Aecon Group Inc.

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

December 31, 2020

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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 December 31, 2020 consolidated financial statements and notes. This MD&A has been prepared as at February 25, 2021. 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 Systems;
- Nuclear Power Infrastructure;
- Utility Infrastructure; and
- Industrial Infrastructure.

Activities within the Concessions segment include the development, financing, build and operation of construction projects 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 effective 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. 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 the sufficiency of Aecon's liquidity and working capital requirements for the foreseeable future. Forward-looking statements may in some cases be identified by words such as "will," "plans," "believes," "expects," "anticipates," "estimates," "projects," "intends," "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 timing of projects, unanticipated costs and expenses, the failure to recognize and adequately respond to climate change concerns or public and governmental expectations on climate matters, general market and industry conditions and operational and reputational risks, including large project risk and contractual factors, and risks relating to the COVID-19 pandemic. Risk factors are discussed in greater detail in the section on “Risk Factors” later 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 prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”).

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 Canadian Generally Accepted Accounting Principles). 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.

Management uses these non-GAAP and supplementary financial measures, as well as certain non-GAAP ratios to analyze and evaluate operating performance. Aecon also believes the financial measures defined below 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 profit (loss) attributable to shareholders or earnings (loss) per share.

Throughout this MD&A, the following terms are used, which are not found in the Chartered Professional Accountants of Canada Handbook and 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 primary 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, net financing expense and income taxes (refer to Section 9 "Quarterly Financial Data" for a quantitative reconciliation to the most comparable financial measure).
- **"Backlog"** 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.

Primary financial statements

Primary financial statements include 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 or losses from projects accounted for using the equity method, foreign exchange, net financing expense, gain (loss) on sale of assets and investments, income taxes, and non-controlling interests.
- **"Operating profit (loss)"** represents the profit (loss) from operations, before net financing expense, income taxes and non-controlling interests.

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

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.

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 discussed 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.

5. RECENT DEVELOPMENTS

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared SARS-CoV-2, which has the potential to cause severe respiratory illness ("COVID-19"), a global pandemic. With the majority of governments across the jurisdictions in which Aecon operates declaring a state of emergency in response to the COVID-19 pandemic, Aecon's operations in 2020 were impacted at varying times by way of suspensions of certain of the Company's projects, 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 the availability of labour or to the supply chain. Certain projects that were expected to be available to Aecon to bid on to secure new revenue have been delayed or suspended.

Aecon has activated continuity plans and a rigorous COVID-19 health and safety assurance process, which meets or exceeds guidance by applicable government health authorities, to minimize disruptions to its business and adapt to evolving market conditions and safety standards. These plans include stringent site pre-screening processes, heightened hygienic and disinfection practices, physical distancing, provision of additional personal protective equipment to front line workers, team separation and staggered work hours where possible, as well as extensive technology-enabled remote work initiatives.

Aecon continues to monitor developments and mitigate risks related to the COVID-19 pandemic and the impact on Aecon's projects, operations, supply chain, and most importantly the health and safety of its employees. At this time, the majority of governments across the jurisdictions in which Aecon operates have deemed the types of construction projects that constitute the majority of Aecon's contracts to be essential services and, therefore, operations are broadly continuing, although in many cases on a modified basis. As this situation may continue to evolve for some time, shifting directives and policies from clients and governments are expected to continue. Aecon's financial position, liquidity and capital resources remain strong, and are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future.

Canada Emergency Wage Subsidy

The Canada Emergency Wage Subsidy ("CEWS") was enacted on April 11, 2020 and is a key measure in the Government of Canada's COVID-19 Economic Response Plan. The CEWS is designed to provide financial assistance to business entities experiencing a specified level of reduced revenue in order to support these employers in retaining or hiring employees. The subsidy reimburses a certain percentage (depending on the relevant filing period) of an employee's wages to an eligible employer during the current program period that began on March 15, 2020. The Company's entitlement, in accordance with the program's regulations, for the period from March 15 to December 31, 2020 was $111.5 million. Formal applications have been filed for eligible entities for that period, and as at December 31, 2020, $107.3 million had been received in cash from this program with the remaining $4.2 million expected to be received during the first quarter of 2021. The net benefit to the Company from the CEWS program in 2020 was $79.7 million after providing for increased client and employee related expenses directly attributable to the amount to be received from the CEWS. This net benefit amount was recorded as a cost recovery within gross profit of $89.4 million and as an increase in marketing, general and administrative expense of $9.7 million. The Company expects to continue its participation in the CEWS throughout the program's duration, subject to meeting the applicable eligibility requirements.

Aecon Acquires Medium to High-Voltage Electrical Transmission Contractor Voltage Power

On February 3, 2020, Aecon announced that it acquired Voltage Power Ltd. ("Voltage"), an electrical transmission and substation contractor headquartered in Winnipeg, Manitoba. The base purchase price was $30 million in cash, with additional earnout payments possible based on achieving minimum EBITDA targets over the subsequent three years. Previously a private, employee-owned company, Voltage brings key medium to high-voltage power transmission and distribution construction capabilities to Aecon. With average annual revenue of approximately $60 million over the past three years, Voltage has successfully completed over 20 projects in the past four years with an aggregate value of $200 million spanning Alberta, Saskatchewan, Manitoba, Ontario, and Newfoundland.

6. BUSINESS STRATEGY

Aecon's overall strategic goal is to clearly 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

Over the past decade, Aecon has had a consistent focus on building scale in core markets, achieving diversity and balance in geographic and end-market sectors, and on embedding a culture of operating excellence and consistent performance using a "One Aecon" approach in executing large, sophisticated turnkey projects for clients. In recent years, this has been highlighted by the development of a growing portfolio of concession investments tied to major Canadian and international infrastructure projects, the creation of an Urban Transportation Systems team focusing solely on meeting client needs in this rapidly expanding sector, and through divestiture of a number of non-core operations to allow for an increased focus on Aecon's chosen end-markets. Looking forward, Aecon's core strategy continues to be to differentiate its service offering and execution capability, which will lead to opportunities to secure higher-return projects by increasing the sophistication of the work being performed and improving the Company's competitive advantage through its ability to provide turnkey services to its clients.

The Company's "One Aecon" strategy has increasingly allowed for the seamless transition of resources, project management, and systems from one sector to another, allowing Aecon to capitalize on those markets providing the greatest opportunity at any point in time. This trend is expected to continue going forward, seeing Aecon's services and resources becoming increasingly balanced across geographies, contract models, project sizes and end markets. Aecon has built its overall management and operating structure to reflect this increasingly flexible model.

The Company is increasingly focused on integrating sustainability into its business strategy in order to mitigate the risks and harness the opportunities that will come from the transition to a net zero carbon economy.

