Aecon Group Inc.

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

September 30, 2020

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 September 30, 2020 interim condensed consolidated financial statements and notes, which have not been reviewed by the Company's external auditors, and in conjunction with the Company's annual MD&A for the year ended December 31, 2019 (the "2019 Annual MD&A"). This MD&A has been prepared as of October 29, 2020. 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.

Introduction

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

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.

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 and associated entitlements under government assistance programs. Readers are referred to the specific risk factors relating to and affecting Aecon's business and operations as filed by Aecon pursuant to applicable securities laws. 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.

FINANCIAL REPORTING STANDARDS

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

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting".

NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES

The MD&A presents certain non-GAAP and additional GAAP (GAAP refers to Canadian Generally Accepted Accounting Principles) financial measures to assist readers in understanding the Company's performance. These non-GAAP 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 additional GAAP measures to analyze and evaluate operating performance. Aecon also believes the non-GAAP and additional GAAP financial measures 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

Non-GAAP financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with GAAP in the consolidated financial statements.

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

Additional GAAP Financial Measures

Additional GAAP financial 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.

- **"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.
- **"Gross profit margin"** represents gross profit as a percentage of revenue.
- **"Operating profit (loss)"** represents the profit (loss) from operations, before net financing expense, income taxes and non-controlling interests.
- **"Operating margin"** represents operating profit (loss) as a percentage of revenue.

RECENT DEVELOPMENTS

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus, 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 have been 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'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.

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.

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 for 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 September 26, 2020 is $91.6 million. Formal applications have been filed for eligible entities for that period and the amount of $91.6 million was recognized in the third quarter of 2020 as a cost recovery within gross profit. The net benefit to gross profit from the CEWS program in the third quarter was $69.0 million after providing for increased client and employee related expenses directly attributable to the amount to be received from the CEWS. As at September 30, 2020, $50.7 million had been received in cash from this program with the remaining $40.9 million expected to be received during the fourth quarter of 2020. 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 next 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.

BUSINESS STRATEGY

The reader is referred to the discussion on Business Strategy as outlined in the 2019 Annual Report available on the Company's website at www.aecon.com or through SEDAR at www.sedar.com.

CONSOLIDATED FINANCIAL HIGHLIGHTS

$ millions (except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Revenue	**$ 1,039.5**	**$ 1,025.4**	**$ 2,566.4**	**$ 2,543.1**
Gross profit	162.2	120.6	277.3	263.7
Marketing, general and administrative expense	(37.9)	(40.9)	(128.7)	(130.8)
Income from projects accounted for using the equity method	4.4	4.3	9.9	9.0
Other income	0.4	1.6	2.4	3.5
Depreciation and amortization	(22.3)	(26.8)	(64.5)	(69.2)
Operating profit	**106.8**	**58.8**	**96.4**	**76.1**
Financing expense, net	(6.7)	(5.6)	(18.7)	(14.7)
Profit before income taxes	**100.1**	**53.2**	**77.7**	**61.5**
Income tax expense	(26.5)	(11.1)	(21.6)	(8.8)
Profit	**$ 73.6**	**$ 42.1**	**$ 56.0**	**$ 52.7**
Gross profit margin	**15.6%**	**11.8%**	**10.8%**	**10.4%**
MG&A as a percent of revenue	**3.6%**	**4.0%**	**5.0%**	**5.1%**
Adjusted EBITDA	**137.2**	**91.1**	**180.9**	**160.3**
Adjusted EBITDA margin	**13.2%**	**8.9%**	**7.0%**	**6.3%**
Operating margin	**10.3%**	**5.7%**	**3.8%**	**3.0%**
Earnings per share - basic	**$ 1.23**	**$ 0.69**	**$ 0.93**	**$ 0.87**
Earnings per share - diluted	**$ 0.99**	**$ 0.60**	**$ 0.83**	**$ 0.81**
Backlog			**$ 6,664**	**$ 6,557**

Revenue for the three months ended September 30, 2020 of $1,040 million was $14 million, or 1%, higher compared to the third quarter of 2019, and revenue for the nine months ended September 30, 2020 of $2,566 million was $23 million, or 1%, higher compared to the same period in 2019. During both respective periods, revenue was negatively impacted by COVID-19 due to a number of project suspensions, delays, or modified schedules. Revenue for the three and nine months ended September 30, 2020 was higher in the Construction segment ($34 million and $63 million, respectively), driven by higher revenue in industrial operations ($65 million and $114 million, respectively), civil operations and urban transportation systems ($34 million and $103 million, respectively), and utilities ($14 million and $72 million, respectively). These increases were partially offset by lower revenue in nuclear operations ($79 million and $226 million, respectively). In the Concessions segment, lower revenue for the three and nine months ended September 30, 2020 of $52 million and $135 million, respectively, was primarily due to the suspension of commercial flight operations on March 20, 2020 at the Bermuda International Airport Redevelopment Project. Upon 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 $32 million and $95 million, respectively, primarily due to revenue between the Concessions and Construction segments related to the Bermuda International Airport Redevelopment Project.

