre monitors Aecon's network traffic in its cloud and data centre for any suspicious activity, isolating such activity until it is assessed and ultimately immobilizing our network if required until risks are assessed and mitigated where appropriate.

Given the rapid evolution and sophisticated level of cyber incidents, all the foregoing security measures and controls may not be sufficient to prevent third-party access of digital data from Aecon's or its third-party service providers' systems with the intent to misappropriate information, corrupt data or cause operational disruptions. Such incidents could cause delays in the Company's operations and construction projects, result in lost revenues due to a disruption of activities, lead to the loss, destruction, inappropriate use or theft of confidential data, or result in theft of confidential information, including the Company's or its clients' or joint venture partners' intellectual property. If any of the foregoing events occurs, the Company may be exposed to a number of consequences, including potential litigation or regulatory actions and reputational damage, which could have a material adverse effect on the Company.

c. Outsourced Software

Aecon relies on third-party providers of software and infrastructure to run critical accounting, project management and financial systems. Discontinuation of development or maintenance of third-party software and infrastructure could cause a disruption in Aecon's systems.

d. Protection of Intellectual Property and Proprietary Rights

The Company depends, in part, on its ability to protect its intellectual property rights. Aecon relies primarily on patent, copyright, trademark and trade secret laws to protect its proprietary technologies. The failure of any patents or other intellectual property rights to provide protection to Aecon's technologies would make it easier for competitors to offer similar products or services, which could result in lower sales or gross margin.

The Company's trademarks and trade names are registered in Canada and the United States and the Company intends to keep these filings current and seek protection for new trademarks to the extent consistent with business needs. The Company relies on trade secrets and proprietary know-how and confidentiality agreements to protect certain of its technologies and processes.

6. Risks Related to Climate Change

Global climate change continues to attract considerable public, scientific and regulatory attention, while climate change policy continues to evolve at regional, national and international levels. Aecon carefully considers the physical and non-physical impacts of climate change on the company.

a. Risks in Transitioning to a Net-Zero Economy

The transition to a net-zero economy has the potential to be disruptive to traditional business models and investment strategies. Aecon's private and/or public-sector clients may shift their infrastructure priorities due to changes in project funding, regulatory requirements or public perception. This risk can be mitigated to an extent by identifying changing market demands to offset lower demand in some sectors with opportunities in others (i.e. the energy transition sector, emergency preparedness and wastewater treatment), forming strategic partnerships and pursuing sustainable innovations.

Government action to address climate change may involve economic instruments such as carbon and energy consumption taxes, restrictions on certain economic sectors using tools such as cap-and-trade, increasing efficiency standards and more stringent regulation and reporting of greenhouse gas emissions that could also impact Aecon's current or potential clients operating in industries that extract, distribute and transport fossil fuels.

b. Financial Risks

As new climate change measures are introduced or strengthened, Aecon's cost of business, including insurance premiums, may increase, and the Company may incur expenses related to complying with environmental regulations and policies in countries or regions where it does business. Such costs may include purchasing new equipment and materials to reduce emissions to comply with new regulatory standards or to mitigate the financial impact of different forms of carbon pricing. In addition, Aecon may incur costs related to engaging with governments, regulators and industry organizations for new mandates on infrastructure projects, proactively and regularly monitoring regulatory trends and implementing adequate compliance processes. Aecon's inability to comply with climate change laws and regulations could also result in penalties and lawsuits and reputational damage that may impair Aecon's future prospects.

c. Sustainability (ESG) Reporting

Aecon supports key global initiatives that advance transparency and disclosure in sustainability. The Company's annual Sustainability Report reflects several global sustainability disclosure standards, frameworks and initiatives including the Task Force on Climate-related Financial Disclosures ("TCFD"), the Sustainability Accounting Standards Board ("SASB"), Materiality Assessment aligned to the Global Reporting Initiative ("GRI") and the UN Sustainable Development Goals ("SDGs"). Environmental, Social and Governance reporting indices for disclosure are found within the annual Sustainability Report on Aecon's website. In April 2021, Aecon announced its plan to reach net-zero by 2050, with an initial interim target to achieve a 30% reduction in direct CO₂ emissions by 2030 as compared to 2020 on an intensity basis. While Aecon is fully committed to reaching these targets by driving operational efficiency and accelerating the adoption of new technology, factors such as an inability to procure lower emission vehicles in accordance with Aecon's plans due to supply chain constraints or that such vehicles are not available on commercially reasonable terms, delays in the availability of suitable new technology such as low emission construction equipment, reversal of clean fuels standards, and government and client decisions to not allow lower carbon alternatives to conventional construction materials could cause Aecon to fail to meet its commitments in the time frames it has set out or at all.

d. Market and Reputational Risk

Investors and other stakeholders in Canada and worldwide are becoming more attuned to climate change action and sustainability matters, including scrutiny of the efforts made by companies to reduce their carbon footprint. Moreover, stakeholders increasingly have higher expectations of how businesses respond to climate change issues, specifically those that are most material to their business. Companies are navigating evolving "greenwashing" concerns and the expectation that they are transparent about sustainability targets and performance and not overstating their sustainability credentials. Aecon may be subject to a broad range of additional environmental information requests by customers, potential customers and other stakeholders in certain regions and increasing levels of disclosure regarding climate-related environmental performance. Aecon's reputation may be harmed if it is not perceived by its stakeholders to be sincere in its sustainability commitment and its long-term results may be impacted as a result. In addition, Aecon's approach to climate change issues may increasingly influence stakeholders' views of the Company in relation to its peers and their investment decisions.

e. Physical Risks Emanating from Climate Change

Many of Aecon's construction activities are performed outdoors. The probability and unpredictability of extreme weather events and other associated incidents may continue to increase due to climate change and we may continue to see longer-term shifts in climate patterns. Increases in the severity and/or frequency of weather conditions due to climate change such as earthquakes, hurricanes, tornadoes, fires, floods, droughts and similar events, may cause more regular and severe interruptions in Aecon's business. Severe weather events may also impact the availability and cost of raw materials and may impact the raw materials supply chain and disrupt key manufacturing facilities. See "Risk Factors – Weather-Related Risks" herein for further details. Each of these factors may pose a financial risk to Aecon's business or otherwise have a material adverse effect on its financial position.

7. Social Risks

a. Human Capital

The development, attraction and retention of employees is a critical success factor for Aecon. The Company's continued growth and future success depends on its ability to identify, recruit, assimilate and retain key management, technical, project and business development personnel. Aecon also continues to emphasize employee development and training to empower its employees to unleash their full potential and has implemented programs to help identify top performers and rising talent. The competition for top talent, particularly during periods of high demand in certain sectors, is intense and there can be no assurance that the Company will be successful in identifying, recruiting or retaining such personnel.

b. Incorporating Diversity and Inclusion

Aecon's culture is underpinned by its core values, including an unwavering commitment to diversity and inclusion as described in more detail in the Company's annual Sustainability Report. While Aecon has implemented several measures that focus on making progress in diversity, including initiatives and goals to recruit diverse talent across all leadership and skill areas, the success of these measures will continue to be affected by the Company's industry and broader market trends. Failure to effectively implement these measures may result in a reputational, recruitment and retention risk for Aecon.

c. Human Rights

Companies, including Aecon, are under increasing scrutiny to address human rights issues, including social, gender and racial inequality. Aecon has made efforts to address systemic and institutional racism and other forms of discrimination, including undertaking a diversity census of its workforce, expanding its diversity and inclusion initiatives, introducing mandatory diversity and inclusion training for employees and formalizing a clear process to be followed by Aecon leaders who become aware of an incident of racism or discrimination of any kind. Failure to effectively implement these initiatives may result in strategic, reputational and regulatory risks for Aecon.

8. General Risks

a. Risks Related to the COVID-19 Pandemic and Associated Supports under Government Assistance Programs

COVID-19 pandemic restrictions imposed by governments eased materially through the course of 2022, accompanied by widespread access to vaccines and anti-viral medications in jurisdictions in which Aecon operates. New and emerging variants and supply chain impacts resulting from the pandemic remain a threat to economic recovery and may cause future economic fluctuations.

Since March 2020, Aecon's operations have been impacted at varying times by way of suspensions of certain of the Company's projects, either by its clients or due to broader government directives, disruptions to the progress of projects due to the need to modify work practices to meet appropriate health and safety standards, reduction in air traffic at Aecon's Bermuda International Airport concession, or other COVID-19 related impacts on the availability of labour or to Aecon's supply chain.

In past years, governments have implemented assistance programs for businesses that provide support to offset the negative economic impacts of the COVID-19 pandemic, but there can be no assurance that such programs will be available again in the future even if the impacts associated with the COVID-19 pandemic return to or exceed levels experienced in prior periods. The absence or reduction of governmental support under such programs during a period where Aecon's operations are significantly impacted by the COVID-19 pandemic could have an adverse impact on Aecon's business and financial condition.

The COVID-19 pandemic may also have the effect of heightening other risks and uncertainties disclosed and described herein.

b. Supply Chain Disruptions

Aecon's supply chain and operations are dependent on the availability of materials that meet exacting standards. We generally have multiple sources of supply for our materials and services; however, only a limited number of suppliers are capable of delivering certain materials and we may be unable to qualify new suppliers on a timely basis. Moreover, global disruptions in supply chains continued to impact companies across diverse industries in 2022, creating shortages and logistical bottlenecks with labour and transportation and increasing shipping costs.

Aecon's mitigation measures are tailored to meet the needs of the business and include proactive communications with the Company's preferred suppliers, leveraging their data in tracking supply constraints and changes in cost of key commodities; and increasing the planning window and pausing the Just in Time logistics strategy in favour of advance delivery and near-site coverage. However, ongoing shortages of materials and increased shipping costs could adversely affect Aecon's profitability through inflationary price pressure and increased costs related to project delays.

c. Force Majeure Events

The Company is exposed to various risks arising out of extraordinary or force majeure events beyond the Company's control, such as epidemics or pandemics, acts of war, terrorism, strikes, protests or social or political unrest generally. Such events could disrupt the Company's operations, result in shortages of materials and equipment, cause supply chain delays or delivery failures, or lead to the realization of or exacerbate the impact of other risk factors. To the extent that such risks are not mitigated contractually through provisions that provide the Company with relief from its schedule obligations and/or cost reimbursement, the Company's financial condition, results of operations or cash flows may be adversely affected.

Reliance on global networks and supply chains, rates of international travel and the significant number of people living in high-density urban environments increase humanity's susceptibility to infectious disease. Epidemics occurring in regions in which Aecon operates and pandemics that pose a global threat, including the COVID-19 pandemic, can negatively impact business operations by disrupting the supply chain and causing high absenteeism across the workforce. Similarly, disasters arising from extraordinary or force majeure events may result in disruptions resulting from the evacuation of personnel, cancellation of contracts, or the loss of workforce, contractors or assets. In addition, a disaster may disrupt public and private infrastructure, including communications and financial services, which could disrupt the Company's normal business operations.

Aecon has implemented a business continuity plan to assist with preparing for, and managing the impact of, an extraordinary or force majeure event by identifying core services, developing a communications strategy and protecting the health and safety of its employees. While the business continuity plan may mitigate the impact of an extraordinary or force majeure event, minimize recovery time and reduce business losses, the plan cannot account for all possible unexpected events. An extraordinary or force majeure event therefore may have material adverse financial implications for the Company.

d. Shareholder Activism

In recent years, publicly traded companies have been increasingly subject to demands from activist shareholders advocating for changes to corporate governance practices or engaging in certain corporate actions. Responding to challenges from activist shareholders, such as proxy contests, media campaigns or other activities, could be costly and time consuming and could have an adverse effect on the Company's reputation and divert the attention and resources of the Company's management and Board of Directors. Additionally, actions of activist shareholders may cause fluctuations in Aecon's share price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of the Company.

14. OUTSTANDING SHARE DATA

Aecon is authorized to issue an unlimited number of common shares. The following are details of common shares outstanding and securities that are convertible into common shares.

In thousands of dollars (except share amounts)	<u>February 28, 2023</u>
Number of common shares outstanding	61,535,925
Outstanding securities exchangeable or convertible into common shares:	
Principal amount of convertible debentures outstanding	
(See Note 19 to the December 31, 2022 consolidated financial statements)	\$ 191,585
Number of common shares issuable on conversion of convertible debentures	8,017,429
Increase in paid-up capital on conversion of convertible debentures	\$ 191,585
DSUs and RSUs outstanding under the Long-Term Incentive Plan and the 2014 Director DSU Plan	3,290,149

15. OUTLOOK

Demand for Aecon's services across Canada continues to be strong, particularly in smaller and medium sized projects, as evidenced by year-over-year revenue growth of 18% and higher new project awards of 31% in 2022. Revenue of \$4.7 billion in 2022 represented a record level for Aecon. In addition, during 2022, a consortium in which Aecon is a participant was selected to deliver the long-term GO Expansion On-Corridor Works project in Ontario under a progressive design, build, operate and maintain contract model which begins with a two-year development phase leading into the main construction scope and a 25-year operations and maintenance component, while another consortium in which Aecon is a participant was selected as the development partner for the Scarborough Subway Extension Stations, Rail and Systems project in Ontario to be delivered using a progressive design-build model. None of the anticipated work from these two significant long-term projects is yet reflected in backlog. Aecon (including joint ventures in which Aecon is a participant) is also prequalified on a number of project bids due to be awarded during the next twelve months and has a pipeline of opportunities to further add to backlog over time. With backlog of \$6.3 billion as at December 31, 2022 and recurring revenue programs continuing to see robust demand, driven by the utilities sector and ongoing recovery in airport traffic in Bermuda, Aecon believes it is positioned to achieve further revenue growth over the next few years.

While volatile global and Canadian economic conditions are impacting inflation, interest rates, and overall supply chain efficiency, these factors have stabilized to some extent and have largely been and will continue to be reflected in the pricing and commercial terms of the Company's recent and prospective project awards and bids. However, certain ongoing joint venture projects that were bid some years ago have experienced impacts related, in part, to those factors, that will require satisfactory resolution of claims with the respective clients – see Section 5 “Recent Developments”, Section 10.2 “Contingencies” and Section 13 “Risk Factors” in this MD&A regarding the risk on four large fixed price legacy projects entered into in 2018 or earlier by joint ventures in which Aecon is a participant.

In the Construction segment, with strong demand, growing recurring revenue programs, and diverse backlog in hand, Aecon is focused on achieving solid execution on its projects and selectively adding to backlog through a disciplined bidding approach that supports long-term margin improvement in this segment. In addition to the selection of consortiums in which Aecon is a participant for two large transit related projects in 2022 noted above, in early 2023, a partnership in which Aecon is a participant announced that it had executed a six-year alliance agreement with Ontario Power Generation to deliver North America's first grid-scale Small Modular Reactor through the Darlington New Nuclear Project in Clarington, Ontario. In addition, Oneida LP, a consortium in which Aecon Concessions will be an approximately 10% equity partner upon financial close, executed an agreement with the Independent Electricity System Operator for the Oneida Energy Storage Project to deliver a 250 megawatt / 1,000 megawatt-hour energy storage facility near Nanticoke Ontario, with Aecon awarded a \$141 million Engineering, Procurement and Construction contract by Oneida LP. All of these projects further demonstrate Aecon's strategic focus in the industry with respect to projects linked to decarbonization, energy transition, and sustainability and represent more collaborative procurement models than have traditionally been used.

In the Concessions segment, in addition to expecting an ongoing recovery in travel through the Bermuda International Airport through 2023, there are a number of opportunities to add to the existing portfolio of Canadian and international concessions in the next 12 to 24 months, including projects with private sector clients that support a collective focus on sustainability and the transition to a net-zero economy. The GO

Expansion On-Corridor Works project and the Oneida Energy Storage project noted above are examples of the role Aecon's Concessions segment is playing in developing, operating and maintaining assets related to this transition.

As of December 31, 2022, Aecon had a committed revolving credit facility of \$600 million, of which \$121 million was drawn, and \$3 million was utilized for letters of credit. On December 31, 2023, convertible debentures with a face value of \$184 million will mature and the Company expects to repay these debentures at maturity or before. The Company has no other debt or working capital credit facility maturities in 2023, except equipment loans and leases in the normal course.

AECON GROUP INC.

**CONSOLIDATED
FINANCIAL
STATEMENTS**

December 31, 2022

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT



Independent auditor's report

To the Shareholders of Aecon Group Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Aecon Group Inc. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2022 and 2021;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition from long-term construction contracts</p> <p><i>Refer to note 4.1 – Major sources of estimation uncertainty – Revenue and gross profit recognition and note 5.1 – Revenue recognition to the consolidated financial statements.</i></p> <p>The Company recognized revenue of \$4.7 billion for the year ended December 31, 2022. A significant portion of this revenue is generated from long-term construction contracts. The Company typically transfers control of goods or services to the customer by satisfying performance obligations over time and recognizes revenue over time as these performance obligations are satisfied. Revenue is recognized based on the extent of progress towards completion of the performance obligation.</p> <p>Revenue for fixed-price contracts is generally determined on the percentage of completion method, based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenue is generally recorded proportionally as costs are incurred. Due to the nature of the work required to be performed on many of the performance obligations, management’s estimation of total contract revenue and costs at completion is complex and requires significant judgment. Some of the factors that can change the estimates of total contract revenue and costs at completion include differing site conditions, the availability of skilled contract labour, the performance of major material suppliers to deliver on time, the performance of</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• Tested how management determined the estimates of total costs at completion for a sample of fixed-price long-term construction contracts:<ul style="list-style-type: none">– Agreed key contractual terms back to signed contracts.– Evaluated the reasonableness of the significant assumptions used by management in estimating the total costs at completion and the timely identification by management of circumstances and factors that may warrant a modification to a previous cost estimate, which included the following:<ul style="list-style-type: none">○ tested estimates of total costs at completion, such as estimated labour costs, materials and other costs to appropriate supporting documentation, and subcontractor costs to third party agreements;○ performed procedures to compare the estimated costs to complete to actual costs incurred to date; and○ observed progress of performance and inquired with senior management, project managers and internal legal counsel regarding the status of contracts, changes from previous years (if applicable), factors that can change the total contract



Key audit matter	How our audit addressed the key audit matter
<p>major subcontractors, unusual weather conditions and the accuracy of the original bid estimate.</p> <p>The Company’s long-term construction contracts may include change orders and claims that impact the transaction price and the measure of progress for the performance obligation to which it relates. Unpriced change orders and claims are recognized in revenue at the amount the Company expects to be entitled to, where it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with them is resolved. Management uses significant judgment to determine whether unpriced change orders and claims should be included in the transaction price. Internal and external legal counsels, as well as other claim specialists are often used by management in making those judgments (management’s experts).</p> <p>We considered this a key audit matter due to the significant judgment applied by management, including the use of management’s experts, in determining the estimate of total contract revenue and costs at completion and the amount to be recognized for unpriced change orders and claims. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures to evaluate evidence relating to revenue recognition from long-term construction contracts.</p>	<p>revenue and costs at completion and any claims.</p> <ul style="list-style-type: none"> • Tested whether costs accrued at year-end and subsequent to year-end were recorded in the correct period by inspecting supporting documents for a sample of transactions. • Tested the costs incurred to date to supporting documents for a sample of transactions. • For a sample of unpriced change orders and claims recognized, evaluated the appropriateness of management’s assessment and tested the reasonableness of the amount the Company was entitled to, which included the following: <ul style="list-style-type: none"> – inspected signed contract amendments and correspondence with customers, where applicable; – considered the historical outcomes of previously settled customer claims; and – used the work of management’s experts to evaluate the appropriateness of management’s assessment of the merits and probable outcome of unpriced change orders and claims against customers. As a basis for using this work, the competence, capabilities and objectivity of management’s experts were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management’s experts, tests of the data used by management’s experts and an evaluation of their findings.



Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis of Operating Results and Financial Condition, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sal Bianco.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 28, 2023

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2022 AND 2021

(in thousands of Canadian dollars)

	Note	December 31 2022	December 31 2021
ASSETS			
Current assets			
Cash and cash equivalents	8	\$ 377,212	\$ 532,681
Restricted cash	8	107,033	98,010
Marketable securities		800	-
Trade and other receivables	9	1,023,578	824,803
Unbilled revenue	10	685,258	585,974
Inventories	11	37,620	25,195
Income tax recoverable		14,768	10,901
Prepaid expenses		76,985	68,152
		2,323,254	2,145,716
Non-current assets			
Long-term financial assets		3,812	3,453
Projects accounted for using the equity method	12	107,871	69,294
Deferred income tax assets	22	74,626	41,899
Property, plant and equipment	13	395,101	379,506
Intangible assets	14	662,353	646,949
		1,243,763	1,141,101
TOTAL ASSETS		\$ 3,567,017	\$ 3,286,817
LIABILITIES			
Current liabilities			
Bank indebtedness	15	\$ 120,979	\$ 23,305
Trade and other payables	16	1,064,048	920,653
Provisions	17	14,579	21,850
Deferred revenue	10	386,560	430,985
Income taxes payable		9,508	11,201
Current portion of non-recourse project debt	18	3,347	2,957
Current portion of long-term debt	18	56,564	58,568
Convertible debentures	19	178,878	-
		1,834,463	1,469,519
Non-current liabilities			
Provisions	17	6,318	8,825
Non-recourse project debt	18	375,654	354,580
Long-term debt	18	173,638	166,327
Convertible debentures	19	-	173,898
Concession related deferred revenue	20	97,412	94,951
Deferred income tax liabilities	22	124,680	104,521
Other liabilities		857	630
		778,559	903,732
TOTAL LIABILITIES		2,613,022	2,373,251
EQUITY			
Capital stock	25	419,357	405,807
Convertible debentures	19	12,707	12,707
Contributed surplus		63,312	60,004
Retained earnings		435,305	451,294
Accumulated other comprehensive income (loss)		23,314	(16,246)
TOTAL EQUITY		953,995	913,566
TOTAL LIABILITIES AND EQUITY		\$ 3,567,017	\$ 3,286,817

Contingencies (Note 24)

Approved by the Board of Directors

John M. Beck, Director

Deborah S. Stein, Director

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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

	Note	December 31 2022	December 31 2021
Revenue		\$ 4,696,450	\$ 3,977,322
Direct costs and expenses	26	(4,340,493)	(3,610,505)
Gross profit		355,957	366,817
Marketing, general and administrative expense	26	(196,439)	(182,281)
Depreciation and amortization	26	(94,153)	(88,368)
Income from projects accounted for using the equity method	12	17,703	15,101
Other income	27	14,086	7,539
Operating profit		97,154	118,808
Finance income		2,899	610
Finance cost	28	(57,065)	(45,630)
Profit before income taxes		42,988	73,788
Income tax expense	22	(12,607)	(24,106)
Profit for the year		\$ 30,381	\$ 49,682
Basic earnings per share	29	\$ 0.50	\$ 0.82
Diluted earnings per share	29	\$ 0.47	\$ 0.78

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(in thousands of Canadian dollars)

	December 31 2022	December 31 2021
Profit for the year	\$ 30,381	\$ 49,682
Other comprehensive income (loss):		
Items that will not be reclassified to profit or loss:		
Actuarial gain (loss) - employee benefit plans	(1,474)	1,867
Income taxes on the above	391	(495)
	(1,083)	1,372
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences - foreign operations	14,542	(2,890)
Cash flow hedges - subsidiaries	-	1,668
Cash flow hedges - equity accounted investees	27,621	22,584
Cash flow hedges - joint operations	7,935	(753)
Income taxes on the above	(9,455)	(6,032)
Total other comprehensive income for the year	39,560	15,949
Comprehensive income for the year	\$ 69,941	\$ 65,631

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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

	Capital stock	Convertible debentures	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Shareholders' equity
					Currency translation differences	Actuarial gains and losses	Cash flow hedges	
Balance as at January 1, 2022	\$ 405,807	\$ 12,707	\$ 60,004	\$ 451,294	\$ (11,268)	\$ 2,101	\$ (7,079)	\$ 913,566
Profit for the year	-	-	-	30,381	-	-	-	30,381
Other comprehensive income (loss):								
Currency translation differences - foreign operations	-	-	-	-	14,542	-	-	14,542
Remeasurements - employee benefit plans	-	-	-	-	-	(1,474)	-	(1,474)
Cash flow hedges - equity accounted investees	-	-	-	-	-	-	27,621	27,621
Cash flow hedges - joint operations	-	-	-	-	-	-	7,935	7,935
Taxes with respect to above items included in other comprehensive income	-	-	-	-	-	391	(9,455)	(9,064)
Total other comprehensive income (loss) for the year	-	-	-	-	14,542	(1,083)	26,101	39,560
Total comprehensive income (loss) for the year	-	-	-	30,381	14,542	(1,083)	26,101	69,941
Dividends declared	-	-	-	(45,209)	-	-	-	(45,209)
Stock-based compensation expense	-	-	19,228	-	-	-	-	19,228
Shares issued to settle LTIP/ESU/Director DSU obligations	13,550	-	(14,713)	(1,161)	-	-	-	(2,324)
Stock-based compensation settlements and receipts	-	-	(1,207)	-	-	-	-	(1,207)
Balance as at December 31, 2022	\$ 419,357	\$ 12,707	\$ 63,312	\$ 435,305	\$ 3,274	\$ 1,018	\$ 19,022	\$ 953,995

	Capital stock	Convertible debentures	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Shareholders' equity
					Currency translation differences	Actuarial gains and losses	Cash flow hedges	
Balance as at January 1, 2021	\$ 395,733	\$ 12,707	\$ 53,774	\$ 444,088	\$ (8,378)	\$ 729	\$ (24,546)	\$ 874,107
Profit for the year	-	-	-	49,682	-	-	-	49,682
Other comprehensive income (loss):								
Currency translation differences - foreign operations	-	-	-	-	(2,890)	-	-	(2,890)
Remeasurements - employee benefit plans	-	-	-	-	-	1,867	-	1,867
Cash flow hedges - subsidiaries	-	-	-	-	-	-	1,668	1,668
Cash flow hedges - equity-accounted investees	-	-	-	-	-	-	22,584	22,584
Cash flow hedges - joint operations	-	-	-	-	-	-	(753)	(753)
Taxes with respect to above items included in other comprehensive income	-	-	-	-	-	(495)	(6,032)	(6,527)
Total other comprehensive income (loss) for the year	-	-	-	-	(2,890)	1,372	17,467	15,949
Total comprehensive income (loss) for the year	-	-	-	49,682	(2,890)	1,372	17,467	65,631
Dividends declared	-	-	-	(42,306)	-	-	-	(42,306)
Stock-based compensation expense	-	-	17,966	-	-	-	-	17,966
Shares issued to settle LTIP/ESU/Director DSU obligations	10,074	-	(10,167)	(170)	-	-	-	(263)
Stock based compensation settlements and receipts	-	-	(1,569)	-	-	-	-	(1,569)
Balance as at December 31, 2021	\$ 405,807	\$ 12,707	\$ 60,004	\$ 451,294	\$ (11,268)	\$ 2,101	\$ (7,079)	\$ 913,566

During the year ended December 31, 2022, the Company declared dividends amounting to \$0.74 per share (December 31, 2021 - \$0.70 per share).

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(in thousands of Canadian dollars)

	Note	December 31 2022	December 31 2021
CASH PROVIDED BY (USED IN)			
Operating activities			
Profit before income taxes		\$ 42,988	\$ 73,788
Income taxes paid		(36,754)	(73,699)
Defined benefit pension		521	817
Stock-based compensation settlements and receipts		(3,531)	(1,980)
Items not affecting cash:			
Depreciation and amortization		94,153	88,368
Income from projects accounted for using the equity method		(17,703)	(15,101)
Gain on sale of assets and other		(12,568)	(8,316)
Provision for expected credit losses		631	531
Concession deferred revenue		(3,866)	(3,716)
Unrealized foreign exchange loss		1,813	894
Increase (decrease) in provisions		(970)	12,904
Notional interest representing accretion		5,727	5,555
Stock-based compensation expense		19,727	19,191
Change in other balances relating to operations	30	(203,029)	(130,646)
		(112,861)	(31,410)
Investing activities			
Decrease (increase) in restricted cash balances		(2,856)	12,992
Increase in marketable securities		(800)	-
Purchase of property, plant and equipment		(32,708)	(35,379)
Proceeds on sale of property, plant and equipment		12,544	10,343
Investment in concession rights		-	(3,577)
Increase in intangible assets		(8,604)	(2,660)
Decrease (increase) in long-term financial assets		(836)	138
Distributions from projects accounted for using the equity method		3,183	3,136
Net cash outflow from business acquisitions	21	(5,820)	(24,622)
		(35,897)	(39,629)
Financing activities			
Increase in bank indebtedness		97,674	23,305
Issuance of long-term debt		15,391	37,349
Repayments of non-recourse project debt		(3,002)	-
Repayments of lease liabilities		(61,703)	(57,925)
Repayments of long-term debt		(15,755)	(13,714)
Dividends paid		(44,469)	(41,297)
		(11,864)	(52,282)
Decrease in cash and cash equivalents during the year		(160,622)	(123,321)
Effect of foreign exchange on cash balances		5,153	(2,268)
Cash and cash equivalents - beginning of year		532,681	658,270
Cash and cash equivalents - end of year	8	\$ 377,212	\$ 532,681

See Note 30 for additional disclosures relating to the Consolidated Statements of Cash Flows.

The accompanying notes are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

1. CORPORATE INFORMATION

Aecon Group Inc. (“Aecon” or the “Company”) is a publicly traded construction and infrastructure development company incorporated in Canada. Aecon and its subsidiaries provide services to private and public sector clients throughout Canada and on a selected basis internationally. Its registered office is located in Toronto, Ontario at 20 Carlson Court, Suite 105, M9W 7K6.

The Company operates in two segments within the infrastructure development industry: Construction and Concessions.

Refer to Note 35 “*Related Parties*,” for further details on the Company’s subsidiaries and significant joint arrangements and associates.

2. DATE OF AUTHORIZATION FOR ISSUE

The consolidated financial statements of the Company were authorized for issue on February 28, 2023 by the Board of Directors of the Company.

3. BASIS OF PRESENTATION

Basis of presentation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”).

Statement of compliance

These consolidated financial statements have been prepared in accordance with and comply with IFRS.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. In addition, the Company’s participation in joint arrangements classified as joint operations is accounted for in the consolidated financial statements by reflecting, line by line, the Company’s share of the assets held jointly, liabilities incurred jointly, and revenue and expenses arising from the joint operations. The consolidated financial statements also include the Company’s investment in and share of the earnings of projects accounted for using the equity method.

4. CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in a material adjustment to the carrying value of the asset or liability affected.

Critical accounting estimates are those that require management to make assumptions about matters that are highly uncertain at the time the estimate or assumption is made. Critical accounting estimates are also those that could potentially have a material impact on the Company’s financial results were a different estimate or assumption used.

Estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions are subject to change at any time based on experience and new information. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Critical accounting estimates are also not specific to any one segment unless otherwise noted below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

The Company's significant accounting policies are described in Note 5, "Summary of Significant Accounting Policies." The following discussion is intended to describe those judgments and key assumptions concerning major sources of estimation uncertainty at the end of the reporting period that have the most significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

COVID-19 PANDEMIC AND ECONOMIC CONDITIONS

The COVID-19 pandemic continued to disrupt global health and the economy in 2022 and has created an indeterminate period of volatility in the markets in which Aecon operates. The COVID-19 pandemic has impacted Aecon's operations since 2020 at varying times by way of suspensions of certain of the Company's projects and operations, either by its clients or due to a broader government directive, by disruption to the progress of projects due to the need to modify work practices to meet appropriate health and safety standards, or by other COVID-19 related impacts on air traffic, inflation, the availability of labour or to the supply chain.

Within the Construction segment, COVID-19 and recent economic conditions have had varying degrees of impact throughout 2021 and 2022, notably from supply chain disruptions, inflation related to labour and materials, and availability of labour (see also Section 24, "Contingencies"). Within the Concessions segment, COVID-19 and related travel restrictions and protocols, as well as the gradual recovery in air traffic now that those restrictions have largely been lifted, have impacted operations at the Bermuda International Airport Project since March 2020, including throughout 2021 and 2022.

Any estimate of the length and severity of these developments is subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic and ongoing economic conditions may materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty. Therefore, uncertainty about judgments, estimates and assumptions made by management during the preparation of the Company's consolidated financial statements related to potential impacts of the COVID-19 pandemic and economic conditions on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected. The major sources of estimation uncertainty and judgment affecting the Company are discussed in greater detail below.

4.1 MAJOR SOURCES OF ESTIMATION UNCERTAINTY

ASSETS AND LIABILITIES ACQUIRED IN A BUSINESS COMBINATION

The Company assesses whether an acquisition transaction should be accounted for as an asset acquisition or a business combination under IFRS 3, "Business Combinations". This assessment requires management to make judgments on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3, "Business Combinations" and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business. Purchase prices related to business combinations and asset acquisitions are allocated to the underlying acquired assets and liabilities based on their estimated fair value at the time of acquisition. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding cash flow projections, valuation techniques, economic risk, weighted average cost of capital and future events. Significant judgments, estimates and assumptions are also required by management in estimating the amount of contingent consideration payable. The measurement of the purchase consideration and allocation process is therefore inherently subjective and impacts the amounts assigned to individually identifiable assets and liabilities. As a result, the purchase price allocation impacts the Company's reported assets and liabilities (including the amounts allocated to intangible assets and goodwill), and future earnings due to the impacts on depreciation and amortization expense and impairment testing.

REVENUE AND GROSS PROFIT RECOGNITION

Revenue and income from fixed price construction contracts, including contracts in which the Company participates through joint operations, are determined on the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs. The Company has a process whereby progress on jobs is reviewed by management on a regular basis and estimated costs to complete are updated. However, due to unforeseen changes in the nature or cost of the work to be completed or performance factors, contract profit can differ significantly from earlier estimates.

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The Company's estimates of contract revenue and cost are highly detailed. Management believes, based on its experience, that its current systems of management and accounting controls allow the Company to produce materially reliable estimates of total contract revenue and cost during any accounting period. However, many factors can and do change during a contract performance period, which can result in a change to contract profitability from one financial reporting period to another. Some of the factors that can change the estimate of total contract revenue and cost include differing site conditions (to the extent that contract remedies are unavailable), the availability of skilled contract labour, the performance of major material suppliers to deliver on time, the performance of major subcontractors, unusual weather conditions and the accuracy of the original bid estimate. Fixed price contracts are common across all of the Company's sectors, as are change orders and claims, and therefore these estimates are not unique to one core segment. Because the Company has many contracts in process at any given time, these changes in estimates can offset each other without impacting overall profitability. Changes in cost estimates, which on larger, more complex construction projects can have a material impact on the Company's consolidated financial statements, are reflected in the results of operations when they become known.

A change order results from a change to the scope of the work to be performed compared to the original contract that was signed. Unpriced change orders are change orders that have been approved as to scope but unapproved as to price. Claims are amounts in excess of the agreed contract price, or amounts not included in the original contract price, that the Company seeks to collect from clients for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. Management, in making judgments, estimates and assumptions that affect the contract revenue and cost amounts from unpriced change orders and claims, also considered the impacts of the COVID-19 pandemic on the Company's operations. As noted above in greater detail, Aecon's operations since 2020 were impacted at varying times by the suspension of certain of the Company's projects and operations, by disruption to the progress of projects, or by other COVID-19 related impacts on air traffic, inflation, the availability of labour or to the supply chain. These judgments, estimates and assumptions affecting the revenue and cost forecasts of individual performance obligations were based on facts and circumstances that existed at the time when such judgments, estimates and assumptions were made. In accordance with the Company's accounting policy, unpriced change orders and claims are recognized in revenue at the amount the Company expects to be entitled to, where it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Where such revenue amounts cannot be estimated with reasonable assurance, they are excluded from the revenue forecast of the related performance obligation. Therefore, it is possible for the Company to have substantial contract costs recognized in one accounting period with associated revenue recognized in a later period.

Given the above-noted critical accounting estimates associated with the accounting for construction contracts, including change orders and claims, it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year or later could be different from the estimates and assumptions adopted and could require a material adjustment to revenue and/or the carrying amount of the asset or liability affected. The Company is unable to quantify the potential impact to the consolidated financial results from a change in estimate in calculating revenue.

LITIGATION RISK AND CLAIMS RISK

Disputes are common in the construction industry and as such, in the normal course of business, the Company is involved in various legal actions and proceedings which arise from time to time, some of which may be substantial, including the legal proceedings discussed in Note 24, "*Contingencies*". The Company must make certain assumptions and rely on estimates regarding potential outcomes of legal proceedings in order to determine if a provision is required. Estimating and recording the future outcome of litigation proceedings requires management to make significant judgments and assumptions, which are inherently subject to risks and uncertainties. Management regularly analyzes current information about these matters, and internal and external legal counsel, as well as other claim specialists, are often used for these assessments. In making decisions regarding the need for provisions, management considers the degree of probability of an unfavorable outcome and the ability to make a sufficiently reliable estimate of the amount of loss. As part of its analysis, the Company also considered any impacts of the COVID-19 pandemic on management's assumptions and estimates related to the potential outcomes of legal proceedings. The outcome of matters related to disputes, legal actions and proceedings may have a material effect on the financial position, results of operations or cash flows of the Company, and there is no guarantee that there will not be a future rise in litigation which, depending on the nature of the litigation, could impact the financial position, results of operations, or cash flows of the Company.

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The Company also pursues claims against project owners for additional costs exceeding the contract price or for amounts not included in the original contract price. When these types of events occur and unresolved claims are pending, the Company may invest significant working capital in projects to cover costs pending the resolution of the relevant claims. A failure to ultimately recover on claims could have a material effect on liquidity and financial results.

FAIR VALUING FINANCIAL INSTRUMENTS

From time to time, the Company, often through its subsidiaries, joint arrangements and equity accounted investees, enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar, but does not hold or issue such financial instruments for speculative trading purposes. In addition, some of the Company's equity accounted investees enter into derivative financial instruments, namely interest rate swaps, to hedge the variability of interest rates related to non-recourse project debt. The Company is required to measure certain financial instruments at fair value, using the most readily available market comparison data and where no such data is available, using quoted market prices of similar assets or liabilities, quoted prices in markets that are not active, or other observable inputs that can be corroborated.

Management considered the potential impacts of the COVID-19 pandemic on the Company's cash flow hedges. For derivative instruments that hedge the Company's exposure to variability in expected future cash flows and that are designated as cash flow hedges, management assessed whether the occurrence of future transactions that are the subject of these hedges were still considered highly probable as at December 31, 2022. Based on this assessment, the Company determined that there was no change that would require prospectively discontinuing the application of hedge accounting for such transactions.

Further information with regard to the treatment of financial instruments can be found in Note 31, "*Financial Instruments*."

MEASUREMENT OF RETIREMENT BENEFIT OBLIGATIONS

The Company's obligations and expenses related to defined benefit pension plans, including supplementary executive retirement plans, are determined using actuarial valuations and are dependent on many significant assumptions. The defined benefit obligations and benefit cost levels will change as a result of future changes in actuarial methods and assumptions, membership data, plan provisions, legislative rules, and future experience gains or losses, which have not been anticipated at this time. Emerging experience, differing from assumptions, will result in gains or losses that will be disclosed in future accounting valuations. Refer to Note 23, "*Employee Benefit Plans*," for further details regarding the Company's defined benefit plans as well as the impact to the financial results of a 0.5% change in the discount rate assumption used in the calculations.