Aecon Forward 2022 Strategic Plan

In 2019, Aecon adopted the Aecon Forward 2022 Strategic Plan (the "Strategic Plan") outlining an ambition to clearly be the number one Canadian infrastructure company. The Strategic Plan outlines four key focus areas, and specific priority actions within each area, that Aecon will undertake throughout the organization in pursuit of this ambition. The four key focus areas of the Strategic Plan are as follows:

1) Taking Care of Aecon's People

The Company is committed to the development of its employees to build its leadership position in the industry in Canada and to be the first-choice employer wherever Aecon works. This means that talented people looking for challenging and rewarding career growth in the construction industry choose Aecon first for career opportunities at every level and in every discipline. This is achieved by ensuring a safe, sustainable, and inclusive work environment for all of Aecon's people while promoting and living Aecon's core values with a focus on career development, performance, and accountability. This is especially important as competition in Canada for the best talent is intense.

A company's ability to demonstrate that it has industry leading safety programs, and a culture that puts safety first, is an important competitive differentiator in the construction industry. For many clients, a contractor's demonstrated commitment to safety throughout the organization is as important to selecting a contractor as their commitment to schedule, quality and price. This focus on safety is one of the reasons that maintaining and strengthening the Company's industry-leading safety program and culture is a key element of the Strategic Plan.

2) Improving Project Efficiency and Maximizing Profitability

Aecon embraces project complexity and is focused on ensuring a continuous risk management culture, including capturing and formalizing lessons learned across its portfolio of projects. To achieve this, the Company has established centres of excellence focused on the lifecycle of a project, encompassing commercial management, engineering and design management, proactive project planning, and project controls.

A key component of Aecon's strategy is to drive continuous improvement in project efficiency, and therefore profitability, through vertical and horizontal integration. This provides an ability to self-perform services required at virtually every stage of a project and is a competitive advantage for Aecon. Efficiencies are also derived from the depth and breadth of Aecon's capabilities, allowing it to participate in projects beyond the scope of any one discipline or business unit. Further, leveraging capabilities and ensuring collaboration across diverse businesses allows for synergies and cost savings for both Aecon and its clients through economies of scale, strategic sourcing and procurement, and resource sharing.

The Company is committed to being results oriented and maximizing profitability in a responsible and sustainable way. Aecon has set a goal of ongoing margin improvement and has a focus on profit throughout the organization, rather than just revenue growth.

3) Balancing Agility and Process

Aecon is committed to exceptional delivery across projects of all sizes and contract models within its chosen end-market sectors. The diversity of what Aecon does in these sectors allows for significant agility in meeting the needs of clients, an ability to quickly adapt to changing market conditions and opportunities, and a way to train and develop best in class project managers, supervision, and field personnel as they move across a wide range of project types.

Maintaining an entrepreneurial attitude and fostering and rewarding innovative thinking to add value for clients provides a competitive advantage for Aecon in the industry. As procurement models emerge, develop and change in both the private and public sectors, it is important to be agile and nimble. From traditional bid-build projects to complex public private partnerships, Aecon has the capability and expertise to compete for and execute projects across a wide range of procurement models. New trends in the Canadian market, such as unsolicited proposals and alliance models, among others, are areas where Aecon can add significant value through its financial capacity, self-perform capability, and entrepreneurial approach.

The ability to be innovative and agile in responding to market trends, something that is core to Aecon's operating model, is complemented by a focus on effectively identifying, mitigating and managing the construction risk inherent in every project the Company undertakes. The ability to deliver those projects in a manner that appropriately protects the safety of employees, stakeholders, and the public are key elements of success in the construction industry. Developing industry leading processes and capabilities in these areas, while remaining agile, is a fundamental part of Aecon's strategy.

4) Investing in Tomorrow's Growth

Aecon is seeking to leverage its combination of construction and concessions expertise to secure new alternative finance projects with both government and private clients in Canada and internationally. Aecon has historically participated in the design, build, finance, maintenance and operations of Canadian and international infrastructure development opportunities, through both its construction and concession capabilities. Aecon intends to selectively increase the number of these project opportunities going forward and is continuing to build capacity in this area, including a focused international development team to bring Aecon's capabilities to an increasing number of such opportunities.

In Canada, niche, tuck-in 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. While the Company believes strategic growth within Canada is the appropriate near-term focus, the U.S. infrastructure development and construction market is viewed as a longer-term opportunity to continue to diversify the business and provide both growth and earnings stability through long-term economic cycles.

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, operational excellence, and risk management towards achieving best in class operating margins, prudent and balanced growth, and discipline in the allocation of capital, all ultimately designed to deliver superior shareholder value:

- Profit: Achieve best-in-class operating margin in the Construction segment relative to Canadian and international peers;
- Growth Capacity and Risk Management: Maintain prudent balance sheet leverage and liquidity while maintaining Aecon's current 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 consistent dividend increases through growth in cash flow and Earnings Per Share.

Particular Focus for 2021 – the Company is focused on a number of programs and key initiatives to advance its overall strategy this year, including:

1) ongoing delivery on the Strategic Plan to become clearly the number one Canadian infrastructure company;
2) implementing a comprehensive "Safety Reset for Success" initiative to ensure the focus and commitment to safety performance is paramount at every level of the organization;
3) strengthening the Company through the diversity of its workforce, through recruitment, retention, and development initiatives, as well as fostering an inclusive and equitable workplace;
4) leveraging Aecon's scale to implement a "Preferred Supplier Initiative" that aims to deliver significant cost savings for materials and services we procure through expanded discount and rebate programs;
5) combining digital design and construction tools with innovative construction technologies to increase productivity, improve quality, and enhance risk management while providing an integrated digital delivery for Aecon's clients on major projects;
6) leveraging success with "lean construction" practices and related project efficiency on select recent projects by establishing a continuous improvement strategy to drive these practices across the organization;
7) aligning Aecon's data and systems governance and protection with ISO 27001 – Information Security Management as one element of a drive to continually enhance the Company's cybersecurity program;
8) investing further in environmental, social, and governance ("ESG") initiatives, including expanding greenhouse gas emissions tracking and disclosure, setting emissions reduction targets and further identifying climate-related risks and opportunities; and
9) building on Aecon's P3 expertise in government infrastructure related projects to target innovative development and concession opportunities in industrial, power, cleantech, and other related markets.

7. CONSOLIDATED FINANCIAL HIGHLIGHTS

$ millions (except per share amounts)	Three months ended December 31		Year ended December 31	
	2020	2019	**2020**	2019
Revenue	$ **1,077.2**	$ **917.3**	$ **3,643.6**	$ **3,460.4**
Gross profit	124.0	103.9	401.3	367.6
Marketing, general and administrative expense	(53.7)	(52.6)	(182.4)	(183.4)
Income from projects accounted for using the equity method	4.2	3.5	14.1	12.5
Other income	6.2	1.3	8.6	4.7
Depreciation and amortization	(27.2)	(24.9)	(91.7)	(94.1)
Operating profit	**53.5**	**31.1**	**149.9**	**107.3**
Finance income	0.2	0.6	1.1	2.1
Finance cost	(7.4)	(6.4)	(26.9)	(22.6)
Profit before income taxes	**46.3**	**25.3**	**124.0**	**86.8**
Income tax expense	(14.3)	(5.1)	(35.9)	(13.9)
Profit	$ **32.0**	$ **20.2**	$ **88.0**	$ **72.9**
Gross profit margin(3)	**11.5%**	**11.3%**	**11.0%**	**10.6%**
MG&A as a percent of revenue(3)	**5.0%**	**5.7%**	**5.0%**	**5.3%**
Adjusted EBITDA(1)	**83.6**	**61.7**	**264.5**	**221.9**
Adjusted EBITDA margin(2)	**7.8%**	**6.7%**	**7.3%**	**6.4%**
Operating margin(3)	**5.0%**	**3.4%**	**4.1%**	**3.1%**
Earnings per share - basic	$ **0.53**	$ **0.33**	$ **1.47**	$ **1.20**
Earnings per share - diluted	$ **0.46**	$ **0.31**	$ **1.29**	$ **1.12**
Backlog(1)			$ **6,454**	$ **6,790**

