# 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

**TABLE OF CONTENTS**

## 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 per cent reduction in direct $CO_2$ 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 $CO_2$ per million dollars of revenue. In 2021, the Company achieved a 15 per cent year-over-year reduction in $CO_2$ emissions on an intensity basis. Aecon is in the process of completing its 2022 GHG emissions inventory which will determine the per cent 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 per cent 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 per cent of total revenue in 2022 from 39 percent of total revenue in 2021, and reported backlog as at December 31, 2022 was comprised of 49 percent non-fixed price work versus 36 per cent 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 per cent 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 December 31 | | Year ended 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**<br>**$ millions** | **As at December 31** | | | |
|---|---|---|---|---|
| | | **2022** | | 2021 |
| **Construction** | **$** | **6,197** | $ | 6,116 |
| **Concessions** | | **99** | | 82 |
| **Consolidated** | **$** | **6,296** | $ | 6,198 |

| **Estimated backlog duration**<br>**$ 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% |
| | **$** | **6,296** | **100%** | $ | 6,198 | 100% |

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 December 31 | | Year ended 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 December 31 | | Year ended 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 | | | |
|---|---|---|---|---|---|---|---|---|
| **Aecon's proportionate share of projects accounted for using the equity method** [1] | Quarter 4 | Quarter 3 | Quarter 2 | Quarter 1 | Quarter 4 | Quarter 3 | Quarter 2 | Quarter 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 | | | |
|---|---|---|---|---|---|---|---|---|
| | Construction | Concessions | Other costs and eliminations | Consolidated | Construction | Concessions | Other costs and 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**

| | Three months ended December 31, 2022 | | | | Year ended December 31, 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| **Aecon's proportionate share of projects accounted for using the equity method [(1)]** | Construction | Concessions | Other costs and eliminations | Consolidated | Construction | Concessions | Other costs and 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**

| | Three months ended December 31, 2021 | | | | Year ended December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| **Aecon's proportionate share of projects accounted for using the equity method [(1)]** | Construction | Concessions | Other costs and eliminations | Consolidated | Construction | Concessions | Other costs and 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** | $ 38.7 |
| **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 December 31 | | Year ended 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 | - |
| | **$ 187.0** | **$ 66.1** | **$ 193.2** |

(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 |
| | **$ 683.7** |

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. Non-financial 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 non-financial 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 $CO_2$ 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) | | February 28, 2023 |
|---|---|---|
| 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.