INCOME TAXES

The Company is subject to income taxes in both Canada and several foreign jurisdictions. Significant estimates and judgments are required in determining the Company's worldwide provision for income taxes. In the ordinary course of business, there are transactions and calculations where the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Management estimates income taxes for each jurisdiction the Company operates in, taking into consideration different income tax rates, non-deductible expenses, valuation allowances, changes in tax laws, and management's expectations of future results. Management bases its estimates of deferred income taxes on temporary differences between the assets and liabilities reported in the Company's consolidated financial statements, and the assets and liabilities determined by the tax laws in the various countries in which the Company operates. Although the Company believes its tax estimates are reasonable, there can be no assurance that the final determination of any tax audits and litigation will not be materially different from that reflected in the Company's historical income tax provisions and accruals. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Company's income tax expense and current and deferred income tax assets and liabilities in the period in which such determinations are made. Although management believes it has adequately provided for any additional taxes that may be assessed as a result of an audit or litigation, the occurrence of either of these events could have an adverse effect on the Company's current and future results and financial condition.

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The Company also considered the effect of the COVID-19 pandemic on projections and assumptions of future taxable income and therefore the recoverability of deferred income tax assets recognized as at December 31, 2022 and concluded that there was no significant impact.

The Company is unable to quantify the potential future impact to its consolidated financial results from a change in estimate in calculating income tax assets and liabilities.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets with finite lives are amortized over their useful lives. Goodwill, which has an indefinite life, is not amortized. Management evaluates intangible assets that are not amortized at the end of each reporting period to determine whether events and circumstances continue to support an indefinite useful life. Intangible assets with finite lives are tested for impairment whenever events or circumstances indicate the carrying value may not be recoverable. Goodwill and intangible assets with indefinite lives, if any, are tested for impairment by applying a fair value test in the fourth quarter of each year and between annual tests if events occur or circumstances change, which suggest the goodwill or intangible assets should be evaluated.

Impairment assessments inherently involve management judgment as to the assumptions used to project these amounts and the impact of market conditions on those assumptions. The key assumptions used to estimate the fair value of cash generating units under the fair value less cost to disposal approach are: weighted average cost of capital used to discount the projected cash flows; cash flows generated from new work awards; and projected operating margins.

The weighted average cost of capital rates used to discount projected cash flows are developed via the capital asset pricing model, which is primarily based on market inputs. Management uses discount rates it believes are an accurate reflection of the risks associated with the forecasted cash flows of the respective reporting units.

To develop the cash flows generated from project awards and projected operating margins, the Company tracks prospective work primarily on a project-by-project basis as well as the estimated timing of when new work will be bid or prequalified, started and completed. Management also gives consideration to its relationships with prospective customers, the competitive landscape, changes in its business strategy, and the Company's history of success in winning new work in each reporting unit. With regard to operating margins, consideration is given to historical operating margins in the end markets where prospective work opportunities are most significant, and changes in the Company's business strategy.

Unanticipated changes in these assumptions or estimates could materially affect the determination of the fair value of a reporting unit and, therefore, could reduce or eliminate the excess of fair value over the carrying value of a reporting unit entirely and could potentially result in an impairment charge in the future.

The Company also considered the potential impacts of the COVID-19 pandemic as part of its review of impairment indicators for property, plant and equipment and intangible assets, most notably at the Bermuda International Airport Project. Commercial flight operations have been at a reduced volume since the COVID-19 pandemic was declared. The Company performed analysis of a number of scenarios using various underlying assumptions related to the COVID-19 pandemic, including third-party forecasts for the recovery of air travel and the selection of a discount rate, and determined that no impairment of such assets had occurred as at December 31, 2022. Similarly, the Company performed impairment tests on goodwill to assess the recoverability of these assets with consideration given to the potential impacts of the COVID 19 pandemic on key assumptions and estimates used. The Company conducted analysis of a number of scenarios and sensitivities and concluded there was no impairment of goodwill as at December 31, 2022.

Refer to Note 14, "*Intangible Assets*", for further details regarding goodwill and other intangible assets.

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LEASES

The application of IFRS 16 “Leases” requires significant judgments and certain key estimations to be made.

Critical judgments required in the application of IFRS 16 include the following:

- Identifying whether a contract (or part of a contract) includes a lease;
- Determining whether it is reasonably certain that an extension or termination option will be exercised;
- Determining whether variable payments are in-substance fixed;
- Establishing whether there are multiple leases in an arrangement; and
- Determining the stand-alone selling price of lease and non-lease components.

Key sources of estimation uncertainty in the application of IFRS 16 include the following:

- Estimating the lease term;
- Determining the appropriate rate to discount lease payments; and
- Assessing whether a right-of-use asset is impaired.

Unanticipated changes in these judgments or estimates could affect the identification and determination of the value of lease liabilities and right-of-use assets at initial recognition, as well as the subsequent measurement of lease liabilities and right-of-use assets. These items could potentially result in changes to amounts reported in the consolidated statements of income and consolidated balance sheets in a given period.

Refer to Note 13, “*Property, plant and equipment*”, and Note 18, “*Long-term debt and non-recourse project debt*” for further details regarding leases.

ALLOWANCE FOR EXPECTED CREDIT LOSSES

The Company considered any potential impact of the COVID-19 pandemic in its analysis of expected credit losses as at December 31, 2022. The Company maintains an allowance for expected credit losses to provide for the estimated amount of receivables that will not be collected. The allowance is based upon an assessment of creditworthiness of the portfolio of customers (most of which are government clients, crown corporations, or major industrial companies), historical payment experience, the age of outstanding receivables, collateral to the extent applicable, and forward-looking information regarding collectability. Based on this review, there was no significant change to the Company’s allowance for expected credit losses as at December 31, 2022.

4.2 JUDGMENTS

The following are critical judgments management has made in the process of applying accounting policies and that have the most significant effect on how certain amounts are reported in the consolidated financial statements.

BASIS FOR CONSOLIDATION AND CLASSIFICATION OF JOINT ARRANGEMENTS

Assessing the Company’s ability to control or influence the relevant financial and operating policies of another entity may, depending on the facts and circumstances, require the exercise of significant judgment to determine whether the Company controls, jointly controls, or exercises significant influence over the entity performing the work. This assessment of control impacts how the operations of these entities are reported in the Company’s consolidated financial statements (i.e., full consolidation, equity investment or proportional share).

The Company performs the majority of its construction projects through wholly owned subsidiary entities, which are fully consolidated. However, a number of projects, particularly some larger, multi-year, multi-disciplinary projects, are executed through partnering agreements. As such, the classification of these entities as a subsidiary, joint operation, joint venture, associate or financial instrument requires judgment by management to analyze the various indicators that determine whether control exists. In particular, when assessing whether an entity is classified as either a joint operation, joint venture or associate, management considers the contractual rights and obligations, voting shares, share of board members and the legal structure of the joint arrangement. Subject to reviewing and assessing all the facts and circumstances of each joint arrangement, joint arrangements contracted through agreements and general partnerships would generally be classified as joint operations whereas joint arrangements contracted through corporations would be classified as joint ventures. The majority of the current partnering agreements are classified as joint operations.

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The application of different judgments when assessing control or the classification of joint arrangements could result in materially different presentations in the consolidated financial statements.

SERVICE CONCESSION ARRANGEMENTS

The accounting for concession arrangements requires the application of judgment in determining if the project falls within the scope of IFRIC Interpretation 12, “*Service Concession Arrangements*”, (“IFRIC 12”). Additional judgments are needed when determining, among other things, the accounting model to be applied under IFRIC 12, the allocation of the consideration receivable between revenue-generating activities, the classification of costs incurred on such activities, as well as the effective interest rate to be applied to the financial asset. As the accounting for concession arrangements under IFRIC 12 requires the use of estimates over the term of the arrangement, any changes to these long-term estimates could result in a significant variation in the accounting for the concession arrangement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 REVENUE RECOGNITION

Identification of a contract with a customer

A construction contract is a contract specifically negotiated for the construction of an asset or combination of assets, including contracts for the rendering of services directly related to the construction of the asset. Such contracts include fixed price and cost-plus contracts.

When determining the proper revenue recognition method for contracts, the Company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or to separate a single contract into multiple performance obligations could affect the amount of revenue and profit recorded in a given period.

The Company accounts for a contract when it has commercial substance, the parties have approved the contract in accordance with customary business practices and are committed to their obligations, the rights of the parties and payment terms are identified, and collectability of consideration is probable.

Identifying performance obligations in a contract

For most of the Company’s contracts, the customer contracts with the Company to provide a significant service of integrating a complex set of tasks and components into a single project. Consequently, the entire contract is accounted for as one performance obligation. Less frequently, however, the Company may provide several distinct goods or services as part of a contract, in which case the Company separates the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, the total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. The expected cost plus a margin approach is typically used to estimate the standalone selling price of each performance obligation. On occasion, the Company will sell standard products, such as aggregates and other materials, with observable standalone sales. In these cases, the observable standalone sales are used to determine the standalone selling price.

Performance obligations satisfied over time

The Company typically transfers control of goods or services, and satisfies performance obligations, over time. Therefore, the Company recognizes revenue over time as these performance obligations are satisfied. This continuous transfer of control to the customer is often supported by the customer’s physical possession or legal title to the work in process, as well as contractual clauses that provide the Company with a present right to payment for work performed to date plus a reasonable profit in the event a customer unilaterally terminates the contract for convenience.

As a result of control transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The Company generally uses the cost-to-cost measure of progress for its contracts because it best reflects the transfer of an asset to the customer which occurs as costs are incurred on the contract. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs

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incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Costs to fulfill contracts may include labour, materials, subcontractor, equipment costs, and other direct costs, as well as an allocation of indirect costs.

Determining the transaction price

It is common for the Company's contracts to contain incentive fees or other provisions that can either increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics, program milestones or cost targets and can be based upon customer discretion. Variable consideration also includes change orders that have not been approved as to price, as well as claims. Claims are amounts in excess of the agreed contract price, or amounts not included in the original contract price, that the Company seeks to collect from clients for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. The Company estimates variable consideration at the most likely amount it expects to be entitled. The Company includes these estimated amounts in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Company's anticipated performance and all information, historical, current and forecasted, that is reasonably available.

Contracts are often modified to account for changes in contract specifications and requirements. Contract modifications exist when the change either creates new, or changes existing, enforceable rights and obligations. Most of the Company's contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of these contract modifications on the transaction price and the measure of progress for the performance obligation to which it relates, is recognized as a cumulative adjustment to revenue as either an increase or decrease in revenue. However, if a contract modification is for distinct goods and services from the existing contract and the pricing of the contract modification reflects the standalone selling pricing of the additional goods or services, then the contract modification is treated as a separate contract.

Due to the nature of many of the Company's performance obligations, the estimation of total revenue and costs at completion is complex, subject to many variables, and requires significant judgment. These areas of measurement uncertainty are discussed further in Note 4.1, "Major Sources of Estimation Uncertainty". Any changes to the estimates of forecasted revenue and total costs are recognized on a cumulative basis, which recognizes in the current period the cumulative effect of the changes based on a performance obligation's percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of the Company's performance obligations. When estimates of total costs to be incurred on a performance obligation exceed the total estimated revenue to be earned, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined.

Revenue recognition – other

Upfront costs are those costs that the Company incurs to pursue a contract with a customer that it would not have incurred if the contract had not been awarded. The Company recognizes upfront costs as an asset if it expects to recover those costs. Costs to pursue a contract that would have been incurred regardless of whether the contract was awarded are recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

Mobilization costs are non-recurring set up costs incurred to facilitate performance obligations under customer contracts. Mobilization costs are expensed as incurred unless they are capital in nature, in which case they are capitalized in accordance with the relevant accounting standard, or there is a contractual entitlement to recover such costs from the customer, in which case the costs are capitalized and amortized to the income statement over the contract period.

Contract revenues are measured at the fair value of the consideration received or receivable. Where deferral of payment has a material effect on the determination of such fair value, the amount at which revenues are recognized is adjusted to account for the time-value-of-money.

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Trade and other receivables include amounts billed and currently due from customers. The Company maintains an allowance for expected credit losses to provide for the estimated amount of receivables that will not be collected. The allowance is based upon an assessment of creditworthiness of the portfolio of customers, historical payment experience, the age of outstanding receivables, collateral to the extent applicable, and forward-looking information regarding collectability.

Unbilled revenue represents revenue earned in excess of amounts billed on uncompleted contracts. Unbilled revenue typically results from sales under construction contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. Unbilled revenue amounts are adjusted for expected credit losses.

Deferred revenue represents the excess of amounts billed to customers over revenue earned on uncompleted contracts. Where advance payments are received from customers for the mobilization of project staff, equipment and services, the Company recognizes these amounts as liabilities and includes them in deferred revenue. Deferred revenue on construction contracts is classified as a current liability.

Unbilled revenue and deferred revenue are accounted for on a contract-by-contract basis at the end of each reporting period.

The operating cycle, or duration, of many of the Company's contracts exceeds one year. All contract related assets and liabilities are classified as current as they are expected to be realized or satisfied within the operating cycle of the contract.

The Company normally does not have any construction contracts where the period up to the transfer of the promised goods or services to the customer represents a financing component. As such, the transaction price is not adjusted for the time value of money. For long-term receivables under Service Concession Arrangements, see section 5.12, "Service Concession Arrangements".

If the Company receives an advance payment, a future obligation is recognized and the recognition and measurement principles of IFRS 15 are applied to determine an appropriate basis for recognizing revenue.

Generally, construction and services contracts include defect and warranty periods following completion of the project. These obligations are not deemed to be separate performance obligations and are therefore estimated and included in the total cost of the contracts. Where required, amounts are recognized according to IAS 37 *"Provisions, Contingent Liabilities and Contingent Assets"*.

Other revenue types

Revenue related to the sale of aggregates and other materials is recognized at a point in time, and the performance obligation is typically satisfied on the delivery of the product to the customer.

Revenue related to operations and maintenance ("O&M") is recognized over time, as the performance obligations are satisfied by the Company.

Remaining performance obligations

Backlog (i.e. remaining performance obligations) is the total value of work that has not yet been completed that: (a) has a high certainty of being performed as a result of the existence of an executed contract or work order specifying job scope, value and timing; or (b) has been awarded to the Company, as evidenced by an executed binding letter of intent or agreement, describing the general job scope, value and timing of such work, and where the finalization of a formal contract in respect of such work is reasonably assured. O&M activities are provided under contracts that can cover a period of up to 30 years. In order to provide information that is comparable to the backlog of other categories of activity, the Company limits backlog for O&M activities to the earlier of the contract term and the next five years.

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5.2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at banks and on hand, cash in joint operations, demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash and that are subject to an insignificant risk of changes in value. The Company considers investments purchased with original maturities of three months or less to be cash equivalents.

5.3 RESTRICTED CASH

Restricted cash is cash where specific restrictions exist on the Company's ability to use this cash.

Restricted cash consists of cash held by Bermuda Skyport Corporation Limited ("Skyport"). Proceeds from non-recourse project debt and equity in Skyport, as well as net cash generated from Skyport's operations, are available to fund airport construction activities and to fund reserves required by the non-recourse project debt agreement. Skyport is not permitted to declare dividends during construction of the new airport terminal.

5.4 FINANCIAL INSTRUMENTS – CLASSIFICATION AND MEASUREMENT

The Company classifies its financial assets into one of three categories: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Recognition and initial measurement

Financial assets and financial liabilities are recognized in the statement of financial position when the Company becomes party to the contractual provisions of a financial instrument. All financial instruments are measured at fair value on initial recognition. Financial instruments related to all contract assets and liabilities are classified as current as they are expected to be realized or satisfied within the operating cycle of the contract. All other financial instruments are considered non-current if they are expected to be realized more than 12 months after the reporting period.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net income.

Contingent assets are not recognized in the consolidated financial statements as this may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

Classification and subsequent measurement

The Company classifies financial assets, at the time of initial recognition, according to the Company's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified in the following measurement categories:

- (a) Amortized cost; and
- (b) Fair value.

When assets are measured at fair value, gains and losses are either recognized entirely in profit or loss (i.e. FVTPL), or recognized in other comprehensive income (i.e. FVTOCI).

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Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as FVTPL:

- (a) the financial asset is held within a business whose objective is to hold financial assets to collect contractual cash flows; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets are subsequently measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in net income in the period that the asset is derecognized or impaired.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL. These financial liabilities are subsequently measured at fair value with changes in fair value recorded in net income in the period in which they arise to the extent they are not part of a designated hedging relationship.

The following table outlines the classification of financial instruments under IFRS 9:

	Classification
Financial assets	
Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Trade and other receivables	Amortized cost
Unbilled revenue	Amortized cost
Long-term financial assets- derivative assets	FVTPL, unless designated in a hedging relationship in which case classified as FVTOCI
Long-term financial assets- other receivables	Amortized cost
Financial liabilities	
Bank indebtedness	Amortized cost
Trade and other payables	Amortized cost
Convertible debentures	Amortized cost
Non-recourse project debt	Amortized cost
Long-term debt	Amortized cost
Other liabilities- derivative liabilities	FVTOCI

The convertible debentures are accounted for as a compound financial instrument with a debt component and a separate equity component. The debt component of these compound financial instruments is measured at fair value on initial recognition by discounting the stream of future interest and principal payments at the rate of interest prevailing at the date of issue for instruments of similar term and risk. The debt component is subsequently deducted from the total carrying value of the compound instrument to derive the equity component. The debt component is subsequently measured at amortized cost using the effective interest rate method. Interest expense based on the coupon rate of the debenture and the accretion of the liability component to the amount that will be payable on redemption are recognized through profit or loss as a finance cost.

5.5 DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

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Financial liabilities

A financial liability is derecognized from the balance sheet when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expires. Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in profit or loss.

5.6 IMPAIRMENT OF FINANCIAL ASSETS

The Company uses an expected credit loss (“ECL”) model. This impairment model applies to financial assets measured at amortized cost, and contract assets, but not to investments in equity instruments. The loss allowances are measured on either of the following bases:

- 12-month ECLs – these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs – these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company is using the simplified approach to recognize lifetime expected credit losses for its trade receivables and contract assets that are within the scope of IFRS 15 and that do not have a significant financing component. For long-term receivables under service concession arrangements that have a significant financing component, the Company is recognizing loss allowances using 12-month expected credit losses, or lifetime expected credit losses if there has been a significant increase in the credit risk on the instrument.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial asset.

Credit risk associated with accounts receivable, holdbacks receivable and unbilled revenue is limited by the Company’s diversified customer base and its dispersion across different business and geographic areas, as discussed further in Note 31, “*Financial Instruments*”.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the asset.

5.7 DERIVATIVE FINANCIAL INSTRUMENTS – HEDGE ACCOUNTING

The Company, often through its joint arrangements and equity accounted investees, enters into derivative financial instruments, namely interest rate swaps to hedge the variability of interest rates related to the long-term debt of its concession projects and foreign currency forward contracts to hedge foreign currency exposures on select construction projects. For designated hedges, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking these hedge transactions, and regularly assesses the effectiveness of these hedges.

Derivative financial instruments designated as cash flow hedges are measured at fair value established by using valuation techniques based on observable market data and taking into account the credit quality of the instruments. The effective portion of the change in fair value of the derivative financial instrument is recorded in other comprehensive income, while the ineffective portion, if any, of such change is recognized in net income. When ineffective, gains or losses from cash flow hedges included in other comprehensive income are reclassified to net income as an offset to the losses or gains recognized on the underlying hedged items.

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5.8 INVENTORIES

Inventories are recorded at the lower of cost and net realizable value, with the cost of materials and supplies determined on a first-in, first-out basis and the cost of aggregate inventories determined at weighted average cost. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads based on normal operating capacity.