(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, 2020 of $3,644 million was $183 million, or 5%, higher compared to 2019. Although revenue in 2020 was negatively impacted by COVID-19, particularly in certain end market sectors, due to a number of project suspensions, delays, or modified schedules, growth compared to 2019 was achieved in the Construction segment ($227 million) driven by higher revenue in industrial operations ($285 million), utilities ($95 million), and civil operations and urban transportation systems ($95 million). These increases were partially offset by lower revenue in nuclear operations ($248 million). In the Concessions segment, lower revenue of $120 million was primarily due to the suspension of commercial flight operations on March 20, 2020 at the Bermuda International Airport Redevelopment Project. Since reopening of the airport on July 1, 2020, commercial flight operations have been at a significantly reduced volume compared to the prior year for reasons related to the COVID-19 pandemic. This decrease in Concessions segment revenue was partially offset by inter-segment revenue eliminations that decreased by $76 million, primarily due to revenue between the Concessions and Construction segments related to construction activity at the Bermuda International Airport Redevelopment Project.

Operating profit of $149.9 million for the year ended December 31, 2020 increased by $42.6 million compared to operating profit of $107.3 million in 2019. The negative revenue impact of COVID-19 had a corresponding impact on operating profit, primarily due to the loss of related gross profit from affected projects in 2020. However, operating profit in 2020 included a net positive impact from amounts related to the CEWS program ($79.7 million), recorded in the Construction segment as cost recovery within gross profit ($89.4 million) and as an increase in MG&A ($9.7 million) (see "Canada Emergency Wage Subsidy" in Section 5 "Recent Developments"). This subsidy offset the impacts of COVID-19 on Aecon's business since March 2020 while assisting Aecon to maintain normal employment levels through this period.

As noted above, gross profit in 2020 of $401.3 million was positively impacted by amounts related to the CEWS program of $89.4 million. Excluding the impact of CEWS, gross profit decreased by $55.7 million compared to 2019. In the Construction segment, gross profit decreased by $9.1 million, primarily from lower gross profit margin in civil operations and urban transportation systems and from lower volume in nuclear operations. These decreases were partially offset by a volume driven increase in gross profit in industrial operations. In the Concessions segment, gross profit in 2020 decreased by $46.3 million due to the suspension of commercial flight operations on March 20, 2020 at the Bermuda International Airport Redevelopment Project followed by a lower volume of commercial flights compared to the prior year after reopening of the airport on July 1, 2020, for reasons related to the COVID-19 pandemic.

Marketing, general and administrative expense ("MG&A") decreased in 2020 by $1.0 million compared to 2019. As noted previously, $9.7 million of client and employee related expenses directly attributable to the amount to be received from the CEWS program was recorded in MG&A in 2020. This amount was more than offset by a decrease in discretionary costs in 2020. MG&A as a percentage of revenue decreased from 5.3% in 2019 to 5.0% in 2020.

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 $14.1 million in 2020 from projects accounted for using this method of accounting, compared to $12.5 million in 2019. The higher income in 2020 was driven by an increase in management and development fees in the Concessions segment ($1.1 million) and higher income from joint ventures in the Construction segment ($0.5 million).

Depreciation and amortization expense of $91.7 million in 2020 was $2.4 million lower than in 2019. The largest decrease occurred in the Concessions segment ($13.3 million) and resulted from lower amortization expense related to the existing terminal at the Bermuda International Airport Redevelopment Project due to the terminal being closed for an extended period of time as well as the new terminal's opening date being extended due to impacts related to the COVID-19 pandemic. Construction segment depreciation and amortization expense was higher by $10.9 million compared to 2019, primarily due to an increase in equipment deployed.

Net financing expense of $25.8 million in 2020, consisting of finance cost of $26.9 million less finance income of $1.1 million, was $5.3 million higher than in 2019, primarily from an increase in interest expense related to borrowings on the revolving credit facility and finance leases, as well as from interest expense of $1.3 million related to the non-recourse debt financing for the Bermuda International Airport Redevelopment project. During the construction phase of this project, interest related to the non-recourse debt financing was being capitalized, but after the new airport terminal commenced operations in December 2020, interest is now being recognized as finance cost in the consolidated statements of income.

Set out in Note 22 of the December 31, 2020 consolidated financial statements is a reconciliation between the expected income tax for 2020 and 2019 based on statutory income tax rates and the actual income tax expense reported for both these periods.

Reported backlog as at December 31, 2020 of $6,454 million compares to backlog of $6,790 million as at December 31, 2019. New contract awards of $3,308 million were booked in 2020 compared to $3,429 million in 2019.

Backlog[(1)] **$ millions**	**As at December 31**			
		2020		2019
Construction	**$**	**6,382**	$	6,735
Concessions		**72**		55
Consolidated	**$**	**6,454**	$	6,790

(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.

Estimated backlog duration **$ millions**	**As at December 31**					
		2020			2019	
Next 12 months	**$**	**2,835**	**44%**	$	2,830	42%
Next 13-24 months		**1,404**	**22%**		1,550	23%
Beyond		**2,215**	**34%**		2,410	35%
	$	**6,454**	**100%**	$	6,790	100%

The timing of work to be performed for projects in backlog as at December 31, 2020 is based on current project schedules, taking into account the current impacts of COVID-19 and related slowdowns, re-scheduling, and in some cases, suspension of work and agreed future restart dates. It is possible that these schedules could change in the future as the COVID-19 pandemic evolves.

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

Reported backlog includes the revenue value of backlog that relates to projects that are accounted for using the equity method. The equity method reports a single amount (revenue less expenses) on Aecon's consolidated statement of income, and as a result the revenue component of backlog for these projects is not included in Aecon's reported revenue. As at December 31, 2020, reported backlog from projects that are accounted for using the equity method was $nil (December 31, 2019 - $nil).

Further detail for each segment is included in the discussion below under Reporting Segments.

