

**Aecon Group Inc.**

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

**March 31, 2023**

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

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. (“Aecon” or the “Company”) should be read in conjunction with the Company’s March 31, 2023 interim condensed consolidated financial statements and notes, and in conjunction with the Company’s annual MD&A for the year ended December 31, 2022 (the “2022 Annual MD&A”). This MD&A is dated as of April 25, 2023. Additional information on Aecon is available through the System for Electronic Document Analysis and Retrieval (“SEDAR”) at [www.sedar.com](http://www.sedar.com) and includes the Company’s Annual Information Form and other 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: expectations regarding the impact of the four fixed price legacy projects and expected timelines of such projects; Aecon's sale of ATE (defined below) to GIP (defined below), including the strategic rationale for such transaction, and expected results therefrom; use of proceeds from the sale of ATE and related transaction timeline; Aecon's strategic partnership agreement with GIP and the results therefrom; Aecon's sale of a 49.9% interest in Skyport (defined below) to CC&L Infrastructure (defined below), including strategic rationale for such transaction, the expected results therefrom and the anticipated closing thereof; 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; the uncertainties related to the unpredictability of global economic conditions; its belief regarding the sufficiency of its current liquidity position including sufficiency of its cash position, unused credit capacity, and cash generated from its operations; its strategy of seeking to differentiate its service offering and execution capability and the expected results therefrom; its efforts to maintain a conservative capital position; expectations regarding the pipeline of opportunities available to Aecon; statements regarding the various phases of projects for Aecon; its strategic focus on projects linked to decarbonization, energy transition and sustainability and the opportunities arising therefrom; 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; the risk that Aecon's sale of ATE will not close; the risk that the strategic partnership with GIP will not realize the expected results and may negatively impact Aecon's existing business; the risk that Aecon will not realize the strategic rationale for the

sale of ATE; the risk that Aecon will not realize the opportunities presented by a transition to a net-zero economy; the risk that Aecon will not realize the anticipated balance sheet flexibility with the completion of the sale of ATE; the risk Aecon's sale of a 49.9% interest in Skyport to CC&L Infrastructure will not close; the risk that Aecon will not realize the strategic rationale for the sale of the equity interest in Skyport; the risk that Aecon will not realize the anticipated balance sheet strength while preserving capital for other long-term growth and concession opportunities in connection with the sale of the equity interest in Skyport; 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 Section 13 - "Risk Factors" in this MD&A and in the 2022 Annual MD&A which is available on SEDAR at [www.sedar.com](http://www.sedar.com). 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 prepares its interim condensed consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") applicable to the preparation of interim financial statements including International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

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**

### **Economic Conditions and Certain Fixed Price Legacy Projects**

Within the Construction segment, recent economic conditions have had varying degrees of impact since 2021 including through to the first quarter of 2023, 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” of this MD&A and Section 13 “Risk Factors” of the 2022 Annual MD&A) were more significant. Aecon recognized an operating loss of \$2.8 million in both the first quarter of 2023 and 2022 from these four legacy projects. During the full year of 2022, an operating loss of \$120.0 million was recognized from these four legacy projects. At March 31, 2023, the remaining backlog to be worked off on these projects was \$801 million compared to backlog of \$1,079 million at December 31, 2022 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 25% of consolidated revenue in the first quarter of 2023 and 13% of backlog at March 31, 2023 compared to 16% of consolidated revenue in the full year 2022 and 17% of backlog 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 through to the first quarter of 2023. 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. In the first quarter of 2023, average traffic levels improved to 72% of 2019 pre-pandemic traffic levels compared to 43% in the first quarter of 2022. These averages reflect generally improving traffic levels over time as a percentage of pre-pandemic levels. Offsetting this impact on operational volume to some extent was a minimum revenue guarantee from the Government of Bermuda to cover any shortfall in cash flow for debt-service requirements related to the Bermuda International Airport Redevelopment Project.

### **Aecon to Sell Road Building Business in Ontario to Green Infrastructure Partners**

On March 1, 2023, Aecon announced that it has entered into a definitive purchase agreement with Green Infrastructure Partners Inc. (“GIP”) under which Aecon has agreed to sell its Aecon Transportation East (“ATE”) roadbuilding, aggregates and materials businesses in Ontario for \$235 million in cash.

ATE provides roadbuilding infrastructure solutions throughout Ontario to the provincial government, municipalities, and private clients through a workforce of approximately 1,000 employees. In 2022, ATE’s revenue represented approximately 7% of Aecon’s consolidated revenue as part of the Construction segment.