Inventories are written down to net realizable value ("NRV") if their NRV is less than their carrying amount at the reporting date. If the NRV amount subsequently increases, the amount of the write-down is reversed and recognized as a reduction in materials expense. The NRV of inventory is its estimated selling price in the ordinary course of business less applicable selling costs.

5.9 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses, if any. The cost of property, plant and equipment includes the purchase price and the directly attributable costs of acquisition or construction costs required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management. Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

In subsequent periods, property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value, with the exception of land and assets under construction, which are not depreciated but are stated at cost less any impairment in value.

Depreciation is recorded to allocate the cost, less estimated residual values of property, plant and equipment over their estimated useful lives on the following bases:

Aggregate properties are depreciated using the unit of extraction method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves.

All other assets, excluding assets under construction, are depreciated on a straight-line basis over periods that approximate the estimated useful lives of the assets as follows:

<u>Assets</u>	<u>Term</u>
Land	Not depreciated
Buildings and leasehold improvements	10 to 40 years
Machinery and equipment	2 to 15 years
Office equipment	3 to 5 years
Vehicles	1 to 5 years

Assets under construction are not depreciated until they are brought into use, at which point they are transferred into the appropriate asset category.

The Company reviews the residual value, useful lives and depreciation method of depreciable assets on an annual basis and, where revisions are required, the Company applies such changes in estimates on a prospective basis.

The net carrying amounts of property, plant and equipment assets are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate the carrying amount may not be recoverable. To the extent these carrying amounts exceed their recoverable amounts, that excess is fully recognized in profit or loss in the financial year in which it is determined.

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When significant parts of property, plant and equipment are required to be replaced and it is probable that future economic benefits associated with the item will be available to the Company, the expenditure is capitalized and the carrying amount of the item replaced is derecognized. Similarly, maintenance and inspection costs associated with major overhauls are capitalized and depreciated over their useful lives where it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognized. All other costs are expensed as incurred.

5.10 BORROWING COSTS

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets for periods preceding the dates the assets are available for their intended use. All other borrowing costs are recognized as interest expense in the period in which they are incurred.

5.11 GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill relating to the acquisition of subsidiaries is included on the consolidated balance sheets in intangible assets. Goodwill relating to the acquisition of associates is included in the investment of the associate and therefore tested for impairment in conjunction with the associate investment balance.

Goodwill is not amortized but is reviewed for impairment at least annually and whenever events or circumstances indicate the carrying amount may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to the cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Company's cash-generating units generally represent either individual business units, or groups of business units that are all below the level of the Company's operating segments.

In a business combination, when the fair value attributable to the Company's share of the net identifiable assets acquired exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

Internally generated goodwill is not recognized.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Intangible assets

Intangible assets acquired as part of a business combination are recorded at fair value at the acquisition date if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition. Separately acquired intangible assets are recorded initially at cost and thereafter are carried at cost less accumulated amortization and impairment if the asset has a finite useful life.

Intangible assets are amortized over their estimated useful lives. Intangible assets under development are not amortized until put into use.

Estimated useful lives are determined as the period over which the Company expects to use the asset and for which the Company retains control over benefits derived from use of the asset.

For intangible assets with a finite useful life, the amortization method and period are reviewed annually and impairment testing is undertaken when circumstances indicate the carrying amounts may not be recoverable.

Amortization expense on intangible assets with finite lives is recognized in profit or loss as an expense item.

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The major types of intangible assets and their amortization periods are as follows:

<u>Assets</u>	<u>Amortization basis</u>
Acquired customer backlog	Pro rata basis as backlog revenue is worked off
Licences, software and other rights	1 - 10 years
Aggregate permits	Units of extraction

5.12 SERVICE CONCESSION ARRANGEMENTS

The Company accounts for Service Concession Arrangements in accordance with “IFRIC 12”.

IFRIC 12 provides guidance on the accounting for certain qualifying public-private partnership arrangements, whereby the grantor (i.e., usually a government) (a) controls or regulates what services the operator (i.e. “the concessionaire”) must provide with the infrastructure, to whom it must provide those services, and at what price; and (b) controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

Under such concession arrangements, the concessionaire accounts for the infrastructure asset by applying one of the following accounting models depending on the allocation of the demand risk through the usage of the infrastructure between the grantor and the concessionaire:

Accounting Model

(a) Financial Asset Model

Applicable when the concessionaire does not bear demand risk through the usage of the infrastructure (i.e., it has an unconditional right to receive cash irrespective of the usage of the infrastructure, for example through availability payments).

When the Company delivers more than one category of activity in a service concession arrangement, the consideration received or receivable is allocated by reference to the relative fair values of the activity delivered, when the amounts are separately identifiable.

Revenue recognized by the Company under the financial asset model is recognized in “Long Term Receivables”, a financial asset that is recovered through payments received from the grantor.

(b) Intangible Asset Model

Applicable when the concessionaire bears demand risk (i.e., it has a right to charge fees for usage of the infrastructure).

The Company recognizes an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. The intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition. Borrowing costs, if any, are capitalized until the infrastructure is ready for its intended use as part of the carrying amount of the intangible asset.

The intangible asset is then amortized over its expected useful life, which is the concession period in a service concession arrangement. The amortization period begins when the infrastructure is available for use.

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Revenues from service concession arrangements accounted for under IFRIC 12 are recognized as follows:

(a) Construction or upgrade activities when a service concession arrangement involves the construction or upgrade of the public service infrastructure:

Revenues relating to construction or upgrade services under a service concession arrangement are recognized based on the stage of completion of the work performed, consistent with the Company's accounting policy on recognizing revenue applicable to any construction contract (see Section 5.1, "Revenue Recognition").

(b) Operations and maintenance activities may include maintenance of the infrastructure and other activities provided directly to the grantor or the users:

Operations and maintenance revenues are recognized in the period in which the activities are performed by the Company, consistent with the Company's accounting policy on recognizing revenue applicable to any operations and maintenance contract (see Section 5.1, "Revenue Recognition").

(c) Financing (applicable when the financial asset model is applied)

Finance income generated on financial assets is recognized using the effective interest method.

5.13 IMPAIRMENT OF NON-FINANCIAL ASSETS

Property, plant and equipment and intangible assets that are subject to amortization are reviewed for impairment at the end of each reporting period. If there are indicators of impairment, a review is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. An asset's recoverable amount is determined as the higher of its fair value less costs of disposal and its value-in-use. Such reviews are undertaken on an asset-by-asset basis, except where assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash-generating unit ("CGU") level.

Where a CGU, or group of CGUs, has goodwill allocated to it, or includes intangible assets that are either not available-for-use or that have an indefinite useful life (and can only be tested as part of a CGU), an impairment test is performed at least annually or whenever there is an indication the carrying amounts of such assets may be impaired. Corporate assets, where material to the carrying value of a CGU in computing impairment calculations, are allocated to CGUs based on the benefits received by the CGU.

If the carrying amount of an individual asset or CGU exceeds its recoverable amount, an impairment loss is recorded in profit or loss to reflect the asset at the lower amount. In assessing the value-in-use, the relevant future cash flows expected to arise from the continuing use of such assets and from their disposal are discounted to their present value using a market determined pre-tax discount rate, which reflects current market assessments of the time-value-of-money and asset-specific risks. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Similarly, a reversal of a previously recognized impairment loss is recorded in profit or loss when events or circumstances indicate the estimates used to determine the recoverable amount have changed since the prior impairment loss was recognized and the recoverable amount of the asset exceeds its carrying amount. The carrying amount is increased to the recoverable amount but not beyond the carrying amount net of amortization, which would have arisen if the prior impairment loss had not been recognized. After such a reversal, the amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. Goodwill impairments are not reversed.

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5.14 JOINT ARRANGEMENTS

Under IFRS 11, “*Joint Arrangements*,” a joint arrangement is a contractual arrangement wherein two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement when the strategic financial and operating decisions relating to the arrangement require the unanimous consent of the parties sharing control.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each party. Refer to Note 4 “*Critical Accounting Estimates*” for significant judgments affecting the classification of joint arrangements as either joint operations or joint ventures.

The parties to a joint operation have rights to the assets, and obligations for the liabilities, relating to the arrangement whereas joint ventures have rights to the net assets of the arrangement. In accordance with IFRS 11, the Company accounts for joint operations by recognizing its share of any assets held jointly and any liabilities incurred jointly, along with its share of the revenue from the sale of the output by the joint operation, and its expenses, including its share of any expenses incurred jointly.

Joint ventures are accounted for using the equity method of accounting in accordance with IAS 28, “*Investments in Associates and Joint Ventures*.”

Under the equity method of accounting, the Company’s investments in joint ventures and associates are carried at cost and adjusted for post-acquisition changes in the net assets of the investment. Profit or loss reflects the Company’s share of the results of these investments. Distributions received from an investee reduce the carrying amount of the investment. The consolidated statements of comprehensive income also include the Company’s share of any amounts recognized by joint ventures and associates in OCI.

Where there has been a change recognized directly in the equity of the joint venture or associate, the Company recognizes its share of that change in equity.

The financial statements of the joint ventures and associates are generally prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist in the underlying records of the joint venture and/or associate. Adjustments are made in the consolidated financial statements to eliminate the Company’s share of unrealized gains and losses on transactions between the Company and its joint ventures and associates.

Transactions with joint operations

Where the Company contributes or sells assets to a joint operation, the Company recognizes only that portion of the gain or loss that is attributable to the interests of the other parties.

Where the Company purchases assets from a joint operation, the Company does not recognize its share of the profit or loss of the joint operation from the transaction until it resells the assets to an independent party.

The Company adjusts joint operation financial statement amounts, if required, to reflect consistent accounting policies.

5.15 ASSOCIATES

Entities in which the Company has significant influence and which are neither subsidiaries, nor joint arrangements, are accounted for using the equity method of accounting in accordance with IAS 28, “*Investments in Associates and Joint Ventures*.” This method of accounting is described in Section 5.14, “*Joint Arrangements*.”

The Company discontinues the use of the equity method from the date on which it ceases to have significant influence, and from that date accounts for the investment in accordance with IFRS 9, “*Financial Instruments*,” (at fair value), provided the investment does not then qualify as a subsidiary or a joint arrangement.

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5.16 PROVISIONS

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset when reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. Where material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Decommissioning liabilities

The Company has legal obligations associated with the retirement of pits and quarries utilized in aggregate mining operations. As a result, a provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on estimated future costs using information available at the consolidated balance sheet dates. The provision is discounted using a current market-based pre-tax discount rate that reflects the average life of the obligations and the risks specific to the liability. An increase in the provision due to the passage of time is recognized as a finance cost and the provision is reduced by actual rehabilitation costs incurred. The present value of the legal obligations incurred is recognized as an inventory production cost and is included in the cost of the aggregates produced.

The provision is reviewed at each reporting date for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations. Changes in the amount or timing of the underlying future cash flows or changes in the discount rate are immediately recognized as an increase or decrease in the carrying amounts of related assets and the provision.

5.17 LEASES

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
 - The Company has the right to operate the asset; or
 - The Company designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone price.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and

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remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the relevant index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in the relevant index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in "property, plant and equipment" and lease liabilities in "long-term debt" in the consolidated balance sheets.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of property, plant and equipment that have a lease term of 12 months or less and leases of low-value assets, such as some IT-equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Nature of leased assets

The Company leases various offices, warehouses, land, equipment and vehicles. Contracts are typically made for fixed periods of one to ten years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leased assets may not be used as security for borrowing purposes. Some leases provide for additional payments based on changes in inflation.

Extension and termination options

Some office leases include an option to renew the lease for an additional period after the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. Extension options are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses its portfolio

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of leases to determine whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control. The Company considers all facts and circumstances when making this decision. The Company examines whether there is an economic incentive or penalty that would affect the decision to exercise the option, for example, whether the lease option is below market value or whether the Company has made significant investments in leasehold improvements. Where it is not reasonably certain that the lease will be extended or terminated, the Company will not recognize these options.

Variable lease payments

Some leases also require the Company to make payments that relate to the property taxes and additional services levied on the lessor and insurance payments made by the lessor; these amounts are generally determined annually.

5.18 EMPLOYEE BENEFIT PLANS

The Company recognizes the cost of retirement benefits over the periods in which employees are expected to render services in return for the benefits.

The Company sponsors defined benefit pension plans (which had their membership frozen as at January 1, 1998) and defined contribution pension plans for its salaried employees. The Company matches employee contributions to the defined contribution plans, which are based on a percentage of salaries. For the defined contribution pension plans the contributions are recognized as an employee benefit expense when they are earned.

For the defined benefit pension plans, current service costs are charged to operations as they accrue based on services rendered by employees during the year. Pension benefit obligations are determined annually by independent actuaries using management's best estimate assumptions. The plans' assets are measured at fair value. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Actuarial gains and losses are recognized in other comprehensive income as they arise. Past service costs are recognized immediately in profit or loss unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

5.19 CURRENT AND DEFERRED INCOME TAXES

Current income tax is calculated on the basis of tax laws enacted or substantively enacted at the consolidated balance sheet dates in the countries where the Company operates and generates taxable income. Current tax includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred income tax is provided using the asset and liability method on all temporary differences at the consolidated balance sheet dates between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred income taxes are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax is provided on temporary differences associated with investments in subsidiaries, associates or joint ventures, except where the timing of the reversal of temporary differences can be controlled and it is probable the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilized.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the consolidated balance sheet dates.

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The carrying amount of deferred income tax assets is reviewed at each consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. To the extent that an asset not previously recognized fulfills the criteria for recognition, a deferred income tax asset is recorded.

Current and deferred taxes relating to items recognized directly in equity and other comprehensive income are recognized in equity and other comprehensive income and not in profit or loss.

Current income tax assets and liabilities or deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the income taxes relate to the same taxable entity and the same tax authority.

5.20 DIVIDENDS

A provision is not recorded for dividends unless the dividends have been declared by the Board of Directors on or before the end of the year and not distributed at the reporting date.

5.21 STOCK-BASED COMPENSATION

The Company has stock-based compensation plans, as described in Note 25, “*Capital Stock*.” All transactions involving stock-based payments are recognized as an expense over the vesting period.

Equity-settled stock-based payment transactions, such as stock option awards and the Company’s long-term incentive plan, are measured at the grant date fair value of employee services received in exchange for the grant of options or share awards and for non-employee transactions, at the fair value of the goods or services received at the date on which the entity recognizes the goods or services. The total amount of the expense recognized in profit or loss is determined by reference to the fair value of the share awards or options granted, which factors in the number of options expected to vest. Equity-settled share-based payment transactions are not remeasured once the grant date fair value has been determined, except in cases where the stock-based payment is linked to non-market related performance conditions.

Cash-settled stock-based payment transactions are measured at the fair value of the liability. The liability is remeasured at each consolidated balance sheet date and at the date of settlement, with changes in fair value recognized in profit or loss.

5.22 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is determined by dividing profit attributable to shareholders of the Company, excluding, if applicable, preferred dividends after-tax, amortization of discounts and premiums on issuance, premiums on repurchases, inducements to convert relating to convertible debentures and any costs of servicing equity other than common shares, by the weighted average number of common shares outstanding during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential common shares and the weighted average number of shares assumed to have been issued in relation to dilutive potential common shares.

Dilutive potential common shares result from issuances of stock options and convertible debentures.

5.23 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Company’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in thousands of Canadian dollars, which is the Company’s presentation currency.

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Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and resulting from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when deferred in other comprehensive income for qualifying cash flow hedges and for qualifying net investment hedges.

All foreign exchange gains and losses presented in profit or loss are presented within other income. Changes in the fair value of monetary securities denominated in a foreign currency classified as FVTOCI are separated between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as FVTOCI, are included in other comprehensive income.

Translation of foreign entities

Assets and liabilities are translated from the functional currency to the presentation currency at the closing rate at the end of the reporting period. The consolidated statements of income are translated at exchange rates at the dates of the transactions or at the average rate if it approximates the actual rates. All resulting exchange differences are recognized in other comprehensive income.

On disposal, or partial disposal, of a foreign entity, or repatriation of the net investment in a foreign entity, resulting in a loss of control, significant influence or joint control, the cumulative translation account balance recognized in equity relating to that particular foreign entity is recognized in profit or loss as part of the gain or loss on sale. On a partial disposition of a subsidiary that does not result in a loss of control, the amounts are reallocated to the non-controlling interest in the foreign operation based on its proportionate share of the cumulative amounts recognized in AOCI. On partial dispositions of jointly controlled foreign entities or associates, the proportionate share of translation differences previously recognized in AOCI is reclassified to profit or loss.

5.24 BUSINESS COMBINATIONS

The Company uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary includes the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date. For each acquisition, the Company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If this amount is less than the fair value of the net assets of the subsidiary acquired, such as in the case of a bargain purchase, the difference is recognized directly in profit or loss.

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent and are presented in equity in the consolidated balance sheets, separately from the parent's shareholders' equity.

5.25 GOVERNMENT GRANTS

Government grants or subsidies are assistance from a government to the Company in return for past or future compliance with certain conditions relating to the operating activities of the Company. Such government grants or subsidies may be given to the Company to help finance a particular asset or other expenditure.

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Grants or subsidies related to income are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. These grants or subsidies are recognized in profit or loss as a reduction of expenses.

Grants or subsidies related to assets are either offset against the carrying amount of the relevant asset or presented as deferred income in the balance sheet.

Grants or subsidies are recognized at their fair value where there is reasonable assurance that the grant or subsidy will be received and the Company will comply with all relevant conditions.

5.26 OPERATING SEGMENTS

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing the performance of the operating segments and has been identified as the Executive Committee that makes strategic decisions.

6. NEW ACCOUNTING STANDARDS

The following amendments to standards and interpretations became effective for the annual periods beginning on or after January 1, 2022. The application of these amendments and interpretations had no significant impact on the Company's consolidated financial position or results of operations.

Reference to the Conceptual Framework (Amendments to IFRS 3, Business Combinations)

The amendments to IFRS 3 update an outdated reference in IFRS 3 without significantly changing its requirements and add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

Fees in the "10% Test" for Derecognition of Financial Liabilities (Amendments to IFRS 9, Financial Instruments)

The amendments to IFRS 9 clarify which fees an entity includes when it applies the "10% test" in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

Property, Plant and Equipment - Proceeds Before Intended Use (Amendments to IAS 16, Property, Plant and Equipment)

The amendments to IAS 16 prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets)

The amendments to IAS 37 provide guidance regarding the costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

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7. FUTURE ACCOUNTING CHANGES

Classification of Liabilities as Current or Non-current (Amendments to IAS 1, Presentation of Financial Statements)

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months and make explicit that only rights in place at the end of the reporting period should affect the classification of a liability. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively.

Non-current Liabilities with Covenants (Amendments to IAS 1)

The amendments to IAS 1 specify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively.

Disclosure of Accounting Policies (Amendments to IAS 1)

The amendments to IAS 1 require an entity to disclose its material accounting policies instead of its significant accounting policies. The amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied prospectively.

Definition of Accounting Estimates (Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors)

The amendments to IAS 8 provide guidance to assist entities in distinguishing between accounting policies and accounting estimates. The amendments replace the definition of a change in accounting estimates with the definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied prospectively.

Deferred Tax on Assets and Liabilities Arising From Lease and Decommissioning Obligation Transactions (Amendments to IAS 12, Income Taxes)

The amendments to IAS 12 provide clarifications in accounting for deferred tax on certain transactions such as leases and decommissioning obligations. The amendments clarify that the initial recognition exemption does not apply to transactions such as leases and decommissioning obligations. As a result, entities may need to recognize both a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied to transactions that occur on or after the beginning of the earliest comparative period presented.