8. REPORTABLE SEGMENTS FINANCIAL HIGHLIGHTS

8.1. CONSTRUCTION

Financial Highlights

$ millions	Three months ended December 31		Year ended December 31	
	2020	2019	**2020**	2019
Revenue	**$ 1,065.9**	$ 901.6	**$ 3,613.9**	$ 3,386.8
Gross profit	**$ 118.9**	$ 92.7	**$ 395.1**	$ 314.8
Adjusted EBITDA(1)	**$ 86.1**	$ 60.5	**$ 261.7**	$ 185.4
Operating profit	**$ 71.2**	$ 43.5	**$ 193.2**	$ 126.0
Gross profit margin(3)	**11.2%**	10.3%	**10.9%**	9.3%
Adjusted EBITDA margin(2)	**8.1%**	6.7%	**7.2%**	5.5%
Operating margin(3)	**6.7%**	4.8%	**5.3%**	3.7%
Backlog(1)			**$ 6,382**	$ 6,735

(1) This is a non-GAAP financial measure. Refer to Section 4 "Non-GAAP And Supplementary Financial Measures" in this document 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, 2020, revenue in the Construction segment of $3,614 million was $227 million, or 7%, higher than in 2019. Construction segment revenue was higher in industrial operations ($285 million) primarily due to increased activity on mainline pipeline projects in western Canada, and in civil operations and urban transportation systems ($95 million) driven by increases in major projects and roadbuilding operations in both eastern and western Canada. Revenue was also higher in utilities operations ($95 million), due in large part to the acquisition of Voltage announced on February 3, 2020, which contributed revenue of $67 million in 2020. Partially offsetting these increases was lower revenue from nuclear operations ($248 million), driven primarily by a decrease in refurbishment work at the Darlington nuclear facility in Ontario as new work on the next unit of the main reactor was delayed from the second to the fourth quarter of 2020 due to impacts related to COVID-19, and from lower revenue in the first quarter of 2020 as the volume of work on the now completed first reactor refurbishment at Darlington wound down.

Operating profit in the Construction segment of $193.2 million in 2020 increased by $67.2 million compared to 2019. As previously noted in Section 7 "Consolidated Financial Highlights", Construction segment operating profit in 2020 included an operating profit impact of $79.7 million related to the CEWS program covering the period from March 15 to December 31, 2020. After excluding amounts related to the CEWS program, operating profit in 2020 decreased by $12.5 million compared to the same period in 2019. Lower operating profit was primarily driven by a volume driven decrease in nuclear operations and lower gross profit margin in civil operations and urban transportation systems. These decreases were partially offset by higher operating profit in industrial operations primarily from increased volume.

Construction backlog as at December 31, 2020 was $6,382 million, which was $353 million lower than the same time last year. Backlog decreased year-over-year in civil operations and urban transportation systems ($352 million), industrial ($145 million), and increased in utilities operations ($136 million) and nuclear ($8 million). New contract awards in 2020 totalled $3,261 million compared to $3,337 million in 2019.

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			
		2020		2019		**2020**		2019
Revenue	$	**53.5**	$	38.5	$	**98.0**	$	218.2
Gross profit	$	**5.3**	$	11.3	$	**6.5**	$	52.8
Income from projects accounted for using the equity method	$	**3.3**	$	3.1	$	**11.9**	$	10.8
Adjusted EBITDA(1)	$	**14.9**	$	19.8	$	**42.0**	$	83.0
Operating profit (loss)	$	**0.4**	$	6.8	$	**(2.7)**	$	29.2
Backlog(1)					$	**72**		55

(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 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. However, Aecon's concession participation in the Eglinton Crosstown Light Rail Transit ("LRT"), Finch West LRT, Gordie Howe International Bridge, and Waterloo LRT projects are joint ventures that are accounted for using the equity method.

For the year ended December 31, 2020, revenue in the Concessions segment of $98 million was $120 million lower than in 2019. The lower revenue was due to the suspension of commercial flight operations on March 20, 2020 at the Bermuda International Airport Redevelopment Project followed by a lower volume of commercial flights compared to the prior year after reopening of the airport on July 1, 2020, for reasons related to the COVID-19 pandemic, as well as from decreased construction activity related to this project. Included in Concessions' revenue for 2020 was $65 million of construction revenue that was eliminated on consolidation as inter-segment revenue (compared to $136 million in 2019).

Operating loss in the Concessions segment of $2.7 million for the year ended December 31, 2020 worsened by $31.9 million compared to an operating profit of $29.2 million in 2019. The lower operating profit occurred in the Bermuda International Airport Redevelopment Project and resulted from the above noted COVID-19 impact on airport operations.

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)

	2020				2019			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Revenue	$ 1,077.2	$ 1,039.5	$ 779.4	$ 747.5	$ 917.3	$ 1,025.4	$ 867.3	$ 650.3
Adjusted EBITDA(1)	83.6	137.2	24.4	19.2	61.7	91.1	57.3	11.9
Earnings (loss) before income taxes	46.3	100.1	(7.4)	(15.0)	25.3	53.2	23.2	(14.9)
Profit (loss)	32.0	73.6	(6.2)	(11.4)	20.2	42.1	20.4	(9.8)
Earnings (loss) per share:								
Basic	0.53	1.23	(0.10)	(0.19)	0.33	0.69	0.34	(0.16)
Diluted	0.46	0.99	(0.10)	(0.19)	0.31	0.60	0.31	(0.16)

(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

	2020				2019			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Operating profit (loss)	$ 53.5	$ 106.8	$ (0.8)	$ (9.7)	$ 31.1	$ 58.8	$ 28.1	$ (10.8)
Depreciation and amortization	27.2	22.3	19.4	22.8	24.9	26.8	23.9	18.5
(Gain) loss on sale of assets	(5.8)	(0.9)	(1.8)	(0.3)	(1.0)	(0.7)	(1.1)	(0.5)
Income from projects accounted for using the equity method	(4.2)	(4.4)	(2.7)	(2.9)	(3.5)	(4.3)	(2.2)	(2.5)
Equity Project EBITDA(1)	12.9	13.4	10.3	9.4	10.1	10.6	8.6	7.2
Adjusted EBITDA(1)	$ 83.6	$ 137.2	$ 24.4	$ 19.2	$ 61.7	$ 91.1	$ 57.3	$ 11.9

(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 for the most recent eight quarters:

$ millions

	2020				2019			
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	$ 12.7	$ 13.2	$ 10.1	$ 9.2	$ 10.0	$ 10.4	$ 8.4	$ 7.1
Depreciation and amortization	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.1
Equity Project EBITDA(2)	12.9	13.4	10.3	9.4	10.1	10.6	8.6	7.2

(1) Refer to Note 12 "Projects Accounted for Using the Equity Method" in the 2020 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 and years ended December 31, 2020 and 2019:

$ millions

	Three months ended December 31, 2020				Year ended December 31, 2020			
	Construction	Concessions	Other costs and eliminations	Consolidated	Construction	Concessions	Other costs and eliminations	Consolidated
Operating profit (loss)	$ 71.2	$ 0.4	$ (18.1)	$ 53.5	$ 193.2	$ (2.7)	$ (40.6)	$ 149.9
Depreciation and amortization	18.7	7.8	0.7	27.2	72.0	18.3	1.4	91.7
(Gain) on sale of assets	(5.8)	-	-	(5.8)	(8.8)	-	-	(8.8)
Income from projects accounted for using the equity method	(0.9)	(3.3)	-	(4.2)	(2.2)	(11.9)	-	(14.1)
Equity Project EBITDA(1)	2.9	10.0	-	12.9	7.5	38.3	-	45.8
Adjusted EBITDA(1)	$ 86.1	$ 14.9	$ (17.4)	$ 83.6	$ 261.7	$ 42.0	$ (39.2)	$ 264.5