Upon closing of the sale, Aecon and GIP will enter into a strategic cooperation agreement for certain major projects and pursuits in Ontario that leverage both Aecon’s heavy civil construction services and GIP’s roadbuilding capabilities.

The Aecon Board of Directors and the GIP Board of Directors have each approved the transaction. ATE will continue to operate in the normal course pending closing of the sale transaction which is expected in the second



quarter of 2023 and is subject to customary adjustments and closing conditions, including obtaining all necessary regulatory approvals. In the event the transaction does not close as a result of GIP's failure to obtain financing for the acquisition, GIP has agreed to pay a reverse break-fee to Aecon of \$15 million.

Aecon expects to use the net proceeds from the transaction to pay down debt on its revolving credit facility.

### **Aecon to Sell a Partial Interest in Bermuda International Airport Concessionaire**

On March 15, 2023, Aecon announced that it has entered into an agreement with Connor, Clark & Lunn Infrastructure ("CC&L Infrastructure") to sell a 49.9% interest in the L.F. Wade International Airport (Bermuda International Airport) concessionaire, Bermuda Skyport Corporation Limited ("Skyport"), for US\$128.5 million (\$173,899 equivalent at March 31, 2023) in cash.

Aecon Concessions will retain the management contract for the airport and joint control of Skyport with a 50.1% retained interest. The transaction is subject to customary closing conditions and is expected to close in the second quarter of 2023.

Skyport is a special-purpose company owned by Aecon Concessions, responsible for the airport's operations, maintenance and commercial functions, as well as coordinating the overall delivery of the Bermuda International Airport Redevelopment Project over a 30-year concession term that commenced in 2017. Under a Government-to-Government/Public-Private Partnership ("P3") model, Aecon worked with the Canadian Commercial Corporation and the Government of Bermuda to develop, finance, design, build, operate and maintain the new passenger terminal building, which opened in December of 2020.

## **6. BUSINESS STRATEGY**

Refer to the discussion on Business Strategy as outlined in the 2022 Annual MD&A available on the Company's website at [www.aecon.com](http://www.aecon.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).

## 7. CONSOLIDATED FINANCIAL HIGHLIGHTS

\$ millions (except per share amounts)	Three months ended March 31	
	2023	2022
<b>Revenue</b>	<b>\$ 1,107.2</b>	<b>\$ 985.9</b>
Gross profit	66.8	61.1
Marketing, general and administrative expense	(54.2)	(53.1)
Income from projects accounted for using the equity method	3.3	3.0
Other income	12.6	2.2
Depreciation and amortization	(22.9)	(22.9)
<b>Operating profit (loss)</b>	<b>5.6</b>	<b>(9.6)</b>
Finance income	1.4	0.1
Finance cost	(16.9)	(11.8)
<b>Loss before income taxes</b>	<b>(9.9)</b>	<b>(21.3)</b>
Income tax recovery	0.5	3.9
<b>Loss</b>	<b>\$ (9.4)</b>	<b>\$ (17.4)</b>
<b>Gross profit margin<sup>(3)</sup></b>	<b>6.0%</b>	<b>6.2%</b>
<b>MG&amp;A as a percent of revenue<sup>(3)</sup></b>	<b>4.9%</b>	<b>5.4%</b>
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>24.6</b>	<b>20.6</b>
<b>Adjusted EBITDA Margin<sup>(2)</sup></b>	<b>2.2%</b>	<b>2.1%</b>
<b>Operating margin<sup>(3)</sup></b>	<b>0.5%</b>	<b>(1.0)%</b>
<b>Loss per share – basic</b>	<b>\$ (0.15)</b>	<b>\$ (0.29)</b>
<b>Loss per share – diluted</b>	<b>\$ (0.15)</b>	<b>\$ (0.29)</b>
<b>Backlog (at end of period)</b>	<b>\$ 6,002</b>	<b>\$ 6,423</b>

(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 three months ended March 31, 2023 of \$1,107 million was \$121 million, or 12%, higher compared to the same period in 2022. Revenue was higher in the Construction segment (\$119 million) driven by increases in civil (\$65 million), industrial (\$27 million), nuclear (\$11 million), utilities (\$9 million), and urban transportation solutions (\$7 million). In the Concessions segment, higher revenue of \$3 million for the three months ended March 31, 2023 was primarily due to the improvement of commercial flight operations at the Bermuda International Airport.