Lease Liability Measurement in a Sale and Leaseback transaction (Amendments to IFRS 16, Leases)

The amendments to IFRS 16 clarify how a seller-lessee should apply the subsequent measurement requirements in IFRS 16 to the lease liability that arises in a sale and leaseback transaction. The amendments specify that the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains when lease liabilities are subsequently measured. However, the new requirements do not prevent a seller-lessee from recognizing, in profit or loss, any gain or loss that relates to the partial or full termination of a lease. The amendments are effective for annual periods beginning on or after January 1, 2024 and are to be applied retrospectively.

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IFRS 17, Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts to ensure that an entity provides relevant and reliable information to the users of the financial statements as a basis to assess the effect that insurance contracts have on the entity's financial statements. In certain cases, financial guarantee and performance guarantee contracts may be considered insurance contracts for the purposes of IFRS 17 if significant insurance risk is transferred from another party to the entity and the contract involves potential compensation to the other party for an adverse event. IFRS 17 will supersede IFRS 4, "Insurance Contracts" and the related interpretations. The standard and related amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively.

The Company is still assessing the impact of adopting these amendments on its future financial statements.

8. CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH

	December 31 2022	December 31 2021
Cash balances excluding joint operations	\$ 19,815	\$ 12,799
Cash balances of joint operations	357,397	519,882
	\$ 377,212	\$ 532,681
Restricted cash	\$ 107,033	\$ 98,010
	\$ 107,033	\$ 98,010

Cash and cash equivalents on deposit in the bank accounts of joint operations cannot be accessed directly by the Company.

Restricted cash is cash held by Bermuda Skyport Corporation Limited ("Skyport"). This cash cannot be used by the Company other than to finance the Bermuda International Airport Redevelopment Project.

9. TRADE AND OTHER RECEIVABLES

	December 31 2022	December 31 2021
Trade receivables	\$ 628,365	\$ 467,157
Allowance for expected credit losses	(1,362)	(1,145)
	627,003	466,012
Holdbacks receivable	341,298	309,582
Other	55,277	49,209
	396,575	358,791
Total	\$ 1,023,578	\$ 824,803
Amounts receivable beyond one year	\$ 109,395	\$ 101,643

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A reconciliation of the beginning and ending carrying amounts of the Company's allowance for expected credit losses is as follows:

	December 31 2022	December 31 2021
Balance - beginning of year	\$ (1,145)	\$ (1,140)
Additional amounts provided for during year	(631)	(531)
Trade receivables written off during year	36	165
Amounts recovered	378	361
Balance - end of year	\$ (1,362)	\$ (1,145)

10. UNBILLED REVENUE AND DEFERRED REVENUE

A reconciliation of the beginning and ending carrying amounts of unbilled revenue and deferred revenue is as follows:

	For the year ended December 31, 2022		For the year ended December 31, 2021	
	Unbilled revenue	Deferred revenue	Unbilled revenue	Deferred revenue
Balance outstanding - beginning of year	\$ 585,974	\$ (430,985)	\$ 526,079	\$ (486,259)
Revenue earned in the year	4,489,079	207,371	3,725,363	251,959
Billings in the year	(4,389,873)	(162,946)	(3,667,160)	(196,685)
Changes due to business combinations	78	-	1,692	-
Balance outstanding - end of year	\$ 685,258	\$ (386,560)	\$ 585,974	\$ (430,985)

In addition, revenue earned during the year ended December 31, 2022, from performance obligations satisfied in previous periods, was reduced by \$nil (2021 - \$2,000). This amount primarily related to the impact of adjustments to forecasted revenue and cost.

Revenue recognized in 2022 from deferred revenue balances existing at the beginning of the year totaled \$206,305 (2021 - \$225,087).

11. INVENTORIES

	December 31 2022	December 31 2021
Raw materials and supplies	\$ 16,761	\$ 5,996
Finished goods	20,859	19,199
	\$ 37,620	\$ 25,195

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12. PROJECTS ACCOUNTED FOR USING THE EQUITY METHOD

The Company performs some construction and concession related projects through non-consolidated entities. The Company's participation in these entities is conducted through joint ventures and associates and is accounted for using the equity method. The Company's joint ventures and associates are private entities and there is no quoted market price available for their shares.

The summarized financial information below reflects the Company's share of the amounts presented in the financial statements of joint ventures and associates:

	December 31, 2022			December 31, 2021		
	Joint Ventures	Associates	Total	Joint Ventures	Associates	Total
Cash and cash equivalents	\$ 59,236	\$ -	\$ 59,236	\$ 42,750	\$ 927	\$ 43,677
Other current assets	329,360	-	329,360	649,219	483	649,702
Total current assets	388,596	-	388,596	691,969	1,410	693,379
Non-current assets	961,538	-	961,538	720,890	-	720,890
Total assets	1,350,134	-	1,350,134	1,412,859	1,410	1,414,269
Trade and other payables and provisions	365,108	45	365,153	343,929	1,201	345,130
Total current liabilities	365,108	45	365,153	343,929	1,201	345,130
Non-current financial liabilities	871,630	-	871,630	996,796	-	996,796
Other non-current liabilities	5,480	-	5,480	3,049	-	3,049
Total non-current liabilities	877,110	-	877,110	999,845	-	999,845
Total liabilities	1,242,218	45	1,242,263	1,343,774	1,201	1,344,975
Net assets (liabilities)	\$ 107,916	\$ (45)	\$ 107,871	\$ 69,085	\$ 209	\$ 69,294

	For the year ended					
	December 31, 2022			December 31, 2021		
	Joint Ventures	Associates	Total	Joint Ventures	Associates	Total
Revenue	\$ 663,730	\$ -	\$ 663,730	\$ 729,616	\$ 562	\$ 730,178
Depreciation and amortization	(624)	-	(624)	(636)	-	(636)
Other costs and expenses	(606,297)	550	(605,747)	(674,974)	(54)	(675,028)
Operating profit	56,809	550	57,359	54,006	508	54,514
Finance cost	(38,315)	-	(38,315)	(38,027)	-	(38,027)
Income tax expense	(1,341)	-	(1,341)	(1,386)	-	(1,386)
Profit for the year	17,153	550	17,703	14,593	508	15,101
Other comprehensive income	24,057	-	24,057	19,951	-	19,951
Total comprehensive income	\$ 41,210	\$ 550	\$ 41,760	\$ 34,544	\$ 508	\$ 35,052

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The movement in the investment in projects accounted for using the equity method is as follows:

	For the year ended December 31 2022	For the year ended December 31 2021
Projects accounted for using the equity method - as at January 1	\$ 69,294	\$ 37,378
Share of profit for the year	17,703	15,101
Share of other comprehensive income for the year	24,057	19,951
Distributions from projects accounted for using the equity method	(3,183)	(3,136)
Projects accounted for using the equity method - as at December 31	\$ 107,871	\$ 69,294

The following joint ventures and associates are included in projects accounted for using the equity method:

Name	Ownership interest	Joint Venture or Associate	Years included
Yellowline Asphalt Products Ltd.	50%	Joint Venture	2022, 2021
Waterloo LRT Concessionaire	10%	Joint Venture	2022, 2021
Eglinton Crosstown LRT Concessionaire	25%	Joint Venture	2022, 2021
Finch West LRT Concessionaire	33%	Joint Venture	2022, 2021
Gordie Howe International Bridge Concessionaire	20%	Joint Venture	2022, 2021
Sky-Tec Fibre JV	50%	Joint Venture	2021
Highway 401 Expansion Project SPV	50%	Joint Venture	2022, 2021
Pattullo Bridge Replacement Project SPV	50%	Joint Venture	2022, 2021
Eglinton Crosstown West Extension Advance Tunnel Project SPV	40%	Joint Venture	2022, 2021
ONxpress Operations Inc.	28%	Joint Venture	2022

Projects accounted for using the equity method include various concession joint ventures or project special purpose vehicles ("SPVs") as listed above. However, the construction activities related to these concessions and project SPVs are classified as joint operations which are accounted for in the consolidated financial statements by reflecting, line by line, the Company's share of the assets held jointly, liabilities incurred jointly, and revenue and expenses arising from the joint operations.

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13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and leasehold improvements	Aggregate properties	Machinery and construction equipment	Office equipment, furniture and fixtures, and computer hardware	Vehicles	Total
Cost							
Balance at January 1, 2022	\$ 53,343	\$ 173,513	\$ 57,975	\$ 358,761	\$ 40,525	\$ 71,163	\$ 755,280
Additions - purchased assets	80	699	4,788	23,276	2,994	871	32,708
Additions - right-of-use assets	365	7,942	-	26,343	-	12,547	47,197
Additions - business combination	-	-	-	15	-	906	921
Disposals	(1,505)	(3,571)	(2,264)	(20,638)	(132)	(6,215)	(34,325)
Foreign currency translation adjustments	-	166	-	473	77	103	819
Balance as at December 31, 2022	\$ 52,283	\$ 178,749	\$ 60,499	\$ 388,230	\$ 43,464	\$ 79,375	\$ 802,600
Accumulated depreciation and impairment							
Balance at January 1, 2022	836	70,638	22,210	199,091	36,959	46,040	375,774
Depreciation - purchased assets	-	5,765	1,510	15,751	2,280	1,023	26,329
Depreciation - right-of-use assets	(a) 246	7,811	-	16,989	-	9,865	34,911
Disposals	-	(2,726)	(2,264)	(18,744)	(132)	(6,052)	(29,918)
Foreign currency translation adjustments	-	93	-	189	56	65	403
Balance as at December 31, 2022	\$ 1,082	\$ 81,581	\$ 21,456	\$ 213,276	\$ 39,163	\$ 50,941	\$ 407,499
Net book value as at December 31, 2022	\$ 51,201	\$ 97,168	\$ 39,043	\$ 174,954	\$ 4,301	\$ 28,434	\$ 395,101
Net book value as at January 1, 2022	\$ 52,507	\$ 102,875	\$ 35,765	\$ 159,670	\$ 3,566	\$ 25,123	\$ 379,506
Net book value of right-of-use assets included in property, plant & equipment as at January 1, 2022	\$ 845	\$ 33,328	\$ 75	\$ 81,510	\$ -	\$ 22,965	\$ 138,723
Net book value of right-of-use assets included in property, plant & equipment as at December 31, 2022	\$ 964	\$ 33,518	\$ 75	\$ 86,527	\$ -	\$ 25,833	\$ 146,917

(a) Depreciation of land relates to leases of land following the adoption of IFRS 16.

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	Land	Buildings and leasehold improvements	Aggregate properties	Machinery and construction equipment	Office equipment, furniture and fixtures, and computer hardware	Vehicles	Total
Cost							
Balance at January 1, 2021	\$ 47,246	\$ 171,586	\$ 56,656	\$ 337,858	\$ 38,483	\$ 66,941	\$ 718,770
Additions - purchased assets	7,131	8,648	1,319	16,098	2,125	58	35,379
Additions - right of use assets	-	8,770	-	28,719	-	10,806	48,295
Additions - business combination	-	906	-	2,311	-	861	4,078
Disposals	(1,034)	(16,389)	-	(26,202)	(80)	(7,501)	(51,206)
Foreign currency translation adjustments	-	(8)	-	(23)	(3)	(2)	(36)
Balance as at December 31, 2021	\$ 53,343	\$ 173,513	\$ 57,975	\$ 358,761	\$ 40,525	\$ 71,163	\$ 755,280
Accumulated depreciation and impairment							
Balance at January 1, 2021	1,584	66,333	21,275	189,895	34,307	43,199	356,593
Depreciation - purchased assets	-	5,870	935	15,179	2,727	859	25,570
Depreciation - right of use assets (a)	258	7,659	-	16,292	-	9,046	33,255
Disposals	(1,006)	(9,225)	-	(22,278)	(75)	(7,064)	(39,648)
Foreign currency translation adjustments	-	1	-	3	-	-	4
Balance as at December 31, 2021	\$ 836	\$ 70,638	\$ 22,210	\$ 199,091	\$ 36,959	\$ 46,040	\$ 375,774
Net book value as at December 31, 2021	\$ 52,507	\$ 102,875	\$ 35,765	\$ 159,670	\$ 3,566	\$ 25,123	\$ 379,506
Net book value as at January 1, 2021	\$ 45,662	\$ 105,253	\$ 35,381	\$ 147,963	\$ 4,176	\$ 23,742	\$ 362,177
Net book value of right-of-use assets included in property, plant & equipment as at January 1, 2021							
	\$ 1,103	\$ 38,481	\$ 75	\$ 74,156	\$ -	\$ 21,089	\$ 134,904
Net book value of right-of-use assets included in property, plant & equipment as at December 31, 2021							
	\$ 845	\$ 33,328	\$ 75	\$ 81,510	\$ -	\$ 22,965	\$ 138,723

(a) Depreciation of land relates to leases of land following the adoption of IFRS 16.

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14. INTANGIBLE ASSETS

	Concession Rights	Goodwill	Licences, software and other rights	Total
Cost				
Balance as at January 1, 2022	\$ 625,445	\$ 104,855	\$ 101,885	\$ 832,185
Additions				
Separately acquired or constructed	-	-	8,604	8,604
Business combinations	-	3,247	2,335	5,582
Disposals	-	-	(601)	(601)
Foreign currency translation adjustments	42,723	-	306	43,029
Balance as at December 31, 2022	\$ 668,168	\$ 108,102	\$ 112,529	\$ 888,799
Accumulated amortization and impairment				
Balance as at January 1, 2022	117,274	-	67,962	185,236
Amortization	19,997	-	12,916	32,913
Disposals	-	-	(601)	(601)
Foreign currency translation adjustments	8,022	-	876	8,898
Balance as at December 31, 2022	\$ 145,293	\$ -	\$ 81,153	\$ 226,446
Net book value as at December 31, 2022	\$ 522,875	\$ 108,102	\$ 31,376	\$ 662,353
Net book value as at January 1, 2022	\$ 508,171	\$ 104,855	\$ 33,923	\$ 646,949

	Concession Rights	Goodwill	Licences, software and other rights	Total
Cost				
Balance as at January 1, 2021	\$ 624,476	83,830	\$ 97,025	\$ 805,331
Additions				
Separately acquired or constructed	3,577	-	2,660	6,237
Business combination	-	21,025	2,208	23,233
Disposals	-	-	(7)	(7)
Foreign currency translation adjustments	(2,608)	-	(1)	(2,609)
Balance as at December 31, 2021	\$ 625,445	\$ 104,855	\$ 101,885	\$ 832,185
Accumulated amortization and impairment				
Balance as at January 1, 2021	97,566	-	58,315	155,881
Amortization	19,888	-	9,655	29,543
Disposals	-	-	(7)	(7)
Foreign currency translation adjustments	(180)	-	(1)	(181)
Balance as at December 31, 2021	\$ 117,274	\$ -	\$ 67,962	\$ 185,236
Net book value as at December 31, 2021	\$ 508,171	\$ 104,855	\$ 33,923	\$ 646,949
Net book value as at January 1, 2021	\$ 526,910	\$ 83,830	\$ 38,710	\$ 649,450

In 2022, goodwill and other intangible assets increased by \$3,247 and \$2,335, respectively, as a result of Company acquisitions (2021 - \$21,025 and \$2,208, respectively). Refer to Note 21, "Business Combinations" for further details regarding goodwill and other intangible assets in 2021.

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Concession rights – Bermuda International Airport Redevelopment Project

The Company holds a 100% interest in Bermuda Skyport Corporation Limited (“Skyport”), a Bermudian company undertaking the L.F. Wade International Redevelopment Project in Bermuda (“Bermuda International Airport Redevelopment Project”).

Skyport’s main operations consist of:

- (a) managing and operating the existing L.F Wade International Airport (the “Existing Bermuda Airport”); and
- (b) managing the development, financing, construction, operation and maintenance of the new airport terminal and associated infrastructure (“New Airport Terminal”) under a 30-year concession arrangement.

At December 31, 2022, the concession right for the New Airport Terminal, representing the costs to construct the New Airport Terminal, had a carrying amount of \$522,875 (2021 - \$508,171). Amortization of this concession right commenced with the opening of the New Airport Terminal on December 9, 2020. This concession right is being amortized on a straight-line basis over the remaining term, 25 years, of the right to operate the New Airport Terminal.

Amortization of intangible assets is included in the depreciation and amortization expense line item on the consolidated statements of income.

Goodwill

The following CGUs or groups of CGUs have significant amounts of goodwill allocated to them for the purposes of impairment testing:

	December 31 2022	December 31 2021
CGUs:		
Utilities	\$ 62,374	\$ 59,127
Industrial	30,633	30,633
Civil	15,095	15,095
	\$ 108,102	\$ 104,855

The recoverable amounts of the above listed CGUs were determined based on fair value less costs to sell calculations. Fair value less costs to sell calculations use post-tax cash flow projections expected to be generated by the CGU based on financial budgets approved by management covering a two-year period. For the CGUs noted above, cash flows beyond the two-year period were extrapolated as at December 31, 2022 using a growth rate of 2% (2021 – 2%), which does not exceed the long-term average growth rate for the business in which the CGUs operate. The discount rate applied to cash flow projections as at December 31, 2022 was 10.0% (2021 – 9.0%) based on the Company’s post-tax weighted average cost of capital. Detailed sensitivity analyses were conducted to assess the impact of changes in growth rates, costs of capital and cash flows on the recoverable amount, which has not indicated that the carrying amount of the CGU exceeds the recoverable amount. Budgeted cash flows were determined by management based on the Company’s past performance, backlog currently on hand and future revenue prospects.

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15. BANK INDEBTEDNESS

	December 31 2022	December 31 2021
Bank indebtedness	\$ 120,979	\$ 23,305
	\$ 120,979	\$ 23,305

As at December 31, 2022, the Company had a committed revolving credit facility of \$600,000 (2021 - \$600,000). The Company also has uncommitted demand letter of credit facilities of \$201,000 (2021 - \$201,000) from Canadian banks and \$43,374 (€30,000) from a Spanish bank (2021 - \$43,173 (€30,000)). Bank indebtedness representing borrowings on the Company's revolving credit facility as at December 31, 2022 was \$120,979 (2021 - \$23,305). Letters of credit amounting to \$3,234 and \$8,151, respectively, were issued against the revolving credit facility and the uncommitted demand letter of credit facilities as at December 31, 2022 (2021 - \$3,494 and \$16,915, respectively). Cash drawings under the revolving credit facility bear interest at rates between prime and prime plus 1.85% per annum. Letters of credit drawn on the revolving credit facility reduce the amount available-for-use under this facility. These facilities mature on June 30, 2025.

Drawings on the revolving credit facility are secured by a general security agreement which provides the lenders with a first priority ranking security interest, subject to existing encumbrances, over certain existing and future assets of the Company. Security is also provided by way of a \$90,000 collateral mortgage, subject to existing encumbrances, over certain aggregate properties owned by the Company, and by guarantees from all entities that are required to provide security under the general security agreement.

The Company also maintains an additional performance security guarantee facility of \$900,000 (December 31, 2021 - \$900,000) to support letters of credit provided by Export Development Canada, of which \$563,444 was utilized as at December 31, 2022 (2021 - \$540,399). This performance security guarantee facility matures on June 30, 2023.

16. TRADE AND OTHER PAYABLES

	December 31 2022	December 31 2021
Trade payables and accrued liabilities	\$ 901,855	\$ 788,352
Holdbacks payable	162,193	132,301
	\$ 1,064,048	\$ 920,653
Amounts payable beyond one year	\$ 2,531	\$ 1,511

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17. PROVISIONS

	Contract related obligations		Asset decommissioning costs		Tax assessments		Other	Total		
	(a)		(b)		(c)					
Balance as at January 1, 2022	\$	13,998	\$	5,651	\$	9,879	\$	1,147	\$	30,675
Additions made		1,666		23		725		2,816		5,230
Amounts used		(6,291)		(265)		(440)		(2,537)		(9,533)
Other changes		(11)		267		-		-		256
Unused amounts reversed		(5,721)		(10)		-		-		(5,731)
Balance as at December 31, 2022	\$	3,641	\$	5,666	\$	10,164	\$	1,426	\$	20,897
Reported as:										
Current		2,989		-		10,164		1,426		14,579
Non-current		652		5,666		-		-		6,318
	\$	3,641	\$	5,666	\$	10,164	\$	1,426	\$	20,897

(a) Contract related obligations are made up of contract warranty obligations and litigation risks relating to construction operations. Contract warranty obligations relate to warranties provided by the Company in respect of its construction contracts. If not used during the warranty period, these amounts will be reversed into income. Warranty periods range from one to seven years.