$ millions

	Three months ended December 31, 2019				Year ended December 31, 2019			
	Construction	Concessions	Other costs and eliminations	Consolidated	Construction	Concessions	Other costs and eliminations	Consolidated
Operating profit (loss)	$ **43.5**	$ **6.8**	$ **(19.2)**	$ **31.1**	$ **126.0**	$ **29.2**	$ **(47.9)**	$ **107.3**
Depreciation and amortization	**17.3**	**7.1**	**0.5**	**24.9**	**61.1**	**31.6**	**1.4**	**94.1**
(Gain) on sale of assets	**(1.0)**	**-**	**-**	**(1.0)**	**(3.4)**	**-**	**-**	**(3.4)**
Income from projects accounted for using the equity method	**(0.4)**	**(3.1)**	**-**	**(3.5)**	**(1.7)**	**(10.8)**	**-**	**(12.5)**
Equity Project EBITDA(1)	**1.1**	**9.0**	**-**	**10.1**	**3.4**	**33.0**	**-**	**36.4**
Adjusted EBITDA(1)	**$ 60.5**	**$ 19.8**	**$ (18.7)**	**$ 61.7**	**$ 185.4**	**$ 83.0**	**$ (46.5)**	**$ 221.9**

(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, 2020 and 2019:

$ millions

	Three months ended December 31, 2020				Year ended December 31, 2020			
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	$ **2.7**	$ **10.0**	$ **-**	$ **12.7**	$ **6.9**	$ **38.3**	$ **-**	$ **45.2**
Depreciation and amortization	**0.2**	**-**	**-**	**0.2**	**0.6**	**-**	**-**	**0.6**
Equity Project EBITDA(2)	**2.9**	**10.0**	**-**	**12.9**	**7.5**	**38.3**	**-**	**45.8**

$ millions

	Three months ended December 31, 2019				Year ended December 31, 2019			
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	$ **1.0**	$ **9.0**	$ **-**	$ **10.0**	$ **2.8**	$ **33.0**	$ **-**	$ **35.8**
Depreciation and amortization	**0.1**	**-**	**-**	**0.1**	**0.6**	**-**	**-**	**0.6**
Equity Project EBITDA(2)	**1.1**	**9.0**	**-**	**10.1**	**3.4**	**33.0**	**-**	**36.4**

(1) Refer to Note 12 “Projects Accounted for Using the Equity Method” in the 2020 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.

Quarterly Financial Highlights

$ millions	Three months ended December 31							
	Revenue				**Operating profit (loss)**			
		2020		2019		**2020**		2019
Construction	**$**	**1,065.9**	$	901.6	**$**	**71.2**	$	43.5
Concessions		**53.5**		38.5		**0.4**		6.8
Other costs and eliminations		**(42.2)**		(22.8)		**(18.1)**		(19.2)
Consolidated	**$**	**1,077.2**	$	917.3	**$**	**53.5**	$	31.1

The analysis of operating results for each of the first three quarters of 2020 is included in Management's Discussion and Analysis incorporated in the Interim Reports to Shareholders for each respective quarter.

For the three months ended December 31, 2020, revenue in the Construction segment of $1,066 million was $164 million, or 18%, higher than the fourth quarter of 2019. Construction segment revenue was higher in industrial ($172 million) primarily due to increased activity on mainline pipeline projects in western Canada, and in utilities operations ($23 million) driven by increased volume in the gas distribution and telecommunication sectors as well as the from the acquisition of Voltage in the first quarter of 2020. These increases were partially offset by lower volume in nuclear operations ($23 million) due primarily to the previously noted delay in starting the next phase of refurbishment work at the Darlington nuclear facility and in civil operations and urban transportation systems ($8 million).

Operating profit in the Construction segment of $71.2 million in the fourth quarter of 2020 increased by $27.7 million compared to $43.5 million in the fourth quarter of 2019. Construction segment operating profit in the fourth quarter of 2020 included a favourable impact of the CEWS program totalling $10.6 million. After excluding amounts related to the CEWS program, operating profit in the fourth quarter of 2020 increased by $17.1 million compared to the same period in 2019. Operating profit was higher in industrial and utilities from increased volume and higher in nuclear operations due to higher gross profit margin. These increases were partially offset by lower operating profit in civil operations and urban transportation systems due primarily to lower gross profit margin.

Revenue in the Concessions segment in the fourth quarter of 2020 of $54 million was higher by $15 million when compared to the same period in 2019. This higher revenue was due to increased construction activity related to the Bermuda International Airport Redevelopment Project and was partially offset by a lower volume of commercial flights compared to the same quarter in 2019 for reasons related to the COVID-19 pandemic. Included in Concessions' revenue for the three months ended December 31, 2020 was $42 million of construction revenue that was eliminated on consolidation as inter-segment revenue (compared to $21 million in the same quarter in 2019).

Concessions segment operating profit of $0.4 million in the fourth quarter of 2020 represents a $6.4 million decrease over the same three-month period in 2019. The lower operating profit in the period occurred in the Bermuda International Airport Redevelopment Project and resulted from the above noted COVID-19 impact on airport operations.

MG&A expense increased in the fourth quarter of 2020 by $1.1 million compared to the same period in 2019, largely due to client and employee related expenses that are directly attributable to the amount to be received from the CEWS and recorded as an increase in MG&A expense. This increase was partially offset by a decrease in discretionary costs. MG&A as a percentage of revenue decreased from 5.7% in the fourth quarter of 2019 to 5.0% in the same period in 2020.

Aecon reported income from projects accounted for using the equity method of $4.2 million in the fourth quarter of 2020, compared to $3.5 million in the same period in 2019. The higher income in 2020 was driven by joint ventures in the Construction segment ($0.5 million) and an increase in management and development fees in the Concessions segment in the fourth quarter of 2020 ($0.2 million).

Depreciation and amortization expense of $27.2 million in the fourth quarter of 2020 was $2.3 million higher than the same period in 2019 with increases in both the Construction and Concessions segments.

Net financing expense of $7.2 million in the fourth quarter of 2020, consisting of finance cost of $7.4 million less finance income of $0.2 million, was $1.4 million higher than the same period in 2019 primarily due to the expensing of interest costs on the Bermuda International Airport Redevelopment project of $1.3 million following commencement of operations at the new airport terminal in December 2020. These interest costs were previously being capitalized while the new terminal was under construction.

New contract awards for the three months ended December 31, 2020 were $868 million compared to $1,150 million in the same period in 2019.

Selected Annual Information

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

($ millions, except per share amounts)	2020	2019	2018
Total revenue	**$ 3,643.6**	$ 3,460.4	$ 3,266.3
Adjusted EBITDA[(1)]	**264.5**	221.9	207.0
Operating profit	**149.9**	107.3	89.4
Profit	**88.0**	72.9	59.0
Per share:			
Basic	**1.47**	1.20	0.99
Diluted	**1.29**	1.12	0.94
Total assets	**3,287.4**	3,114.6	2,932.7
Total long-term financial liabilities	**883.7**	898.8	843.7
Cash dividends declared per common share	**0.64**	0.58	0.50

(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.