Operating profit of \$5.6 million for the three months ended March 31, 2023 improved by \$15.2 million compared to an operating loss of \$9.6 million in the same period in 2022. The period-over-period improvement in operating profit was driven in part by higher gross profit of \$5.7 million largely due to an increase in the Construction segment primarily from higher volume and gross profit margin in industrial and urban transportation solutions, and from higher volume in nuclear operations, partially offset by lower gross profit margin in civil and utilities operations. In the Concessions segment, gross profit increased by \$0.2 million primarily from an improvement in results from airport operations at the Bermuda International Airport.

MG&A increased in the first quarter of 2023 by \$1.1 million compared to the same period in 2022, driven primarily by higher personnel costs. However, MG&A as a percentage of revenue decreased from 5.4% in the first quarter of 2022 to 4.9% in the first quarter of 2023.

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. In the three months ended March 31, 2023, Aecon reported income of \$3.3 million from projects accounted for using this method of accounting, which was \$0.3 million higher than the same period in 2022. The higher income in the first quarter of 2023 was due to an increase in management and development fees in the Concessions segment (\$0.2 million) and higher income from civil projects in the Construction segment (\$0.1 million).

Other income of \$12.6 million in the first quarter of 2023 was \$10.4 million higher compared to the same period in 2022. The increase is primarily related to a higher gain on the sale of property and equipment of \$10.2 million, with the majority of the increase related to a property sale within the Construction segment.

Depreciation and amortization expense in the first quarter of 2023 of \$22.9 million remained unchanged compared to the first quarter of 2022.

Net financing expense of \$15.5 million in the first quarter of 2023, consisting of finance cost of \$16.9 million less finance income of \$1.4 million, was \$3.8 million higher than in the same period in 2022. The increase resulted primarily from an increase in borrowings and higher interest rates on Aecon’s revolving credit facility compared to the same period last year.

Set out in Note 20 “Income Taxes” of the March 31, 2023 interim condensed consolidated financial statements is a reconciliation between the expected income tax expense (recovery) in the first three months of 2023 and 2022 based on statutory income tax rates and the actual income tax expense (recovery) reported for both these periods. In both the first quarter of 2023 and 2022, the effective income tax rate differed from the Canadian statutory income tax rate of 26.4% mainly due to the geographic mix of earnings, largely related to international projects and in particular the Bermuda International Airport Redevelopment Project.

Reported backlog at March 31, 2023 of \$6,002 million compared to backlog of \$6,423 million at March 31, 2022. New contract awards of \$812 million were booked in the first quarter of 2023 compared to \$1,211 million in the same period in 2022.

Backlog \$ millions	At March 31	
	2023	2022
Construction	\$ 5,902	\$ 6,337
Concessions	100	86
Consolidated	<u>\$ 6,002</u>	<u>\$ 6,423</u>

Estimated backlog duration \$ millions	At March 31			
	2023		2022	
<b>Next 12 months</b>	<b>\$ 3,070</b>	<b>51%</b>	<b>\$ 3,112</b>	<b>48%</b>
<b>Next 13-24 months</b>	<b>1,803</b>	<b>30%</b>	<b>1,719</b>	<b>27%</b>
<b>Beyond</b>	<b>1,129</b>	<b>19%</b>	<b>1,592</b>	<b>25%</b>
	<b>\$ 6,002</b>	<b>100%</b>	<b>\$ 6,423</b>	<b>100%</b>

The timing of work to be performed for projects in backlog at March 31, 2023 is based on current project schedules, taking into account the current estimated impacts of 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. The above backlog and estimated backlog duration amounts do not reflect potential impacts from the sale of the ATE roadbuilding, aggregates and materials businesses in Ontario (see Section 5 “Recent Developments” of this MD&A). At March 31, 2023, backlog in ATE was \$439 million.