(b) Asset decommissioning costs relate to future legal and constructive obligations associated with the retirement of pits and quarries engaged in aggregate mining operations in Ontario and Alberta. Decommissioning obligations are expected to be settled between 2023 and 2108 at which point the amount of the liability will reverse. A 1.5% inflation factor has been applied to obtain the future value of the decommissioning costs, which has been discounted at a rate of 5.2% to obtain the present value of the obligation.

(c) Tax assessments include provisions for specific income tax exposures faced by the Company in Canadian and foreign jurisdictions. Although final federal and provincial reassessments have not yet been issued for certain years, the Company believes that it has adequate provisions to cover the ultimate outcome of this and other tax reassessments.

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18. LONG-TERM DEBT AND NON-RECOURSE PROJECT DEBT

LONG-TERM DEBT

	December 31 2022	December 31 2021
Long-term debt:		
Leases	\$ 170,959	\$ 165,262
Equipment and other loans	59,243	59,633
Total long-term debt	\$ 230,202	\$ 224,895
Reported as:		
Current liabilities:		
Current portion of long-term debt	\$ 56,564	\$ 58,568
Non-current liabilities:		
Long-term debt	173,638	166,327
	\$ 230,202	\$ 224,895

The following describes the components of long-term debt:

- (a) As at December 31, 2022, leases of \$170,959 (December 31, 2021 - \$165,252) bore interest at fixed rates averaging 3.52% (December 31, 2021 – 2.95%) per annum, with specific equipment provided as security.
- (b) As at December 31, 2022, equipment and other loans of \$59,243 (December 31, 2021 - \$59,633) bore interest at fixed rates averaging 3.08% (December 31, 2021 – 2.81%) per annum, with specific equipment provided as security.

The weighted average interest rate on total long-term debt outstanding (excluding convertible debentures and non-recourse project debt) as at December 31, 2022 was 3.41% (December 31, 2021 – 2.92%).

Expenses relating to short-term leases and leases of low-value assets recognized in the statement of income for the year ended December 31, 2022 was \$95,105 (2021 - \$80,662).

Variable lease payments of \$1,681 related to property taxes levied on lessors and not included in the measurement of lease liabilities were recognized in the statement of income during the year ended December 31, 2022 (2021 - \$2,212).

Total cash outflow related to leases in 2022 was \$61,703 (2021 – \$57,925).

Refer to Note 13, “*Property, plant and equipment*” for further details of additions to right-of-use assets and depreciation charged on right-of-use assets during the year ended December 31, 2022.

Refer to Note 28, “*Finance cost*” for further details of interest on lease liabilities recognized during the year ended December 31, 2022.

Refer to Note 31, “*Financial instruments*” for contractual maturities of lease liabilities as at December 31, 2022.

Lease extension and termination options are included in a number of property and equipment leases across the Company. As at December 31, 2022, potential future cash outflow of \$25,568 (December 31, 2021 - \$26,102) related to these extension and termination options are not included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

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As at December 31, 2022, potential future cash outflow of \$6,836 (December 31, 2021 - \$8,106) related to variable lease payments for property taxes and/or insurance payments made by lessors have not been reflected in the measurement of lease liabilities. These variable lease payments are recognized in the statement of income in the period in which those payments occur.

NON-RECOURSE PROJECT DEBT

	December 31 2022	December 31 2021
Non-recourse project debt:		
Bermuda International Airport Redevelopment Project financing (a)	\$ 379,001	\$ 357,537
Total non-recourse project debt	\$ 379,001	\$ 357,537
Reported as:		
Current liabilities:		
Current portion of non-recourse project debt	\$ 3,347	\$ 2,957
Non-current liabilities:		
Non-recourse project debt	375,654	\$ 354,580
	\$ 379,001	\$ 357,537

(a) Included in the Company's consolidated balance sheet as at December 31, 2022 is debt, net of transaction costs, of \$379,001 (US\$279,829) (December 31, 2021 – \$357,537 (US\$282,013)) representing the debt of Skyport. This debt is secured by the assets of Skyport and is without recourse to the Company.

The financing is denominated in US dollars and bears interest at 5.90% annually. Debt repayments, made from Restricted Cash, commenced in 2022 and are scheduled to continue until 2042.

The movements in net debt for 2022 and 2021 are presented below:

Net debt reconciliation

	Cash	Bank indebtedness	Long-term debt	Convertible debentures	Non-recourse project debt
Balance as at January 1, 2022	\$ 532,681	\$ (23,305)	\$ (224,895)	\$ (173,898)	\$ (357,537)
Cash flows	(160,622)	(97,674)	62,067	-	3,002
Foreign exchange adjustments	5,153	-	(122)	-	(24,273)
Non-cash lease additions	-	-	(66,553)	-	-
Interest accretion and other non-cash movements	-	-	(699)	(4,980)	(193)
Balance as at December 31, 2022	\$ 377,212	(120,979)	\$ (230,202)	\$ (178,878)	\$ (379,001)
	Cash	Bank indebtedness	Long-term debt	Convertible debentures	Non-recourse project debt
Balance as at January 1, 2021	\$ 658,270	\$ -	\$ (200,102)	\$ (169,057)	\$ (358,871)
Cash flows	(123,321)	(23,305)	34,290	-	-
Foreign exchange adjustments	(2,268)	-	12	-	1,520
Non-cash lease additions	-	-	(59,095)	-	-
Interest accretion and other non-cash movements	-	-	-	(4,841)	(186)
Balance as at December 31, 2021	\$ 532,681	(23,305)	\$ (224,895)	\$ (173,898)	\$ (357,537)

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19. CONVERTIBLE DEBENTURES

Convertible subordinated debentures consist of:

	December 31 2022	December 31 2021
Debt component:		
Debt maturing on December 31, 2023 - 5.0% Debentures	178,878	173,898
Total convertible debentures	\$ 178,878	\$ 173,898
Reported as:		
Current liabilities:		
Convertible debentures	178,878	-
Non-current liabilities:		
Convertible debentures	-	173,898
	\$ 178,878	\$ 173,898
	December 31 2022	December 31 2021
Equity component:		
Debt maturing on December 31, 2023 - 5.0% Debentures	\$ 12,707	\$ 12,707

On September 26, 2018, the Company issued \$160,000 of unsecured subordinated convertible debentures maturing December 31, 2023 and bearing interest at 5.0% per annum payable on a semi-annual basis (the "5.0% Debentures"). On October 1, 2018, an additional \$24,000 of debentures were issued pursuant to the exercise of the over-allotment option granted to the syndicate of underwriters, bringing the total aggregate gross proceeds from the offering to \$184,000.

At the holder's option, the 5.0% Debentures may be converted into common shares of the Company at any time up to the maturity dates at a conversion price of \$22.95 for each common share, subject to adjustment in certain circumstances. The 5.0% Debentures were not redeemable before December 31, 2021. From December 31, 2021 to December 31, 2022, the 5.0% debentures were redeemable at the Company's option, in whole or in part, at par plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares on the Toronto Stock Exchange during a specified period prior to redemption was not less than 125% of the conversion price. From December 31, 2022 through to the maturity date, the Company, at its option, may redeem the 5.0% Debentures, in whole or in part, at par plus accrued and unpaid interest.

As at December 31, 2022, the face value of the 5.0% Debentures which remain outstanding was \$184,000 (2021 – \$184,000).

Subject to specified conditions, the Company has the right to repay the outstanding principal amount of the 5.0% Debentures, on maturity or redemption, through the issuance of common shares of the Company. The Company also has the option to satisfy its obligation to pay interest through the issuance and sale of additional common shares of the Company. The 5.0% Debentures do not contain a cash settlement feature on conversion into common shares of the Company.

The debt component of the 5.0% Debentures was measured at fair value on initial recognition. To determine the initial amount of the respective debt and equity components of the 5.0% Debentures issued during 2018, the carrying amount of the financial liability was first calculated by discounting the stream of future principal and interest payments at the rate of interest prevailing at the date of issue for instruments of similar term and risk. The debt component was then deducted from the total carrying amount of the compound instrument to derive the equity component. The debt component was assigned a value of \$166,711 (less transaction costs of \$8,060) and the equity component was assigned a value of

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\$17,289 (less income taxes of \$4,582). The debt component is subsequently accounted for at amortized cost using the effective interest rate method.

Finance cost associated with the 5.0% Debentures consists of:

	December 31 2022	December 31 2021
Interest expense on face value	\$ 9,200	\$ 9,200
Notional interest representing accretion	4,980	4,841
	\$ 14,180	\$ 14,041

20. CONCESSION RELATED DEFERRED REVENUE

Concession related deferred revenue consists of:

	December 31 2022	December 31 2021
Bermuda International Airport Redevelopment Project	\$ 97,412	\$ 94,951
	\$ 97,412	\$ 94,951

As part of acquiring, in 2017, the rights to operate the Existing Bermuda Airport, concession related deferred revenue includes the estimated value of the “inducement” received by Skyport to develop, finance and operate the New Airport Terminal as well as development funds related to the Bermuda International Airport Redevelopment Project. These concession deferred revenue amounts are amortized to earnings over the term of the New Airport Terminal concession period. The New Airport Terminal commenced operations on December 9, 2020. Amounts recognized as revenue in 2022 were \$3,866 (2021 - \$3,716).

21. BUSINESS COMBINATION

On November 17, 2021, the Company acquired 100% of the outstanding shares of Pacific Electrical Installations Ltd. (“PEI”), a full-service electrical power line contractor headquartered in British Columbia, to complement the Company’s existing electrical utility capabilities.

The acquisition is accounted for using the purchase method and the results of its operations are included from the date of the acquisition.

Details of the purchase consideration, the net assets acquired, and goodwill are as follows:

Purchase consideration

	2021 Pacific Electrical Installations Ltd.
Cash paid on closing	\$ 26,885
Working capital purchase price adjustment	(790)
Contingent consideration payable	4,430
Total purchase consideration	\$ 30,525

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Assets and liabilities recognized as a result of the acquisition

		2021 Pacific Electrical Installations Ltd.
Cash and cash equivalents	\$	2,263
Trade and other receivables		2,672
Unbilled revenue		1,692
Income tax recoverable		486
Prepaid expenses		75
Property, plant and equipment		4,078
Intangible assets		2,208
Trade and other payables		(2,252)
Current portion of long-term debt		(79)
Long-term debt		(1,227)
Deferred income tax liabilities		(416)
Net identifiable assets acquired	\$	9,500
Add: Goodwill		21,025
Net assets acquired	\$	30,525

Goodwill is attributed to PEI's workforce, the future profitability of the acquired business, as well as from expected synergies arising from the complementary nature of PEI's service offerings. This goodwill will not be deductible for tax purposes.

The fair value of trade and other receivables of \$2,672 for PEI do not include any amounts for expected credit losses.

Cash Outflow Presented in Statement of Cash Flows

		2021 Pacific Electrical Installations Ltd.
Outflows of cash used to acquire PEI, net of cash acquired:		
Cash consideration paid in the year	\$	26,885
Less: cash acquired		(2,263)
Net outflow of cash in investing activities	\$	24,622

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22. INCOME TAXES

The provision for income taxes differs from the result that would be obtained by applying combined Canadian federal and provincial (Ontario, Alberta, Quebec and British Columbia) statutory income tax rates to profit or loss before income taxes. This difference results from the following:

	December 31 2022	December 31 2021
Profit before income taxes	\$ 42,988	\$ 73,788
Statutory income tax rate	26.40%	26.20%
Expected income tax expense	<u>(11,349)</u>	<u>(19,332)</u>
Effect on income taxes of:		
Projects accounted for using the equity method	1,496	1,058
Provincial and foreign rate differences	(2,505)	(4,127)
Other non-deductible expenses	(895)	(895)
Adjustments in respect of prior years	646	(745)
Other tax credits	-	(65)
	<u>(1,258)</u>	<u>(4,774)</u>
Income tax expense	<u>\$ (12,607)</u>	<u>\$ (24,106)</u>

Deferred taxes have been remeasured to reflect statutory enacted future tax rates.

Income taxes were comprised of the following:

	December 31 2022	December 31 2021
Current income tax	\$ (31,550)	\$ (38,112)
Deferred income tax	18,943	14,006
Income tax expense	<u>\$ (12,607)</u>	<u>\$ (24,106)</u>

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The movement in the components of deferred income taxes is as follows:

	2022					2021				
	January 1	(Charged) credited to the income statement	(Charged) credited to other comprehensive income	(Charged) credited to equity in respect of business combinations	December 31	January 1	(Charged) credited to the income statement	(Charged) credited to other comprehensive income	(Charged) credited to equity in respect of business combinations	December 31
Canadian components:										
Net operating and capital losses carried forward	\$ 71,774	\$ 57,391	\$ -	\$ -	\$ 129,165	\$ 74,288	\$ (2,910)	\$ -	\$ 396	\$ 71,774
Reserves expensed for financial statement purposes and deducted for income tax purposes when paid	4,770	(1,933)	-	-	2,837	4,670	(47)	-	147	4,770
Other temporary differences	9	(7)	-	-	2	(141)	150	-	-	9
Other long-term differences	2,812	2,767	-	-	5,579	93	2,719	-	-	2,812
Actuarial and hedging gains and losses	3,161	-	(5,484)	-	(2,323)	7,057	-	(3,896)	-	3,161
Property, plant and equipment: net book value in excess of tax basis	(16,732)	(632)	-	(891)	(18,255)	(20,492)	4,719	-	(959)	(16,732)
Long-term contracts, including joint ventures ⁽¹⁾	(126,549)	(39,556)	-	-	(166,105)	(135,048)	8,499	-	-	(126,549)
Discounting convertible debentures	(1,867)	913	-	-	(954)	(2,743)	876	-	-	(1,867)
Deferred income tax asset (liability), net	\$ (62,622)	\$ 18,943	\$ (5,484)	\$ (891)	\$ (50,054)	\$ (72,316)	\$ 14,006	\$ (3,896)	\$ (416)	\$ (62,622)
Reported on the consolidated balance sheets as follows:										
Deferred income tax asset					\$ 74,626					\$ 41,899
Deferred income tax liability					(124,680)					(104,521)
Deferred income tax liability, net					\$ (50,054)					\$ (62,622)

⁽¹⁾ Results from the difference between the use of the percentage of completion method of reporting for consolidated financial statement purposes and use of the uncompleted contracts and billings less costs, excluding contractual holdbacks, for tax purposes.

Deferred tax assets are offset against deferred tax liabilities within each legal entity.

As at December 31, 2022, the Company had \$493,167 (2021 - \$272,738) of non-capital tax losses carried forward which will expire in varying amounts within 20 years. As at December 31, 2022, a deferred income tax asset of \$129,165 (2021 - \$71,774) has been recognized on \$493,167 (2021 - \$272,738) of these losses. The deferred income tax assets are recognized only to the extent that it is probable that taxable income will be available against which the unused tax losses can be utilized.

The operations of the Company are complex and related tax interpretations, regulations and legislation are subject to change. The Company believes the amounts reported as deferred income tax liabilities adequately reflect management's current best estimate of its income tax exposures (see Note 17 "Provisions").

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23. EMPLOYEE BENEFIT PLANS

The Company has defined benefit pension plans including supplementary executive retirement plans and defined contribution plans covering substantially all employees, other than union employees who are covered by multi-employer pension plans administered by the unions. Benefits under the defined benefit plans are generally based on the employee's years of service and level of compensation near retirement. Benefits are not indexed for inflation, except for a supplementary executive retirement plan, which is fully indexed for changes in the consumer price index. The Company does not provide post-employment benefits other than pensions.

The measurement date used for financial reporting purposes of the pension plan assets and benefit obligation is December 31. The most recent actuarial valuation filed for funding purposes for the principal defined benefit pension plan was completed as at December 31, 2021 and the next required actuarial valuation will be prepared with an effective date no later than December 31, 2024.

The defined benefit pension asset (obligation) is presented as part of Long-term financial assets (Other liabilities) on the consolidated balance sheets as applicable.

The financial position and other selected information related to the employee defined benefit pension plans is presented in the tables below:

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	December 31 2022	December 31 2021
Change in fair value of plan assets:		
Fair value of plan assets - beginning of year	\$ 42,770	\$ 45,424
Return on plan assets less than discount rate	(8,243)	(401)
Net interest income	1,120	969
Plan administration costs	(210)	(173)
Company contributions	704	771
Transfers between employee benefit plans	(795)	(1,132)
Plan participant contributions	38	41
Benefits paid	(2,768)	(2,729)
Fair value of plan assets - end of year	\$ 32,616	\$ 42,770
Change in benefit obligation:		
Benefit obligation - beginning of year	\$ 41,632	\$ 45,334
Current service cost	254	285
Actuarial loss (gain) due to actuarial experience	115	(243)
Actuarial gain due to financial assumption changes	(6,884)	(2,023)
Net interest cost	1,086	967
Benefits paid	(2,768)	(2,729)
Plan participant contributions	38	41
Benefit obligation - end of year	\$ 33,473	\$ 41,632
Funded status:		
Fair value of plan assets	\$ 32,616	\$ 42,770
Defined benefit obligation	(33,473)	(41,632)
Pension assets (liabilities) at December 31	\$ (857)	\$ 1,138
	2022	2021
Weighted average assumptions used to calculate benefit obligation:		
Discount rate	5.00%	2.75%
Rate of increase in future compensation - first year	4.00%	3.00%
Rate of increase in future compensation - thereafter	3.00%	3.00%
Asset categories of pension assets:		
Debt securities	62.45%	64.11%
Equity securities	27.25%	27.25%
Cash and short-term notes	10.30%	8.64%

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	December 31 2022	December 31 2021
Defined benefit pension expense:		
Current service cost, net of employee contributions	\$ 254	\$ 285
Net interest income	(34)	(2)
Plan administration costs	210	173
Defined benefit pension expense recognized in profit or loss	430	456
Actuarial loss (gain) recognized in other comprehensive income	1,474	(1,867)
Defined benefit pension expense (income)	\$ 1,904	\$ (1,411)
Other pension expense:		
Defined contribution pension expense	\$ 9,797	\$ 9,019
Multi-employer pension plan expense	100,865	90,124
Other pension expense	\$ 110,662	\$ 99,143
Weighted average assumptions used to calculate defined benefit pension expense:		
Discount rate	2.75%	2.25%
Rate of increase in future compensation	3.00%	3.00%

During 2023, the Company expects to make contributions of \$715 to the defined benefit plans.

	December 31 2022	December 31 2021
Total cash contribution for employee pension plans:		
Defined benefit plans	\$ 704	\$ 771
Defined contribution plans	9,797	9,019
Multi-employer pension plans	100,865	90,124
	\$ 111,366	\$ 99,914

The defined benefit obligations and benefit cost levels will change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future experience gains or losses, none of which have been anticipated at this time. Emerging experience, differing from the assumptions, will result in gains or losses that will be revealed in future accounting valuations. As a result of the uncertainty associated with these estimates, there is no assurance that the plans will be able to earn the assumed rate of return on plan assets. Furthermore, market driven changes may result in changes to discount rates and other variables, which would result in the Company being required to make contributions to the plans in the future that may differ significantly from estimates. As a result, there is a significant amount of measurement uncertainty involved in the actuarial valuation process. This measurement uncertainty may lead to potential fluctuations in financial results attributable to the selection of actuarial assumptions and other accounting estimates involved in the determination of pension expense and obligations. A significant actuarial and accounting assumption impacting the reporting of pension plans is the discount rate assumption. As at December 31, 2022 the Company used a discount rate of 5.00% in its pension plan calculations for consolidated financial statement purposes. The impact of a 0.5% decrease in the discount rate assumption would have resulted in an increase in the pension benefit obligation of approximately \$1,354 as at December 31, 2022 and an increase in the estimated 2023 pension expense of approximately \$71.