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 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 12 to the December 31, 2020 consolidated financial statements.

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 has also registered and perfected a builders' lien against project lands, providing security over approximately $97 million of the claimed damages. Rio Tinto has issued a counterclaim against the joint venture but has not articulated 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 Queen'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 $138 million of unbilled revenue and accounts receivable as at December 31, 2020. 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. 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.

10.2. CASH AND DEBT BALANCES

Cash balances at December 31, 2020 and December 31, 2019 are as follows:

$ millions		December 31, 2020		
		Balances excluding Joint Operations	Joint Operations	Consolidated Total
Cash and cash equivalents	(1)	**$ 100**	**$ 558**	**$ 658**
Restricted cash	(2)	**111**	**-**	**111**
		December 31, 2019		
		Balances excluding Joint Operations	Joint Operations	Consolidated Total
Cash and cash equivalents	(1)	$ 189	$ 493	$ 682
Restricted cash	(2)	77	-	77

(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.

Total long-term recourse debt of $369.2 million as at December 31, 2020 compares to $370.2 million as at December 31, 2019, the composition of which is as follows:

$ millions	December 31, 2020	December 31, 2019
Current portion of long-term debt – recourse	**$ 56.6**	$ 60.1
Long-term debt – recourse	**143.5**	145.7
Long-term portion of convertible debentures	**169.1**	164.4
Total long-term recourse debt	**$ 369.2**	$ 370.2
Long-term project debt - non-recourse	**$ 358.9**	$ 365.9

The $1.0 million net decrease in total long-term recourse debt results from a decrease in leases of $6.6 million offset partially by increases in equipment loans of $0.9 million and convertible debentures of $4.7 million related to the accretion of notional interest.

The $7.0 million decrease in long-term non-recourse project debt, which all relates to the financing of the Bermuda International Airport Redevelopment Project, is due to the impact of the change in the US:Canadian dollar exchange rate since December 31, 2019.

Aecon's financial position, liquidity and capital resources remain strong, and are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future. As part of the CEWS program, the Company received payments totalling $107.3 million in 2020, with another $4.2 million in payments expected in the first quarter of 2021 for CEWS periods up to December 31, 2020. As at December 31, 2020, Aecon had $100.5 million of cash on hand (excluding cash in joint operations and restricted cash), and a committed revolving credit facility of $600 million, of which $nil was drawn and $6 million utilized for letters of credit. Subsequent to year-end, the performance security guarantee facility provided by Export Development Canada to support letters of credit was increased from $700 million to $900 million. This facility, when combined with Aecon's committed revolving credit facility, provides Aecon with committed credit facilities for working capital and letter of credit requirements totalling $1,500 million. The Company has no debt or working capital credit facility maturities until the second half of 2023, except equipment loans and leases in the normal course. As at December 31, 2020, Aecon was in compliance with all debt covenants related to its credit facility.

In the fourth quarter of 2019, Aecon announced its intention to make a normal course issuer bid (the "NCIB") commencing on November 5, 2019 and expiring on November 4, 2020. During the period, Aecon was permitted to purchase for cancellation up to a maximum of 5,975,486 common shares on the open market, representing approximately 10% of the issued and outstanding common shares at the time of the announcement of the NCIB. In 2020, the Company acquired 937,937 common shares for $15.5 million, of which $6.1 million was recorded as a reduction in share capital and $9.4 million recorded as a reduction of retained earnings. In total, from November 5, 2019 to December 31, 2020, Aecon acquired 1,337,137 common shares for $22.7 million of which $8.7 million was recorded as a reduction in share capital and $14.0 million recorded as a reduction of retained earnings. All the shares acquired were subsequently cancelled. No shares were acquired under the NCIB between March 16, 2020 and expiry of the program on November 4, 2020.

In the first quarter of 2020, 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 $0.16 per share (annual dividend of $0.64 per share). Prior to this increase, Aecon paid a quarterly dividend of $0.145 per share (annual dividend of $0.58 per share). The first quarterly dividend payment of $0.16 per share was paid on April 2, 2020.

10.3. 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 and years ended December 31, 2020 and 2019 is as follows:

$ millions	Three months ended December 31		Year ended December 31	
	2020	2019	**2020**	2019
Operating Activities				
Cash provided by:				
Cash flows from operations before changes in working capital	**$ 71.4**	$ 54.4	**$ 192.5**	$ 184.9
Lower investments in working capital	**142.7**	218.6	**80.5**	11.1
Cash provided by operating activities	**$ 214.1**	$ 273.0	**$ 273.0**	$ 196.0
Investing Activities				
Cash provided by (used in):				
Decrease (increase) in restricted cash balances held by Skyport to finance the Bermuda International Airport Redevelopment Project	**$ (47.1)**	$ 6.6	**$ (38.8)**	$ 109.9
Expenditures made by Skyport related to the construction of the new airport terminal in Bermuda	**(56.7)**	(40.3)	**(98.4)**	(162.0)
Expenditures (net of disposals) on property, plant and equipment and intangible assets	**(2.0)**	(6.8)	**(34.6)**	(35.6)
Cash outflow related to the acquisition of Voltage	**(1.3)**	-	**(31.1)**	-
Increase in other investments	**-**	-	**-**	(3.8)
Proceeds on sale of contract mining business	**-**	11.7	**11.8**	22.0
Cash distributions received from projects accounted for using the equity method	**1.0**	1.5	**2.0**	4.9
Cash provided by (used for) investments in long-term financial assets	**-**	1.1	**(0.3)**	(1.5)
Cash used in investing activities	**$ (106.1)**	$ (26.2)	**$ (189.4)**	$ (66.1)
Financing Activities				
Cash provided by (used in):				
Decrease in bank indebtedness associated with borrowings under the Company's revolving credit facility	**$ -**	$ (23.0)	**$ -**	$ -
Increase in long-term recourse debt borrowings	**1.7**	4.3	**14.3**	20.1
Repayments of long-term recourse debt relating primarily to equipment financing arrangements	**(17.1)**	(13.8)	**(68.6)**	(54.5)
Cash used for dividends paid	**(9.5)**	(8.8)	**(37.5)**	(34.0)
Common shares purchased under NCIB	**-**	(7.2)	**(15.5)**	(7.2)
Cash used in financing activities	**$ (24.9)**	$ (48.5)	**$ (107.3)**	$ (75.6)
Increase (decrease) in cash and cash equivalents	**83.1**	198.3	**(23.7)**	54.3
Effects of foreign exchange on cash balances	**(1.9)**	(2.4)	**(0.3)**	(3.0)
Cash and cash equivalents - beginning of period	**577.1**	486.4	**682.3**	631.0
Cash and cash equivalents - end of period	**$ 658.3**	$ 682.3	**$ 658.3**	$ 682.3

In 2020, Aecon acquired, either through purchase or lease, property, plant and equipment totalling $77 million (excluding property, plant and equipment acquired at the time of the Voltage acquisition). Of this amount, $16.5 million of expenditures related to the purchase of an equipment yard and building in Ontario for use by the civil and utilities equipment fleet operations in the Construction segment, 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. In 2019, investments in property, plant and equipment totalled $107 million.