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	
	March 31	
	2023	2022
Revenue	\$ 1,090.5	\$ 971.6
Gross profit	\$ 62.2	\$ 56.5
Adjusted EBITDA <sup>(1)</sup>	\$ 22.3	\$ 19.3
Operating profit	\$ 16.2	\$ 1.3
Gross profit margin <sup>(3)</sup>	5.7%	5.8%
Adjusted EBITDA margin <sup>(2)</sup>	2.0%	2.0%
Operating margin <sup>(3)</sup>	1.5%	0.1%
Backlog (at end of period)	\$ 5,902	\$ 6,337

- (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 in the Construction segment for the three months ended March 31, 2023 of \$1,090 million was \$119 million, or 12%, higher compared to the same period in 2022. Construction segment revenue was higher in each sector, with the largest increase being in civil operations (\$65 million) primarily from an increase in major projects in both eastern and western Canada. In industrial operations, higher revenue (\$27 million) was due to increased activity on mainline pipeline work and higher field construction work at mining and wastewater facilities all in western Canada, partially offset by a lower volume of field construction work at chemical facilities in eastern Canada. Higher revenue in nuclear operations (\$11 million) was driven by an increased volume of refurbishment work at nuclear generating stations in Ontario and the U.S., in utilities operations (\$9 million) from increased volume of telecommunications and high-voltage electrical transmission work, partially offset by a lower volume of oil and gas distribution work, and in urban transportation solutions (\$7 million) driven primarily by a higher volume of rail electrification project work in Ontario.

Operating profit in the Construction segment of \$16.2 million in the first three months of 2023 increased by \$14.9 million compared to an operating profit of \$1.3 million in the same period in 2022. This increase was driven by higher volume and gross profit margin in industrial and urban transportation solutions, and from higher volume in nuclear operations. Higher gross profit and gross profit margin in industrial was largely due to a negative gross profit of \$7.1 million in the same period last year versus \$nil in the first quarter of 2023 from one of the four fixed price legacy projects discussed in Section 5 “Recent Developments” and Section 10.2 “Contingencies” in this MD&A, and Section 13 “Risk Factors” in the 2022 Annual MD&A. In utilities operations, lower gross profit margin was offset by an increase in gains on the sale of property and equipment of \$10.4 million. These increases were partially offset by lower gross profit margin in civil operations due to negative gross profit of \$2.8 million in the first quarter of 2023 versus a gross profit of \$3.9 million in the same period last year from one of the four fixed price legacy projects.

Construction backlog at March 31, 2023 was \$5,902 million compared to \$6,337 million at the same time in 2022. Backlog decreased period-over-period in urban transportation solutions (\$315 million), nuclear (\$268 million), and industrial operations (\$16 million), while backlog increased in utilities (\$112 million) and civil operations (\$52 million). New contract awards of \$795 million in the first quarter of 2023 were \$398 million lower than the same period in 2022.

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	
	March 31	
	2023	2022
Revenue	\$ 17.0	\$ 14.4
Gross profit	\$ 4.7	\$ 4.4
Income from projects accounted for using the equity method	\$ 3.5	\$ 3.4
Adjusted EBITDA <sup>(1)</sup>	\$ 15.0	\$ 13.6
Operating profit	\$ 2.4	\$ 1.5
Backlog (at end of period)	\$ 100	\$ 86

(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 currently holds a 100% interest in Skyport, the concessionaire responsible for the Bermuda airport’s operations, maintenance and commercial functions, and the entity that will manage and coordinate 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 consolidated financial statements by reflecting, line by line, the assets, liabilities, revenue and expenses of Skyport. See Section 5 “Recent Developments” of this MD&A for details of an agreement to sell a 49.9% interest in Skyport. However, Aecon’s concession participation in the Eglinton Crosstown light rail transit (“LRT”), Finch West LRT, Gordie Howe International Bridge, Waterloo LRT, and the GO Expansion On-Corridor Works projects are joint ventures that are accounted for using the equity method.

For the three months ended March 31, 2023, revenue in the Concessions segment of \$17 million was \$3 million higher than the same period in 2022 primarily due to an increase in commercial flight operations at the Bermuda International Airport.

Operating profit in the Concessions segment of \$2.4 million for the three months ended March 31, 2023 improved by \$0.9 million compared to an operating profit of \$1.5 million in the first three months of 2022, primarily from an increase in management and development fees as well as an improvement in operating results from 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)

	2023	2022				2021		
	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2
Revenue	\$ 1,107.2	\$ 1,266.8	\$ 1,320.5	\$ 1,123.2	\$ 985.9	\$ 1,088.6	\$ 1,163.4	\$ 971.3
Adjusted EBITDA <sup>(1)</sup>	24.6	67.5	92.6	38.5	20.6	61.3	95.5	61.2
Profit (loss) before income taxes	(9.9)	25.8	46.5	(8.0)	(21.3)	19.0	52.0	23.7
Profit (loss)	(9.4)	19.7	34.5	(6.4)	(17.4)	12.1	38.4	17.6
Earnings (loss) per share:								
Basic	\$ (0.15)	\$ 0.32	\$ 0.57	\$ (0.10)	\$ (0.29)	\$ 0.20	\$ 0.64	\$ 0.29
Diluted	(0.15)	0.26	0.45	(0.10)	(0.29)	0.19	0.56	0.27