The weighted average duration of the defined benefit obligation is 7.8 years.

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24. CONTINGENCIES

Coastal GasLink Pipeline, Sections 3 and 4

The project has been delayed and impacted by various events for which SA Energy Group ("SAEG"), a partnership in which the Company holds a 50% interest, asserts Coastal GasLink ("CGL") is contractually responsible, including, but not limited to, significant scope changes and delays by the client, unforeseen site conditions, compensable adverse weather impacts and a suspension implemented by the client as a result of regulatory restrictions imposed due to the COVID-19 pandemic. SAEG asserts that it is entitled to additional compensation for costs associated with those delays and impacts and commenced an arbitration in the second quarter of 2021 pursuant to the terms of the contract to resolve the matter. In the third quarter of 2022, CGL issued a counterclaim, alleging breach of contract and damages arising therefrom; CGL has not articulated the amount of damages it may seek. While this commercial dispute could result in a material impact to Aecon's earnings, cash flow, and financial position if not resolved favourably through ongoing negotiations or arbitration, the ultimate results cannot be predicted at this time.

Kemano Generating Station Second Tunnel Project

During the second quarter of 2020, Rio Tinto issued a notice of termination of contract to the joint venture in which Aecon holds a 40% interest with respect to the Kemano Generating Station Second Tunnel Project. Rio Tinto also issued notice to the joint ventures' sureties asserting a claim on the 50% performance bonds; the sureties entered into a cooperation agreement with Rio Tinto but have not taken a position on the validity of this claim on the bonds. In the third quarter of 2020, the joint venture issued a notice of civil claim seeking approximately \$105,000 in damages from Rio Tinto. The joint venture also registered and perfected a builders' lien against project lands, providing security over approximately \$97,000 of the claimed damages. In the first quarter of 2021, Rio Tinto issued a counterclaim against the joint venture but did not articulate the amount of damages it may seek from the joint venture; such amount is expected to be material. While it is possible that this commercial dispute could result in a material impact to Aecon's earnings and cash flow if not resolved, the ultimate results cannot be predicted at this time. The aforementioned notice of civil claim was commenced in the Supreme Court of British Columbia between Frontier Kemper Constructors and Frontier Kemper – Aecon Joint Venture as plaintiffs/defendants by counterclaim and Rio Tinto Alcan Inc. and Aluminum Company of Canada Limited/Aluminum Du Canada Limitee as the defendants/plaintiffs by counterclaim.

K+S Potash Canada

During the second quarter of 2018, the Company filed a statement of claim in the Court of King's Bench for Saskatchewan (the "Court") against K+S Potash Canada ("KSPC") and KSPC filed a statement of claim in the Court against the Company. Both actions relate to the Legacy mine project in Bethune, Saskatchewan. The Company is seeking \$180,000 in payments due to it pursuant to agreements entered into between the Company and KSPC with respect to the project plus approximately \$14,000 in damages. The Company has recorded \$139,704 of unbilled revenue and accounts receivable as at December 31, 2022. Offsetting this amount to some extent, the Company has accrued \$45,000 in trade and other payables for potential payments to third parties pending the outcome of the claim against KSPC. KSPC is seeking an order that the Company repay to KSPC approximately \$195,000 already paid to the Company pursuant to such agreements. The Company has also been brought into two other lawsuits in the same Court between KSPC and various other contractors involved with the Legacy mine project, both relating to matters which the Company believes are materially covered by insurance coverage, to the extent of any liability. In the fourth quarter of 2022, the Court issued a decision allowing an application by Aecon to add KSPC's parent company K+S Aktiengesellschaft ("KSAG") as a defendant to the lawsuit arising from KSAG's conduct in inducing KSPC to breach its contract with Aecon. These claims may not be resolved for several years. While the Company considers KSPC's claim to be without merit and does not expect that the resolution of these claims will cause a material impact to its financial position, the ultimate results cannot be predicted at this time.

The Company is involved in various other disputes and litigation both as plaintiff and defendant. In the opinion of management, the resolution of other disputes against the Company, including those provided for (see Note 15, "Provisions"), will not result in a material effect on the consolidated financial position of the Company.

See also Note 4, "Critical Accounting Estimates" for judgments and estimates impacting litigation risk and claims risk.

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As part of regular operations, the Company has the following guarantees and letters of credit outstanding:

	Project	December 31 2022
Letters of credit:		
Financial and performance - issued by Export Development Canada	Various joint arrangement projects	\$ 563,444
Financial and performance - issued in the normal conduct of business	Various	\$ 11,385

Under the terms of many of the Company's associate and joint arrangement contracts with project owners, each of the partners is jointly and severally liable for performance under the contracts. As at December 31, 2022, the value of uncompleted work for which the Company's associate and joint arrangement partners are responsible, and which the Company could be responsible for assuming, amounted to approximately \$11,199,508 a portion of which is supported by performance bonds. In the event the Company assumed this additional work, it would have the right to receive the partner's share of billings to the project owners pursuant to the respective associate or joint arrangement contract.

25. CAPITAL STOCK

	For the year ended December 31, 2022		For the year ended December 31, 2021	
	Number	Amount	Number	Amount
Number of common shares outstanding - beginning of year	60,822,889	\$ 405,807	60,219,825	\$ 395,733
Shares issued to settle LTIP/ESU/Director DSU obligations	713,036	13,550	603,064	10,074
Number of common shares outstanding - end of year	61,535,925	\$ 419,357	60,822,889	\$ 405,807

The Company is authorized to issue an unlimited number of common shares.

STOCK-BASED COMPENSATION

Long-Term Incentive Plan

In 2005 and 2014, the Company adopted Long-Term Incentive Plans (collectively "LTIP" or individually "2005 LTIP" or "2014 LTIP") to provide a financial incentive for its senior executives to devote their efforts to the long-term success of the Company's business. Awards to participants are based on the financial results of the Company and are made in the form of Deferred Share Units ("DSUs") or in the form of Restricted Share Units ("RSUs"). Awards made in the form of DSUs will vest only on the retirement or termination of the participant. Awards made in the form of RSUs will vest annually over three years. Compensation charges related to the LTIP are expensed over the estimated vesting period of the awards in marketing, general and administrative expense. Awards made to individuals who are eligible to retire under the plan are assumed, for accounting purposes, to vest immediately.

For the year ended December 31, 2022, the Company recorded LTIP compensation charges of \$17,160 (2021 - \$16,549) respectively.

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Other Stock-based Compensation – Director DSU Awards

In February 2021, the Board of Directors modified its director compensation program by replacing the 2014 Director DSU Plan (as defined below) with a director deferred share unit plan that provides for the settlement of DSUs in cash only (the “2021 Director DSU Plan”) for future grants. A DSU is a right to receive an amount from the Company equal to the value of one common share. In addition to the discretionary award of DSUs, directors have an option to elect to receive 50% or 100% of their Board annual retainer fee that is otherwise payable in cash in the form of DSUs. The number of DSUs awarded to a director is equal to the value of the compensation that a director elects to receive in DSUs or the value awarded by the Company on an annual basis divided by the volume weighted average trading price of a common share on the TSX for the five trading days prior to the date of the award. DSUs are redeemable on the first business day following the date the director ceases to serve on the Board.

The Board of Directors will no longer issue new DSUs under the director deferred share unit plan dated May 2014 (the “2014 Director DSU Plan”). The last award of DSUs under the 2014 Director DSU Plan was made on March 12, 2020. DSUs granted under the 2014 Director DSU Plan will continue to be governed by the terms of the 2014 Director DSU Plan.

Director DSU awards are expensed in full on the date of grant and recognized in marketing, general and administrative expense in the consolidated statements of income. DSU awards under the 2014 Director DSU Plan are accounted for as equity-settled stock-based transactions. DSU awards under the 2021 Director DSU Plan are accounted for as cash-settled stock-based transactions with the related liability revalued to fair value at the end of each reporting period. Director DSUs have accompanying dividend equivalent rights, which are also expensed as earned in marketing, general and administrative expense.

For the year ended December 31, 2022, the Company recorded Director DSU compensation expense, net of fair value adjustments, of \$752 (2021 - \$1,665).

Other Stock-based Compensation – Employee Share Unit (ESU) Awards

In April 2019, the Company adopted an Employee Share Unit (“ESU”) plan, an employee benefit program that enables all permanent, non-unionized, Canadian resident employees to become shareholders of the Company. The program includes ESUs gifted to eligible employees, and additional ESUs that may be purchased by eligible employees during a predetermined window each year at a discounted price.

ESU awards and purchases vest annually over three years. ESUs are equity settled awards with compensation charges related to ESU awards and purchases expensed over the estimated vesting period in marketing, general and administrative expense.

For the year ended December 31, 2022, the Company recorded an ESU compensation charge of \$1,816 (2021 - \$977)

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Details of the changes in the balance of LTIP awards, Director DSUs, and ESUs outstanding are detailed below:

	For the year ended December 31, 2022		
	LTIP	Director DSUs	ESUs
	Share Units		
Balance outstanding - beginning of year	2,771,651	351,776	318,958
Granted	1,090,819	101,785	165,003
Dividend equivalent rights	190,235	23,099	37,283
Settled	(856,213)	-	(166,840)
Forfeited	(210,006)	-	(41,001)
Balance outstanding - end of year	2,986,486	476,660	313,403

	Weighted Average Grant Date Fair Value Per Unit		
Balance outstanding - beginning of year	\$ 15.59	\$ 16.25	\$ 18.10
Granted including Director DSU fair value adjustments	15.90	3.64	15.94
Dividend equivalent rights	15.68	16.48	17.79
Settled	16.45	-	17.63
Forfeited	16.51	-	17.55
Balance outstanding - end of year	\$ 15.40	\$ 13.57	\$ 17.25

Amounts included in Contributed Surplus in the Consolidated Balance Sheets as at December 31, 2022 in respect of LTIP, Director DSUs, and ESUs were \$41,466 (December 31, 2021 - \$38,720), \$4,894 (December 31, 2021 - \$4,641), and \$4,685 (December 31, 2021 - \$4,705), respectively. Amounts included in Trade and Other Payables in the Consolidated Balance Sheets as at December 31, 2022 in respect of Director DSUs was \$1,576 (December 31, 2021 - \$1,077).

26. EXPENSES

	For the year ended	
	December 31 2022	December 31 2021
Personnel	\$ 1,424,704	\$ 1,182,849
Subcontractors	1,863,942	1,668,125
Materials	983,127	706,623
Equipment costs	228,364	215,727
Depreciation of property, plant and equipment and amortization of intangible assets	94,153	88,368
Other expenses	36,795	19,462
Total expenses	\$ 4,631,085	\$ 3,881,154

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Reported as:

	For the year ended	
	December 31 2022	December 31 2021
Direct costs and expenses	\$ 4,340,493	\$ 3,610,505
Marketing, general and administrative expense	196,439	182,281
Depreciation and amortization	94,153	88,368
Total expenses	\$ 4,631,085	\$ 3,881,154

Canada Emergency Wage Subsidy

The Canada Emergency Wage Subsidy (“CEWS”) was enacted in 2020. The CEWS was designed to provide financial assistance to business entities experiencing a specified level of reduced revenue during the COVID-19 pandemic in order to support these employers in retaining or hiring employees. The subsidy reimburses a certain percentage (depending on the relevant filing period) of an employee’s wages to an eligible employer during the program period that began on March 15, 2020 and ended on October 23, 2021. The Company’s entitlement, in accordance with the program’s regulations, in 2022 and 2021 was \$nil and \$36,200, respectively. The net benefit to the Company from the CEWS program in 2021 was \$31,900 after providing for increased client and employee related expenses directly attributable to the amount to be received from the CEWS. This net benefit amount was recorded as a cost recovery within gross profit in 2021 of \$38,700 and as an increase in marketing, general and administrative expense of \$6,800. There were no unfulfilled conditions attached to the subsidies recognized in income.

27. OTHER INCOME

	For the year ended	
	December 31 2022	December 31 2021
Foreign exchange gain (loss)	\$ 1,518	\$ (777)
Gain on sale of property, plant and equipment	8,138	5,649
Other gains	4,430	2,667
Total other income	\$ 14,086	\$ 7,539

28. FINANCE COST

	For the year ended	
	December 31 2022	December 31 2021
Interest and notional interest on long-term debt, non-recourse project debt, and debentures	\$ 38,256	\$ 36,770
Interest on leases	4,939	4,442
Interest on short-term debt	13,614	4,417
Notional interest on provisions	256	1
Total finance cost	\$ 57,065	\$ 45,630

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29. EARNINGS PER SHARE

Details of the calculation of earnings per share are set out below:

	For the year ended	
	December 31 2022	December 31 2021
Profit attributable to shareholders	\$ 30,381	\$ 49,682
Interest on convertible debentures, net of tax ⁽¹⁾	10,422	10,320
Diluted net earnings	\$ 40,803	\$ 60,002
Average number of common shares outstanding	60,977,009	60,345,615
Effect of dilutive securities: ⁽¹⁾		
Convertible debentures ⁽¹⁾	15,003,448	10,440,602
Long-term incentive plan	3,290,149	3,059,619
Weighted average number of diluted common shares outstanding	79,270,606	73,845,836
Basic earnings per share	\$ 0.50	\$ 0.82
Diluted earnings per share ⁽¹⁾	\$ 0.47	\$ 0.78

⁽¹⁾ When the impact of dilutive securities increases the earnings per share or decreases the loss per share, they are excluded for purposes of the calculation of diluted earnings (loss) per share.

30. SUPPLEMENTARY CASH FLOW INFORMATION

Change in other balances relating to operations

	For the year ended	
	December 31 2022	December 31 2021
Decrease (increase) in:		
Trade and other receivables	\$ (190,761)	\$ (15,046)
Unbilled revenue	(79,440)	(41,981)
Inventories	(11,207)	(3,855)
Prepaid expenses	(7,606)	984
Increase (decrease) in:		
Trade and other payables	140,882	(8,039)
Provisions	(9,093)	(6,273)
Deferred revenue	(45,804)	(56,436)
	\$ (203,029)	\$ (130,646)

Cash flows from interest

	For the year ended	
	December 31 2022	December 31 2021
Operating activities		
Cash interest paid	\$ (50,397)	\$ (40,389)
Cash interest received	2,899	610

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31. FINANCIAL INSTRUMENTS

Fair value

From time to time, the Company enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar but does not hold or issue such financial instruments for speculative trading purposes. As at December 31, 2022, the Company had contracts to buy US\$10,200 (December 31, 2021 - US\$4,000) on which there was a cumulative net unrealized exchange gain of \$713 recorded in the consolidated statements of income as at that date (December 31, 2021 - gain \$12). In addition, as at December 31, 2022, outstanding contracts to buy US\$96,420 (December 31, 2021 – buy US\$142,364) were designated as cash flow hedges on which there was a cumulative unrealized gain recorded in other comprehensive income of \$6,710 (December 31, 2021 – loss \$1,224). The net unrealized exchange gain or loss represents the estimated amount the Company would have received/paid if it terminated the contracts at the end of the respective periods.

In addition, some of the Company's investments in projects accounted for using the equity method enter into derivative financial instruments, namely interest rate swaps, to hedge the variability of interest rates related to non-recourse project debt. As at December 31, 2022, for these derivative financial instruments designated as cash flow hedges, there was a cumulative unrealized gain recorded in other comprehensive income of \$19,210 (December 31, 2021 - loss \$8,412).

IFRS 13, "Fair Value Measurement", enhances disclosures about fair value measurements. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs. The first two levels are considered observable and the last unobservable. These levels are used to measure fair values as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 – Inputs, other than Level 1 inputs, that are observable for assets and liabilities, either directly or indirectly. Level 2 inputs include: quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table summarizes the fair value hierarchy under which the Company's fair value disclosures of financial instruments are calculated.

	As at December 31, 2022			
	Total	Level 1	Level 2	Level 3
Financial assets (liabilities) measured at fair value:				
Cash flow hedges	\$ 25,920	\$ -	\$ 25,920	\$ -
Financial assets (liabilities) disclosed at fair value:				
Long-term financial assets	2,473	-	2,473	-
Long-term debt	(227,762)	-	(227,762)	-
Non-recourse project debt	(379,001)	-	(379,001)	-
Convertible debentures	(183,062)	(183,062)	-	-

During the year ended December 31, 2022, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

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Risk management

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk. These risks arise from exposures that occur in the normal course of business and are managed on a consolidated Company basis.

Credit risk

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, short-term deposits and marketable securities, accounts receivable, holdbacks receivable, unbilled revenues, and foreign exchange contracts.

Credit risk associated with cash and short-term deposits is minimized by ensuring these financial assets are placed with financial institutions with investment grade credit ratings and by placing a limit on the amount that can be invested with any single financial institution.

The credit risk associated with foreign exchange contracts arises from the possibility the counterparty to one of these contracts fails to perform according to the terms of the contract. Credit risk associated with foreign exchange contracts is minimized by entering into such transactions with major Canadian financial institutions.

Concentration of credit risk associated with accounts receivable, holdbacks receivable and unbilled revenue is limited by the Company's diversified customer base and its dispersion across different business and geographic areas. The credit quality of the Company's significant customers is monitored on an ongoing basis and allowances are provided for potential losses that have been incurred at the consolidated balance sheet date. Receivables that are neither past due nor impaired are considered by management to have no significant collection risk. The liquidity of customers and their ability to pay receivables are considered in the impairment of such assets. Most trade receivables that are past due are from public-sector clients and infrastructure/industrial companies with strong credit ratings and are subject to lower credit risk. No collateral is held in respect of impaired assets or assets that are past due but not impaired. The Company recognizes loss allowances using 12-month expected credit losses, or lifetime expected credit losses if there has been a significant increase in the credit risk on the instrument.

As at December 31, 2022, the Company had \$79,923 in trade receivables that were past due. Of this amount, \$43,531 was over 60 days past due, against which the Company has recorded an allowance for expected credit losses of \$1,362.

Liquidity risk

Liquidity risk is the risk the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled in cash or another financial asset.

The Company's approach is to ensure it will have sufficient liquidity to meet operational, tax, capital and regulatory requirements and obligations, under both normal and stressed circumstances. Cash flow projections are prepared and reviewed quarterly by the Board of Directors to ensure a sufficient continuity of funding. Long-term debt maturities are spread over a range of dates, thereby ensuring the Company is not exposed to excessive refinancing risk in any one year. The Company's cash and cash equivalents, short-term deposits and restricted cash are invested in highly liquid interest-bearing investments.

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Contractual maturities for financial liabilities as at December 31, 2022 are as follows:

	Due within one year	Due between one and five years	Due after five years	Total undiscounted cash flows	Effect of interest	Carrying value
Bank indebtedness	\$ -	\$ 120,979	\$ -	\$ 120,979	\$ -	\$ 120,979
Trade and other payables	\$ 1,061,517	\$ 2,531	\$ -	\$ 1,064,048	\$ -	\$ 1,064,048
Leases	\$ 51,381	\$ 115,659	\$ 19,900	\$ 186,940	\$ (15,981)	\$ 170,959
Equipment and other loans	12,182	41,247	12,725	66,154	(6,911)	59,243
	63,563	156,906	32,625	253,094	(22,892)	230,202
Non-recourse project debt	25,875	118,689	539,127	683,691	(304,690)	379,001
Convertible debentures	193,200	-	-	193,200	(14,322)	178,878
Long-term financial liabilities	\$ 282,638	\$ 275,595	\$ 571,752	\$ 1,129,985	\$ (341,904)	\$ 788,081

Interest rate risk

The Company is exposed to interest rate risk on its short-term deposits and its long-term debt to the extent that its investments or credit facilities are based on floating rates of interest.