11. NEW ACCOUNTING STANDARDS

Note 6 *"New Accounting Standards"* to the 2020 consolidated financial statements includes new IFRS standards that became effective for the Company on January 1, 2020, and Note 7 discusses IFRS standards and interpretations that are issued, but not yet effective as at January 1, 2020.

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, 2020. 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, 2020 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, 2020. 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, 2020 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements 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, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

In response to the COVID-19 pandemic, certain physical distancing measures taken by Aecon, clients and governments have the potential to impact the design and performance of internal controls over financial reporting at the Company while these measures remain in place. 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.

Contractual Obligations

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

$ millions		**Finance lease payments**		**Equipment and other loans**		**Convertible debentures** [(1)]
2021	$	52.1	$	10.0	$	9.2
2022- 2025		100.8		20.4		202.4
Beyond		26.4		8.2		-
	$	**179.3**	**$**	**38.6**	**$**	**211.6**

(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**
2021	$	21.4
2022- 2025		102.8
Beyond		563.6
	$	**687.9**

As at December 31, 2020, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was $6,454 million.

Off-Balance Sheet Arrangements

Aecon's defined benefit pension plans (the "Pension Plans") had a combined surplus of $0.1 million as at December 31, 2020 (2019 – a combined surplus of $0.8 million). Details relating to Aecon's defined benefit plans are set out in Note 23 to the 2020 consolidated financial statements.

The latest actuarial valuation of the Pension Plans for statutory and contribution purposes was completed as at December 31, 2019. 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, 2022. Accordingly, unless an earlier valuation date is adopted, no change in contributions will be required before 2023 and any changes thereafter will reflect December 31, 2022 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 December 31, 2020 consolidated financial statements. 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, 2020, Aecon used a discount rate of 2.25% 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 $2.4 million as at December 31, 2020 and an increase in the estimated 2021 pension expense of approximately $0.1 million.

Further details of contingencies and guarantees are included in the December 31, 2020 consolidated financial statements.

Related Party Transactions

The Company discloses related party transactions in Note 35 "Related Parties" to the December 31, 2020 consolidated financial statements. 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 2020.

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 December 31, 2020 consolidated financial statements.

13. RISK FACTORS

The Company monitors and reviews significant and emerging risks that may affect its future results and takes action to mitigate potential risks as required.

The following risk factors, and the information incorporated by reference herein, should be considered carefully. 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. Notwithstanding that certain of these risk factors cross-reference other risk factors, all risk factors herein may be interrelated to some degree and should be read and considered together.

Risks Related to the COVID-19 Pandemic and Associated Entitlements under Government Assistance Programs

The COVID-19 pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus, including travel restrictions, self-imposed quarantine periods, stay-at-home directives and physical distancing measures that have caused disruption to businesses and resulted in an economic slowdown. The breadth and depth of the impact of the COVID-19 pandemic on the global economy continues to evolve, with disruptive effects in jurisdictions in which Aecon operates. While some government and regulatory measures have been eased to differing degrees across regions helping the economy to stabilize, subsequent surges in COVID-19 have caused, and could continue to cause, some restrictive measures to be reinstated or augmented and future economic activity to be uncertain.

The COVID-19 pandemic continues to impact Aecon's business. Although Aecon has been generally exempted from mandates requiring closures of non-essential businesses and, therefore, has been able to continue operations, revenue in 2020 was negatively impacted by the COVID-19 pandemic and related government measures. Aecon's operations in 2020 were 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, or other COVID-19 related impacts on the availability of labour or to our supply chain. Certain projects that were expected to be available to Aecon to bid on to secure new revenue have been delayed or suspended. These impacts may continue to occur in 2021 or future periods, with unpredictable frequency or degree.

Governments have implemented assistance programs for businesses that provide entitlements to offset the negative economic impacts of the COVID-19 pandemic. The Company has participated in certain of such programs, including the CEWS, but there can be no assurance that the Company will continue to be eligible for such programs, or that such programs will continue to be available. A decrease in, or discontinuation of, entitlements 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.

Aecon continues to monitor developments and mitigate risks related to the COVID-19 pandemic and the impact of these risks on Aecon's projects, operations, supply chain, and most importantly the health and safety of its employees. Aecon implemented a business continuity plan and has established the Aecon Leadership Emergency Response Team (ALERT) to provide centralized, cross-functional, strategic direction during a contagious illness situation such as the COVID-19 pandemic. While these measures may partially mitigate the impact of the COVID-19 pandemic on the Company, including minimizing recovery time and reducing business losses, the plan can neither account for, nor control, all possible events. The COVID-19 pandemic, therefore, may have material adverse financial implications for the Company, which are addressed more specifically in the risk factors below.

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 or a protracted or unsuccessful dispute with a client about entitlements 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 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 complex project could have a significant impact on Aecon's results.

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 December 31, 2020 consolidated financial statements filed on Aecon's SEDAR profile at www.sedar.com.

The failure to replace the revenue generated from large projects on a going forward basis could adversely affect Aecon.

Contractual Factors

Aecon performs construction activities under a variety of contract types, including lump sum, unit price, guaranteed maximum 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 overexposure 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 or guaranteed maximum price ("**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 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.

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 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.

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 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, 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 oil and gas consumption and consumer behaviour, 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.

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 and continue to experience 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, 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.

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, is directly affected by the general state of the local economy, which experienced a steep decline in response to government and private sector efforts since March, 2020 to contain the spread of COVID-19.

The COVID-19 pandemic is expected to continue to impact Aecon's ability to fully achieve its business objectives until there is greater dissemination of effective mass-produced vaccines and a broader and sustained relaxation of public health measures. 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 an economic rebound will continue to impact Aecon's clients and its business in 2021 and beyond and may have a significant adverse impact on Aecon's operations.

Concessionaire Risk

In addition to providing design, construction, procurement, operation 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 Redevelopment Project is a current example of such a project.

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, including the potential for a permanent reduction in air travel, such as curtailed business travel in favour of remote meetings in the aftermath of the COVID-19 pandemic, and a consequent reduction in the number of airport infrastructure projects that Aecon may have otherwise pursued as a concessionaire, 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.

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.

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 that arise from time to time, some of which may involve substantial sums of money. In view of the quantum of the amounts claimed and the insurance coverage maintained by the Company in respect of these matters, management of the Company does not believe that any of the legal actions or proceedings that are presently known or anticipated by the Company are likely to have a material impact on the Company's financial position. However, 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-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-related risks must be considered and disclosed pursuant to existing financial disclosure obligations, the pressure created by climate-related litigation may affect the regulatory and operating environment of companies, including Aecon.

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.

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 in consultation with the Board. Aecon is IT general controls (“**ITGC**”) certified and aligns to the National Institute of Standards and Technology Cybersecurity Framework. 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 ensure that Aecon’s security controls are protecting the Company’s information systems and infrastructure on an ongoing basis. Aecon has also established safeguards to ensure 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.