(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

	2023	2022				2021		
	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2
Operating profit (loss)	\$ 5.6	\$ 40.7	\$ 61.0	\$ 5.1	\$ (9.6)	\$ 30.7	\$ 63.7	\$ 34.6
Depreciation and amortization	22.9	23.9	23.8	23.6	22.9	22.0	22.1	21.4
(Gain) loss on sale of assets	(12.2)	(7.6)	(2.5)	(0.3)	(2.1)	(1.7)	(1.0)	(4.8)
Income from projects accounted for using the equity method	(3.3)	(5.9)	(5.0)	(3.7)	(3.0)	(4.7)	(4.0)	(3.8)
Equity Project EBITDA <sup>(1)</sup>	11.6	16.4	15.4	13.8	12.4	15.0	14.7	13.8
Adjusted EBITDA <sup>(1)</sup>	\$ 24.6	\$ 67.5	\$ 92.6	\$ 38.5	\$ 20.6	\$ 61.3	\$ 95.5	\$ 61.2

(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

Aecon's proportionate share of projects accounted for using the equity method <sup>(1)</sup>	2023	2022				2021		
	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2
Operating profit	\$ 11.4	\$ 16.2	\$ 15.2	\$ 13.6	\$ 12.2	\$ 14.8	\$ 14.5	\$ 13.6
Depreciation and amortization	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Equity Project EBITDA <sup>(2)</sup>	\$ 11.6	\$ 16.4	\$ 15.4	\$ 13.8	\$ 12.4	\$ 15.0	\$ 14.7	\$ 13.8

- (1) Refer to Note 11 "Projects Accounted for Using the Equity Method" in the March 31, 2023 interim condensed consolidated financial statements.
- (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 ended March 31, 2023 and 2022:

\$ millions

	Three months ended March 31, 2023				Three months ended March 31, 2022			
	Construction	Concessions	Other costs and eliminations	Consolidated	Construction	Concessions	Other costs and eliminations	Consolidated
Operating profit (loss)	\$ 16.2	\$ 2.4	\$ (13.0)	\$ 5.6	\$ 1.3	\$ 1.5	\$ (12.4)	\$ (9.6)
Depreciation and amortization	17.0	5.6	0.3	22.9	17.4	5.3	0.2	22.9
(Gain) on sale of assets	(12.2)	-	-	(12.2)	(2.1)	-	-	(2.1)
Income from projects accounted for using the equity method	0.2	(3.5)	-	(3.3)	0.3	(3.3)	-	(3.0)
Equity Project EBITDA <sup>(1)</sup>	1.2	10.4	-	11.6	2.3	10.1	-	12.4
Adjusted EBITDA <sup>(1)</sup>	\$ 22.4	\$ 14.9	\$ (12.7)	\$ 24.6	\$ 19.2	\$ 13.6	\$ (12.2)	\$ 20.6

- (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 ended March 31, 2023 and 2022:

\$ millions

Aecon's proportionate share of projects accounted for using the equity method <sup>(1)</sup>	Three months ended March 31, 2023				Three months ended March 31, 2022			
	Construction	Concessions	Other costs and eliminations	Consolidated	Construction	Concessions	Other costs and eliminations	Consolidated
Operating profit	\$ 1.0	\$ 10.4	\$ -	\$ 11.4	\$ 2.1	\$ 10.1	\$ -	\$ 12.2
Depreciation and amortization	0.2	-	-	0.2	0.2	-	-	0.2
Equity Project EBITDA <sup>(2)</sup>	\$ 1.2	\$ 10.4	\$ -	\$ 11.6	\$ 2.3	\$ 10.1	\$ -	\$ 12.4

- (1) Refer to Note 11 "Projects Accounted for Using the Equity Method" in the March 31, 2023 interim condensed consolidated financial statements.
- (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.



## **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 consolidated financial statements 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 11 "Projects Accounted for Using the Equity Method" to the March 31, 2023 interim condensed consolidated financial statements.