For the year ended December 31, 2022, a 1% increase or a 1% decrease in interest rates applied to the Company's variable rate long-term debt would not have a significant impact on net earnings or comprehensive income.

As at December 31, 2022, the interest rate profile of the Company's long-term debt was as follows:

Fixed rate instruments	\$ 230,202
Total long-term debt	\$ 230,202
Fixed rate non-recourse project debt	\$ 379,001
Fixed rate convertible debentures	\$ 178,878

The Company is not exposed to changes in interest rates on fixed rate long-term debt instruments and convertible debentures. As such, changes in interest rates in the current year related to these financial liabilities would not have had an impact on net earnings or comprehensive income in the current period.

Cash and cash equivalents, restricted cash and short-term deposits have limited interest rate risk due to their short-term nature.

Currency risk

The Company operates internationally and is exposed to risk from changes in foreign currency rates. The Company is mainly exposed to fluctuations in the US dollar.

As at December 31, 2022, a 10% change in the US dollar against the Canadian dollar would have impacted the Company's profit or loss in the current period by \$11,173 because of currency exposures. The sensitivity analysis includes foreign currency denominated monetary items but excludes all investments in joint ventures and hedges and adjusts their translation at year-end for the above 10% change in foreign currency rates.

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Additional information on financial instruments:

	As at December 31, 2022				
	Amortized cost	Fair value through profit or loss	Fair value through OCI	Total carrying amount	Total fair value
Cash and cash equivalents	\$ 377,212	\$ -	\$ -	\$ 377,212	\$ 377,212
Restricted cash	107,033	-	-	107,033	107,033
Marketable securities	800	-	-	800	800
Trade and other receivables	1,023,578	-	-	1,023,578	1,023,578
Unbilled revenue	685,258	-	-	685,258	685,258
Long-term financial assets	2,473	-	1,339	3,812	3,812
	\$ 2,196,354	\$ -	\$ 1,339	\$ 2,197,693	\$ 2,197,693
Bank indebtedness	\$ 120,979	\$ -	\$ -	\$ 120,979	\$ 120,979
Trade and other payables	1,064,048	-	-	1,064,048	1,064,048
Convertible debentures	178,878	-	-	178,878	183,062
Non-recourse project debt	379,001	-	-	379,001	379,001
Long-term debt	230,202	-	-	230,202	227,762
	\$ 1,973,108	\$ -	\$ -	\$ 1,973,108	\$ 1,974,852

	As at December 31, 2021				
	Amortized cost	Fair value through profit or loss	Fair value through OCI	Total carrying amount	Total fair value
Cash and cash equivalents	\$ 532,681	\$ -	\$ -	\$ 532,681	\$ 532,681
Restricted cash	98,010	-	-	98,010	98,010
Trade and other receivables	824,803	-	-	824,803	824,803
Unbilled revenue	585,974	-	-	585,974	585,974
Long-term financial assets	3,330	-	123	3,453	3,453
	\$ 2,044,798	\$ -	\$ 123	\$ 2,044,921	\$ 2,044,921
Bank indebtedness	\$ 23,305	\$ -	\$ -	\$ 23,305	\$ 23,305
Trade and other payables	920,653	-	-	920,653	920,653
Convertible debentures	173,898	-	-	173,898	187,606
Non-recourse project debt	357,537	-	-	357,537	357,537
Long-term debt	224,895	-	-	224,895	232,955
	\$ 1,700,288	\$ -	\$ -	\$ 1,700,288	\$ 1,722,056

Cash and cash equivalents, restricted cash, marketable securities, trade receivables, trade payables and accrued liabilities approximate their fair values on a discounted cash flow basis because of the short-term nature of these instruments. In general, investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments with maturities beyond one year may be classified as current based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations.

Other financial instruments held or issued by the Company include holdbacks receivable, non-interest bearing project advances payable or holdbacks payable, which are amounts directly related to construction contracts. These amounts, by

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their nature, do not bear interest and consideration for the time value of money is thus negotiated into the price of the contracts. The Company does not have plans to sell these financial instruments to third parties and will realize or settle them in the normal course of business. No quoted market price exists for these instruments because they are not traded in an active and liquid market. Accordingly, the fair values of holdbacks receivable, non-interest bearing project advances payable or holdbacks payable, which are due within one year, are considered to approximate their carrying values. For those financial instruments that are due beyond one year, the Company has valued them to reflect the time value of money and the credit risk or the borrowing risk associated with these financial instruments.

The fair value of long-term debt is derived by discounting the remaining principal and interest payments at interest rates reflective of the Company's current cost of borrowing for similar debt. These interest rates were calculated by using the Canadian interest rate swap yield at year-end and adjusting for the credit spread that reflects the Company's cost of secured credit. The fair value of the convertible debentures was obtained from quoted prices observable on the Toronto Stock Exchange.

Convertible debentures are discussed further in Note 19.

32. CAPITAL DISCLOSURES

For capital management purposes, the Company defines capital as the aggregate of its shareholders' equity and debt. Debt includes the current and non-current portions of long-term debt (excluding non-recourse debt) and the current and non-current long-term debt components of convertible debentures.

The Company's principal objectives in managing capital are:

- to ensure sufficient liquidity to adequately fund the ongoing operations of the business;
- to provide flexibility to take advantage of contract and growth opportunities that are expected to provide returns to shareholders;
- to maintain a strong capital base;
- to provide a rate of return in excess of its cost of capital to its shareholders; and
- to comply with financial covenants required under its various borrowing facilities.

The Company manages its capital structure and adjusts it in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new debt or repay existing debt, issue new shares, issue convertible debt, or adjust the quantum of dividends paid to shareholders. Financing decisions are generally made on a specific transaction basis and depend on such things as the Company's needs, capital markets and economic conditions at the time of the transaction.

Although the Company monitors capital on a number of bases, including liquidity and working capital, total debt (excluding non-recourse debt and drawings on the Company's credit facility presented as bank indebtedness) as a percentage of total capitalization (debt to capitalization percentage) is considered by the Company to be the most important metric in measuring the strength and flexibility of its consolidated balance sheets. As at December 31, 2022, the debt to capitalization percentage including convertible debentures as debt was 30% (December 31, 2021 - 30%). If the convertible debentures were to be excluded from debt and added to equity on the basis that they could be redeemed for equity, either at the Company's option or at the holder's option, then the adjusted debt to capitalization percentage would be 17% as at December 31, 2022 (December 31, 2021 - 17%). While the Company believes these debt to capitalization percentages are acceptable, because of the cyclical nature of its business, and due to the uncertainties described in Section 4, "Critical Accounting Estimates" and Section 24, "Contingencies", the Company will continue its current efforts to maintain a conservative capital position.

As at December 31, 2022, the Company complied with all of its financial debt covenants.

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33. OPERATING SEGMENTS

Segment reporting is based on the Company's divisional operations. The breakdown by division mirrors the Company's internal reporting systems.

The Company currently operates in two segments within the infrastructure development industry: Construction and Concessions. The other costs and eliminations category in the summary below includes corporate costs and other activities not directly allocable to segments and also includes inter-segment eliminations.

The Construction segment includes all aspects of the construction of both public and private infrastructure, primarily in Canada, and on a selected basis, internationally and focuses primarily on the following market sectors:

- Civil Infrastructure;
- Urban Transportation Solutions;
- Nuclear Power Infrastructure;
- Utility Infrastructure; and
- Industrial Infrastructure.

Activities within the Concessions segment include the development, financing, build and operation of construction projects primarily by way of public-private partnership contract structures, as well as integrating the services of all project participants, and harnessing the strengths and capabilities of Aecon. The Concessions segment focuses primarily on providing the following services:

- Development of domestic and international Public-Private Partnership ("P3") projects;
- Private finance solutions;
- Developing strategic partnerships;
- Leading and/or actively participating in development teams; and
- Operations and maintenance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

For the year ended December 31, 2022				
	Construction	Concessions	Other and eliminations	Total
Consolidated statements of income				
External customer revenue	\$ 4,620,540	\$ 75,910	\$ -	\$ 4,696,450
Inter-segment revenue	274	-	(274)	-
Total revenue	4,620,814	75,910	(274)	4,696,450
Expenses	\$ (4,516,851)	\$ (68,026)	\$ (46,208)	\$ (4,631,085)
Which include:				
Depreciation and amortization	(70,892)	(21,744)	(1,517)	(94,153)
Other income:				
Foreign exchange gain	\$ 894	\$ 2	\$ 622	\$ 1,518
Gain on sale of property, plant and equipment	8,138	-	-	8,138
Other gains	4,430	-	-	4,430
Income from projects accounted for using the equity method	\$ 3,455	\$ 14,248	\$ -	\$ 17,703
Operating profit (loss)	\$ 120,880	\$ 22,134	\$ (45,860)	\$ 97,154
Finance income (cost):				
Finance income				\$ 2,899
Finance cost				(57,065)
Profit before income taxes				\$ 42,988
Income tax expense				(12,607)
Profit for the year				\$ 30,381
Revenue by contract type				
Fixed price	\$ 2,379,778	\$ -	\$ (67)	\$ 2,379,711
Cost plus/unit price	2,241,036	-	(207)	2,240,829
Concession operations	-	75,910	-	75,910
Total revenue	4,620,814	75,910	(274)	4,696,450
Revenue by service type				
Construction revenue	\$ 4,620,814	\$ -	\$ (274)	\$ 4,620,540
Concession revenue	-	75,910	-	75,910
Total revenue	4,620,814	75,910	(274)	4,696,450
	Construction	Concessions	Other and eliminations	Total
Consolidated balance sheets				
Segment assets	\$ 2,938,198	\$ 721,875	\$ (93,056)	\$ 3,567,017
Which include:				
Projects accounted for using the equity method	35,854	72,017	-	107,871
Segment liabilities	\$ 1,367,750	\$ 440,820	\$ 804,452	\$ 2,613,022
Additions to non-current assets:				
Property, plant and equipment	\$ 73,181	\$ 327	\$ 7,318	\$ 80,826
Intangible assets	\$ 5,582	\$ 6,877	\$ 1,727	\$ 14,186

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					For the year ended December 31, 2021		
	Construction		Concessions		Other and eliminations	Total	
Consolidated statements of income							
External customer revenue	\$	3,908,700	\$	68,622	\$	-	\$ 3,977,322
Inter-segment revenue		5,787		-	(5,787)		-
Total revenue		3,914,487		68,622	(5,787)		3,977,322
Expenses	\$	(3,783,850)	\$	(65,905)	\$	(31,399)	\$ (3,881,154)
Which include:							
Depreciation and amortization		(66,212)		(20,639)	(1,517)		(88,368)
Other income (loss):							
Foreign exchange gain (loss)	\$	991	\$	(383)	\$	(1,385)	\$ (777)
Gain on sale of property, plant and equipment		5,649		-	-		5,649
Other gains		2,667		-	-		2,667
Income from projects accounted for using the equity method	\$	3,450	\$	11,651	\$	-	\$ 15,101
Operating profit (loss)	\$	143,394	\$	13,985	\$	(38,571)	\$ 118,808
Finance income (cost):							
Finance income							\$ 610
Finance cost							(45,630)
Profit before income taxes							\$ 73,788
Income tax expense							(24,106)
Profit for the year							\$ 49,682
Revenue by contract type							
Fixed price	\$	2,411,880	\$	3,014	\$	(3,457)	\$ 2,411,437
Cost plus/unit price		1,502,607		-	(2,330)		1,500,277
Concession operations		-		65,608	-		65,608
Total revenue		3,914,487		68,622	(5,787)		3,977,322
Revenue by service type							
Construction revenue	\$	3,914,487	\$	-	\$	(2,330)	\$ 3,912,157
Concession revenue		-		68,622	(3,457)		65,165
Total revenue		3,914,487		68,622	(5,787)		3,977,322
Consolidated balance sheets							
Segment assets	\$	2,806,447	\$	671,454	\$	(191,084)	\$ 3,286,817
Which include:							
Projects accounted for using the equity method		23,818		45,476	-		69,294
Segment liabilities	\$	1,336,725	\$	408,002	\$	628,524	\$ 2,373,251
Additions to non-current assets:							
Property, plant and equipment	\$	81,692	\$	330	\$	5,730	\$ 87,752
Intangible assets	\$	23,320	\$	3,577	\$	2,573	\$ 29,470

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Geographic segment information:

	December 31 2022	December 31 2021
Revenue from external customers:		
Canada	\$ 4,507,955	\$ 3,877,427
USA	100,029	34,589
International	88,466	65,306
	\$ 4,696,450	\$ 3,977,322

Property, plant, equipment and intangible assets

Canada	\$ 523,202	\$ 511,670
USA	4,845	5,305
International	529,407	509,480
	\$ 1,057,454	\$ 1,026,455

Revenue from external customers has been attributed to individual countries on the basis of the customer's location.

Revenue from the Company's largest customer accounted for approximately 9.2% of consolidated revenue for the year ended December 31, 2022. The customer and its affiliated entities are located in Canada, with revenue recorded primarily in the construction segment.

34. REMAINING PERFORMANCE OBLIGATIONS

Backlog (i.e remaining performance obligations) means the total value of work that has not yet been completed that: (a) has a high certainty of being performed as a result of the existence of an executed contract or work order specifying job scope, value and timing; or (b) has been awarded to the company, as evidenced by an executed binding letter of intent or agreement, describing the general job scope, value and timing of such work, and where the finalization of a formal contract in respect of such work is reasonably assured. O&M activities are provided under contracts that can cover a period of up to 30 years. In order to provide information that is comparable to the backlog of other categories of activity, the Company limits backlog for O&M activities to the earlier of the contract term and the next five years.

Reported backlog as at December 31, 2022 of \$6,296,462 compares to backlog of \$6,197,787 as at December 31, 2021. New contract awards of \$4,795,125 were booked in 2022 compared to \$3,721,109 in 2021.

Backlog

	As at December 31	
	2022	2021
Construction	\$ 6,197,400	\$ 6,116,198
Concessions	99,062	81,589
Consolidated	\$ 6,296,462	\$ 6,197,787

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Backlog duration, representing the expected period during which backlog on hand will be converted into revenue, is set out in the table below:

Estimated backlog duration

	As at December 31					
	2022		2021			
Next 12 months	\$	3,035,244	48%	\$	2,701,011	44%
Next 13-24 months		1,853,091	29%		1,474,000	24%
Beyond		1,408,127	23%		2,022,776	32%
	\$	6,296,462	100%	\$	6,197,787	100%

The Company does not report as backlog the significant number of contracts and arrangements in hand where the exact amount of work to be performed cannot be reliably quantified or where a minimum number of units at the contract specified price per unit is not guaranteed. Examples include time and material and some cost-plus and unit priced contracts where the extent of services to be provided is undefined or where the number of units cannot be estimated with reasonable certainty. Other examples include the value of construction work managed under construction management advisory contracts, concession agreements, multi-year operating and maintenance service contracts where the value of the work is not specified, supplier of choice arrangements and alliance agreements where the client requests services on an as-needed basis. None of the expected revenue from these types of contracts and arrangements is included in backlog. Therefore, the Company's anticipated future work to be performed at any given time is greater than what is reported as backlog.

35. RELATED PARTIES

The Company conducts its business principally through the following subsidiary companies, all of which are wholly owned:

Subsidiary	Jurisdiction of Incorporation
Aecon Construction Group Inc.	Canada
Aecon Construction and Materials Limited	Ontario
Aecon Industrial Management Corp.	Alberta
Aecon Infrastructure Management Inc.	Alberta
Aecon Transportation West Ltd.	Alberta
Bermuda Skyport Corporation Limited	Bermuda
Groupe Aecon Quebec Ltee.	Quebec

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The Company also conducts its business through the following significant joint arrangements and associates:

Joint arrangements and associates	Country of operations	Ownership interests	Nature of activities
Bruce Power Unit 6 FCFR	Canada	40.00%	Construction
Bruce SGRT Unit 6 (Steam Generator Replacement Unit 6)	Canada	40.00%	Construction
Buffalo Pound Water Treatment Plant Renewal Project	Canada	50.00%	Construction
Eglinton Crosstown LRT Concessionaire	Canada	25.00%	Concession
Eglinton Crosstown LRT Construction Project	Canada	25.00%	Construction
Eglinton Crosstown West Extension Advance Tunnel Project	Canada	40.00%	Construction
Eglinton Crosstown West Extension Advance Tunnel Project SPV	Canada	40.00%	Construction
Finch West LRT Concessionaire	Canada	33.00%	Concession
Finch West LRT Construction Project	Canada	33.00%	Construction
Montreal-Trudeau International Airport Réseau express métropolitain Station Project	Canada	50.00%	Construction
GO Expansion On-Corridor Works Project	Canada	50.00%	Construction
Gordie Howe International Bridge Concessionaire	Canada and USA	20.00%	Concession
Gordie Howe International Bridge Project	Canada and USA	20.00%	Construction
Highway 401 Expansion Project	Canada	50.00%	Construction
Highway 401 Expansion Project SPV	Canada	50.00%	Construction
Highway 91/17 Upgrade Project	Canada	35.00%	Construction
Kicking Horse Canyon Project	Canada	50.00%	Construction
ONxpress Operations Inc.	Canada	28.00%	Concession
OPG Darlington RFR Project	Canada	50.00%	Construction
Pattullo Bridge Replacement Construction Project	Canada	50.00%	Construction
Pattullo Bridge Replacement Project SPV	Canada	50.00%	Construction
Réseau express métropolitain Montreal LRT	Canada	24.00%	Construction
SA Energy Group	Canada	50.00%	Construction
SA Waterdown to Finch Pipeline Project	Canada	50.00%	Construction
Second Narrows Water Supply Tunnel Project	Canada	40.00%	Construction
Site C Generating Station and Spillways Civil Works	Canada	30.00%	Construction
Winnipeg North End Sewage Treatment Plant Project	Canada	50.00%	Construction
Yellowline Asphalt Products Ltd.	Canada	50.00%	Construction

The Company enters into transactions with certain equity accounted investees as part of the normal course of operations. The Company had the following transactions with equity accounted investees:

As at December 31, 2022, trade receivables include amounts due from equity accounted investees of \$88,290 (2021 - \$61,219), and trade payables include amounts due to equity accounted investees of \$341 (2021 - \$475).

For the year ended December 31, 2022, revenue includes sales to equity accounted investees of \$879,153 (2021 - \$620,066), and direct costs and expenses include purchases from equity accounted investees of \$24,749 (2021 - \$20,841).

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Key management includes the Company's Board of Directors and Named Executive Officers. Compensation awarded to key management is as follows:

	December 31 2022	December 31 2021
Short-term employee benefits	\$ 6,918	\$ 7,993
Post-employment benefits	149	145
Stock-based payments	2,312	3,978
	\$ 9,379	\$ 12,116



EXECUTIVE COMMITTEE

Jean-Louis Servranckx
President and Chief Executive Officer

David Smales
Executive Vice President
and Chief Financial Officer

Steve Nackan
Executive Vice President
and President, Concessions

Thomas Clochard
Executive Vice President, Civil and Nuclear

Eric MacDonald
Executive Vice President, Utilities

Manuel Rivaya
Senior Vice President,
Urban Transportation Solutions

Gordana Terkalas
Senior Vice President, Human Resources

BOARD OF DIRECTORS

John M. Beck

Anthony P. Franceschini

J.D. Hole

Susan Wolburgh Jenah ICD.D

Eric Rosenfeld

Jean-Louis Servranckx

Monica Sloan ICD.D

Deborah S. Stein ICD.D

Scott Thon ICD.D



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