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. Aecon has similar exposure to security risks faced by other large companies that have data stored on their information technology systems.

As public health directives such as working from home (“**WFH**”) were introduced in 2020 to slow the spread of COVID-19, businesses faced increased cyber risks. Cyber criminals are adapting their tactics, making WFH 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 since the beginning of the COVID-19 pandemic. To reduce these 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 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, and (iv) required all employees to have two-factored authentication when logging into the Company’s systems. Moreover, network traffic analysis and heuristic malware scanning takes place across the Company’s corporate email system and on all Aecon-owned hardware, including hardware that is used from WFH locations and a third-party security operations center 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.

Climate Change Factors

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.

Risks in Transitioning to a Lower Carbon Economy

The transition to a lower-carbon 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, 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 economic sectors, 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.

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 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.

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. Aecon may be subject to a broad range of additional environmental information requests by customers 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.

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.

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.

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.

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.

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. Diminution of 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.

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 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.

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 do so 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 to ensure that the Company's insurance needs are met. If any of Aecon's third-party insurers fail, refuse to renew or revoke coverage 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.

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 comprehensive 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.

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.

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.

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, partner or third-party intermediary misconduct risks 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.

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.

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.

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.

In 2020, Aecon had to adapt and make contingency plans in response to WFH as a temporary or alternative working arrangement. Aecon leveraged its recent investments in information and communications technology to facilitate WFH and ensure business continuity.

Failure in the completeness, accuracy, availability or security of Aecon's information systems, the risk of system interruption or failure during system upgrades or implementation, a breach of data security, disruptions to the infrastructure, facilities and tools available for WFH could adversely affect the productivity and efficiency of Aecon's employees, and with respect to a longer disruption, the ability to effectively bid on new work, execute existing projects, or otherwise effectively manage Aecon's operations. Such impacts could adversely impact the Company's financial results.

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 WFH for the vast majority of 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.

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.

Loss of Key Management and Inability to Attract and Retain Key Staff

The Company's future prospects depend to a significant extent on the continued service of its key executives and staff. Furthermore, 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. The competition for such employees, 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.

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, conditions in the oil sands or other 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.

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.

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.

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 a comprehensive 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.

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.

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 financial assets, other than those accounted for at fair value, are assessed for indicators of impairment quarterly. 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 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.

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.

In particular, 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.

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.

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, 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.

Social Risks

All 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 & 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.

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 25, 2021
Number of common shares outstanding		60,219,825
Outstanding securities exchangeable or convertible into common shares:		
Principal amount of convertible debentures outstanding (see Note 19 to the December 31, 2020 consolidated financial statements)	$	181,764
Number of common shares issuable on conversion of convertible debentures		7,760,439
Increase in paid-up capital on conversion of convertible debentures	$	181,764
DSUs and RSUs outstanding under the Long-Term Incentive Plan and the Director DSU Plan		2,955,241

15. OUTLOOK

Aecon’s overall outlook for 2021 remains positive despite the ongoing background of COVID-19. Backlog and the level of new awards in 2020 remained strong, particularly in light of the challenges of a pandemic environment, with backlog of $6.5 billion at the end of 2020, new awards of $3.3 billion during the year, and strong recurring revenue programs, primarily in the utilities sector. The Company expects that demand for its services will remain healthy for the foreseeable future as the federal government and provincial governments across Canada have identified investment in infrastructure as a key source of stimulus as part of the economic recovery plan. Aecon is pre-qualified on a number of large project bids due to be awarded during 2021 and has a robust pipeline of opportunities to further add to backlog over time. In addition, recurring revenue in the utilities sector is expected to grow based on the capital investment plans of a number of key clients, particularly in the telecommunications sector.

Despite this overall positive outlook, the COVID-19 pandemic is expected to continue to have some impact in moderating overall revenue and profitability growth expectations in 2021, either due to client decisions related to schedules or operating policies or due to broader government directives to modify work practices to meet relevant health and safety standards. In particular, due to an increase in cases in the province and concern around the impact of workers traveling to remote communities and in some cases living in shared accommodation facilities at the worksite, the government of British Columbia reduced employment levels in January 2021 at a number of northern construction sites, including the Site C Clean Energy Project and the Coastal GasLink pipeline project, both of which Aecon is actively working on. Additionally, a small number of construction projects have been impacted by cases of COVID-19 as infections in the community have increased across Canada, which has resulted in an increase in the number of employees quarantining and self-isolating as a precautionary measure. While the primary impact from COVID-19 will be to reduce revenue in certain areas of Aecon’s Construction segment until normal operations fully resume, there is no guarantee that all related costs will be recovered and therefore it is possible that future project margins could be impacted as well.

In the Concessions segment, the new Bermuda International Airport terminal opened for operations on December 9, 2020. The opening of the new terminal marks a significant milestone for the Company and completes the construction portion of this project that was awarded in March 2017. Commercial operations at the Bermuda International Airport continue to recover slowly due to COVID-19 related travel restrictions, which have significantly impacted the aviation industry. The aviation industry is not expected to improve meaningfully until significant portions of the global population have been vaccinated and existing travel restrictions are lifted.

As a Canadian employer whose business has been affected by COVID-19, Aecon expects to continue its participation in the CEWS program throughout the program’s duration, subject to meeting the applicable eligibility requirements. The Company expects the contribution from CEWS to be lower in the first quarter of 2021 as compared to the fourth quarter of 2020 due to lower seasonal work and therefore lower payroll cost, and expects lower contribution overall from CEWS in 2021 compared to 2020 due to the expected reduced impact of COVID-19 on revenue in 2021, the lower subsidy rates that now apply compared to earlier phases of the program, and an anticipated end to the program in June 2021.

Aecon’s financial position, liquidity and capital resources remain strong, and are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future. As at December 31, 2020, Aecon had $100 million of cash on hand (excluding cash in joint operations and restricted cash), and a committed revolving credit facility of $600 million, of which $nil was drawn, and $6 million utilized for letters of credit. The Company has no debt or working capital credit facility maturities until the second half of 2023, except equipment loans and leases in the normal course.

Capital expenditures in 2021 are expected to be higher than 2020 as a result of deferred capital spending in 2020 due to COVID-19, with spending in 2021 expected to be more in line with 2019. With the completion of construction of the Bermuda International Airport, interest related to the non-recourse debt financing of this project will no longer be capitalized and instead will be reported as interest expense. On an annualized basis, this interest expense is approximately $20 million. Offsetting this to some extent is the impact of reduced amortization related to the concession right attached to the Bermuda International Airport, which is expected to be $6 million lower than 2020. Neither of these changes related to accounting for operations in Bermuda impact the Company's cash flow.

As noted above, the overall outlook for 2021 remains strong as construction continues on a number of projects that ramped up in 2019 and 2020, the strong level of backlog and new awards during 2020, and the strong demand environment for Aecon's services, including recurring revenue programs, all subject to the unknown impacts of COVID-19 going forward.

Aecon again thanks its employees, in particular its front-line construction workers, for their dedication, commitment, and professionalism during the challenges of 2020 and into 2021.