### **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 ("CGL") is contractually responsible, including, but not limited to, significant scope changes and delays by CGL, unforeseen site conditions, compensable adverse weather impacts and a suspension implemented by CGL 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 did not articulate the amount of damages it was seeking. In the first quarter of 2023, CGL withdrew its allegations of breach of contract and related damages from its counterclaim. 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 Limitée 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 at March 31, 2023. 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” in the 2022 Annual 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 are 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 the 2022 Annual MD&A). In the full year 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. In the first quarter of 2023, Aecon recognized an additional operating loss of \$2.8 million

from these four legacy projects. See also Section 5 “Recent Developments” in this MD&A.

### 10.3. CASH AND DEBT BALANCES

Cash balances at March 31, 2023 and December 31, 2022 are as follows:

\$ millions	March 31, 2023		
	Balances excluding Joint Operations	Joint Operations	Consolidated Total
Cash and cash equivalents (1)	\$ 22	\$ 336	\$ 358
Marketable securities	-	1	1
Bank indebtedness (3)	(240)	-	(240)
	<b>December 31, 2022</b>		
	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)

- (1) Cash and cash equivalents include cash on deposit in bank accounts of joint operations which Aecon cannot access directly.
- (1) Restricted cash is cash held by Skyport. At March 31, 2023, all restricted cash in Skyport was included in “assets of disposal groups classified as held for sale” in the interim condensed consolidated financial statements (See Section 5 “Recent Developments” of this MD&A and Note 10 “Disposal Groups Classified As Held For Sale” to the March 31, 2023 interim condensed consolidated financial statements).
- (2) Bank indebtedness represents borrowings on Aecon’s revolving credit facility.

Total long-term recourse debt of \$402.7 million at March 31, 2023 compares to \$409.1 million at December 31, 2022, the composition of which is as follows:

\$ millions	March 31, 2023		December 31, 2022	
Current portion of long-term debt – recourse	\$	56.9	\$	56.6
Current portion of convertible debentures		180.1		178.9
Long-term debt – recourse		165.7		173.6
<b>Total long-term recourse debt</b>	<b>\$</b>	<b>402.7</b>	<b>\$</b>	<b>409.1</b>
Current portion of project debt – non-recourse	\$	-	\$	3.3
Long-term project debt – non-recourse		-		375.7
<b>Total project debt – non-recourse</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>379.0</b>

The \$6.4 million net decrease in total long-term recourse debt results from a decrease in equipment leases of \$9.0 million, partially offset by an increase in equipment financing of \$1.4 million and convertible debentures of \$1.2 million related to the accretion of notional interest.

The \$379.0 million decrease in long-term non-recourse project debt all relates to the financing of the Bermuda International Airport Redevelopment Project. As a result of a recently announced agreement to sell a 49.9% interest in the Bermuda International Airport concessionaire, all long-term non-recourse project debt of this project has been included in “liabilities of disposal groups classified as held for sale” in the March 31, 2023

interim condensed consolidated financial statements (See Section 5 “Recent Developments” of this MD&A and Note 10 “Disposal Groups Classified As Held For Sale” to the March 31, 2023 interim condensed consolidated financial statements).

At March 31, 2023, Aecon had a committed revolving credit facility of \$600 million, of which \$240 million was drawn and \$10 million utilized for letters of credit. At March 31, 2023, 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. At March 31, 2023, 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 the Company’s 2022 Annual MD&A). Aecon’s operations also remain subject to uncertainties related to the unpredictability of future potential impacts related to 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 2023, Aecon’s Board of Directors approved a quarterly dividend of \$0.185 per share (annual dividend of \$0.74 per share), unchanged from the prior year, to be paid to all holders of Aecon common shares. The first quarterly dividend payment of \$0.185 per share was paid on April 4, 2023.

#### **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 March 31, 2023 and 2022 is as follows:

\$ millions	Three Months Ended March 31	
	2023	2022
<b>Operating Activities</b>		
<b>Cash provided by (used in):</b>		
Cash flows from (used by) operations before changes in working capital	\$ 0.9	\$ (16.0)
Higher investments in working capital	(130.6)	(147.3)
<b>Cash used in operating activities</b>	<b>\$ (129.7)</b>	<b>\$ (163.3)</b>
<b>Investing Activities</b>		
<b>Cash provided by (used in):</b>		
Decrease in restricted cash balances held by Skyport to finance the Bermuda International Airport Redevelopment Project	\$ 10.2	\$ 11.1
Expenditures made by Skyport related to the construction of the new airport terminal in Bermuda	-	(0.1)
Proceeds on disposals of / (expenditures) on property, plant and equipment and intangible assets	8.7	(1.2)
Cash outflow related to acquisitions	-	(2.9)
Cash distributions received from projects accounted for using the equity method	0.3	0.2
Cash used for investments in long-term financial assets	(0.2)	-
<b>Cash provided by investing activities</b>	<b>\$ 19.0</b>	<b>\$ 7.1</b>
<b>Financing Activities</b>		
<b>Cash provided by (used in):</b>		
Increase in bank indebtedness associated with borrowings under the Company's revolving credit facility	\$ 119.0	\$ 81.7
Increase in long-term recourse debt borrowings	4.2	2.8
Repayments of long-term recourse debt relating primarily to equipment financing arrangements	(18.1)	(14.7)
Repayments of non-recourse project debt of the Bermuda International Airport Redevelopment Project	(2.0)	(1.7)
Cash used for dividends paid	(11.4)	(10.6)
<b>Cash provided by financing activities</b>	<b>\$ 91.7</b>	<b>\$ 57.5</b>
<b>Decrease in cash and cash equivalents</b>	<b>\$ (19.0)</b>	<b>\$ (98.7)</b>
Effects of foreign exchange on cash balances	0.2	(0.6)
Cash and cash equivalents - beginning of period	377.2	532.7
<b>Cash and cash equivalents - end of period</b>	<b>\$ 358.4</b>	<b>\$ 433.4</b>

In the first three months of 2023, Aecon acquired, either through purchase or lease, property, plant and equipment totaling \$6.3 million. Of this amount, \$1.3 million related to the purchase of an aggregate property in Ontario, 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 the first three months of 2022 Aecon acquired, either through purchase or lease, property, plant and equipment totaling \$14.2 million. Of this amount, \$5.7 million of additions related mainly to long-term office property leases in Alberta and Ontario, with the balance of the investment in property, plant and equipment 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. At March 31, 2023, the debt to capitalization percentage including convertible debentures as debt was 30% (December 31, 2022 - 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% at March 31, 2023 (December 31, 2022 - 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" and Section 5 "Recent Developments" of this MD&A, and Section 13 "Risk Factors" in the 2022 Annual MD&A, the Company will continue its current efforts to maintain a conservative capital position.

Debt to capitalization percentage is presented in Note 30 "Capital Disclosures" of the Company's March 31, 2023 interim condensed consolidated financial statements.

Set out below is the calculation of the Company's debt to capitalization percentage at March 31, 2023 and December 31, 2022 using the definitions provided in the preceding paragraphs:

<b>\$ millions</b>	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Current portion of long-term debt	\$ 56.9	\$ 56.6
Long-term debt	165.7	173.6
Current portion of convertible debentures	180.1	178.9
<b>Debt</b>	<b>\$ 402.7</b>	<b>\$ 409.1</b>
<b>Shareholder's equity</b>	<b>\$ 934.6</b>	<b>\$ 954.0</b>
<b>Capitalization</b>	<b>\$ 1,337.3</b>	<b>\$ 1,363.1</b>
<b>Debt to capitalization percentage</b>	<b>30%</b>	<b>30%</b>
	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Current portion of long-term debt	\$ 56.9	\$ 56.6
Long-term debt	165.7	173.6
<b>Debt</b>	<b>\$ 222.7</b>	<b>\$ 230.2</b>
Shareholder's equity	\$ 934.6	\$ 954.0
Convertible debentures	180.1	178.9
<b>Shareholders' equity and convertible debentures</b>	<b>\$ 1,114.7</b>	<b>\$ 1,132.9</b>
<b>Capitalization</b>	<b>\$ 1,337.4</b>	<b>\$ 1,363.1</b>
<b>Debt (excluding convertible debentures) to capitalization percentage</b>	<b>17%</b>	<b>17%</b>

## 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 29 "Financial Instruments" to the Company's March 31, 2023 interim condensed consolidated financial statements and the notes thereto.

## 11. NEW ACCOUNTING STANDARDS

Note 5 “New Accounting Standards” to Aecon’s March 31, 2023 interim condensed consolidated financial statements includes new IFRS standards and amendments that became effective for the Company on January 1, 2023, and Note 6 “Future Accounting Changes” discusses IFRS standards and amendments that are issued, but not yet effective.

The new accounting standards had no significant impact on profit (loss), comprehensive income (loss), or earnings (loss) per share in the first three months of 2023.

## 12. SUPPLEMENTAL DISCLOSURES

### Disclosure Controls and Procedures

The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), together with management, have designed disclosure controls and procedures to provide reasonable assurance that material information with respect to the Company, including its consolidated subsidiaries, is made known to them by others and is recorded, processed, summarized and reported within the time periods specified in securities legislation. The CEO and CFO, together with management, have also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. In designing such controls, it should be recognized that any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements due to error or fraud.

### Changes in Internal Controls over Financial Reporting

There have been no changes in the Company’s internal controls over financial reporting during the period beginning on January 1, 2023 and ended on March 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

### Contractual Obligations

Aecon has commitments for equipment, premises under lease, and convertible debentures at March 31, 2023 as follows:

<b>\$ millions</b>	<b>Finance lease payments</b>	<b>Equipment and other loans</b>	<b>Convertible debentures <sup>(1)</sup></b>
Due within one year	\$ 49.9	\$ 14.0	\$ 193.2
Due between one and five years	109.3	41.0	-
Due after five years	17.9	12.8	-
	<u>\$ 177.1</u>	<u>\$ 67.8</u>	<u>\$ 193.2</u>

<sup>(1)</sup> Assumes all convertible debentures are redeemed at maturity for cash.

At March 31, 2023, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was \$6,002 million.



Further details on Contractual Obligations are included in the Company's 2022 Annual MD&A.

### **Defined Benefit Pension Plans**

Aecon's defined benefit pension plans (the "Pension Plans") had a combined deficit of \$0.8 million at March 31, 2023 (December 31, 2022 a combined deficit of \$0.9 million). The defined benefit obligations and benefit cost levels will change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future experience gains or losses, none of which have been anticipated at this time. Emerging experience, differing from assumptions, will result in gains or losses that will be disclosed in future accounting valuations. Refer to the Company's 2022 Annual MD&A for further details regarding Aecon's Pension Plans.

Further details of contingencies and guarantees are included in the March 31, 2023 interim condensed consolidated financial statements and in the 2022 Annual MD&A.

### **Related Party Transactions**

Other than transactions with certain equity accounted investees as part of the normal course of operations, there were no significant related party transactions in the first three months of 2023.

### **Critical Accounting Estimates and Judgements**

Refer to the detailed discussion outlined in Note 4 "Critical Accounting Estimates" of the March 31, 2023 interim condensed consolidated financial statements.

## **13. RISK FACTORS**

Refer to the detailed discussion on Risk Factors as outlined in the Company's 2022 Annual MD&A dated February 28, 2023. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. These risks and uncertainties which management reviews on a quarterly basis, have not materially changed in the period since February 28, 2023 except as described in Section 10.2 "Contingencies" and Section 10.3 "Cash And Debt Balances" in this MD&A.

## 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.

<b>In thousands of dollars (except share amounts)</b>	<u><b>April 25, 2023</b></u>
Number of common shares outstanding	61,535,737
Outstanding securities exchangeable or convertible into common shares:	
Principal amount of convertible debentures outstanding (See Note 18 "Convertible Debentures" to the March 31, 2023 interim condensed consolidated financial statements)	\$ 192,852
Number of common shares issuable on conversion of convertible debentures	8,017,429
Increase in paid-up capital on conversion of convertible debentures	\$ 192,852
DSUs and RSUs outstanding under the Long-Term Incentive Plan and the 2014 Director DSU Plan	4,720,907

## 15. OUTLOOK

Demand for Aecon's services across Canada continues to be strong, particularly in smaller and medium sized projects. 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 \$6.0 billion at March 31, 2023 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" and Section 10.2 "Contingencies" in this MD&A and Section 13 "Risk Factors" in the 2022 Annual 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.

On March 1, 2023, Aecon announced that it has entered into a definitive purchase agreement with GIP under which Aecon has agreed to sell its ATE roadbuilding, aggregates and materials businesses in Ontario for \$235 million in cash. On March 15, 2023, Aecon announced that it has entered into an agreement with CC&L Infrastructure to sell a 49.9% interest in the Bermuda International Airport concessionaire for US\$128.5 million (\$173,899 equivalent at March 31, 2023) in cash. Closing of these sales transactions is expected in the second quarter of 2023. Upon closing, Aecon expects to use the net proceeds from the transactions to pay down debt on its revolving credit facility. Aecon plans to maintain a disciplined capital allocation approach focused on long-term shareholder value.

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 8.35% 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.

At March 31, 2023, Aecon had a committed revolving credit facility of \$600 million, of which \$240 million was drawn and \$10 million 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.