Operating profit of $106.8 million for the three months ended September 30, 2020 improved by $48.0 million compared to an operating profit of $58.8 million in the same period in 2019, and operating profit of $96.4 million for the nine months ended September 30, 2020 improved by $20.3 million compared to an operating profit of $76.1 million in the same period in 2019. The negative revenue impact as a result of COVID-19 had a corresponding impact on operating profit, primarily due to the loss of related gross profit from affected projects in the third quarter of 2020 and the nine months year-to-date. Both periods included a net positive impact on operating profit from subsidy related to the CEWS program ($69.0 million in both the three month and nine-month periods ended September 30, 2020), recorded as cost recovery within gross profit in the Construction segment (see "Canada Emergency Wage Subsidy" section above). 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 the third quarter of 2020 of $162.2 million was positively impacted by CEWS of $69.0 million. Excluding the impact of CEWS, gross profit in the third quarter decreased by $27.4 million compared to the same period in 2019. In the Construction segment, gross profit decreased by $8.6 million in the third quarter primarily from lower gross profit margin in civil operations and urban transportation systems, and lower volume and gross profit margin in nuclear operations. These decreases were partially offset by a volume driven increase in gross profit in industrial operations, and from higher gross profit in utilities, driven by higher volume and gross profit margin. In the Concessions segment, gross profit in the third quarter decreased by $18.8 million compared to the same period in 2019, due to the lower volume of commercial flights at the Bermuda International Airport Redevelopment Project for reasons related to the COVID-19 pandemic.

As noted above, gross profit in the first nine months of 2020 of $277.3 million was positively impacted by CEWS of $69.0 million. Excluding the impact of CEWS, gross profit in the first nine months of 2020 decreased by $55.4 million. In the Construction segment, gross profit in the period decreased by $15.0 million primarily from lower gross profit margin in civil operations, urban transportations systems and utilities operations, as well as from lower volume in nuclear operations. These decreases were partially offset by higher gross profit in industrial operations, driven by higher volume and gross profit margin. In the Concessions segment, gross profit in the period decreased by $40.4 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 expenses ("MG&A") decreased by $3.0 million and $2.1 million for the three and nine-month periods ended September 30, 2020, respectively, compared to the same periods in 2019. The decrease in MG&A in both periods resulted largely from a decrease in discretionary costs. MG&A as a percentage of revenue for the third quarter decreased from 4.0% in 2019 to 3.6% in 2020, and for the nine-month period decreased from 5.1% 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 $4.4 million in the third quarter of 2020 from projects accounted for using this method of accounting, compared to $4.3 million in the third quarter of 2019, and income of $9.9 million in the first nine months of 2020 compared to $9.0 million in the same period of 2019. The higher income in the third quarter and first nine months of 2020 was driven by increases in management and development fees in the Concessions segment ($0.1 million and $0.9 million, respectively).

Depreciation and amortization expense of $22.3 million and $64.5 million in the third quarter and nine months ended September 30, 2020, respectively, was $4.5 million and $4.7 million lower than the same periods in 2019. The largest decrease in both periods occurred in the Concessions segment ($6.1 million and $14.1 million, respectively) 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 for the three and nine-month periods ended September 30, 2020 was higher by $2.4 million and $9.6 million, respectively, compared to the same periods in 2019 primarily due to an increase in equipment deployed.

Financing expense, net of interest income, of $6.7 million in the third quarter of 2020, and $18.7 million for the nine months ended September 30, 2020 was $1.1 million and $4.0 million, respectively, higher than the same periods in 2019, primarily from an increase in interest expense related to borrowings on the revolving credit facility and finance leases in both periods.

Set out in Note 20 of the September 30, 2020 interim condensed 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 September 30, 2020 of $6,664 million compares to backlog of $6,557 million as at September 30, 2019. New contract awards of $448 million and $2,440 million were booked in the third quarter and year-to-date, respectively, in 2020, compared to $827 million and $2,279 million, in the same periods in 2019.

Backlog $ millions	**As at September 30**	
	2020	2019
Construction	**$ 6,596**	$ 6,507
Concessions	**68**	50
Consolidated	**$ 6,664**	$ 6,557

Estimated backlog duration $ millions	**As at September 30**			
	2020		2019	
Next 12 months	**$ 2,899**	**44%**	$ 2,482	38%
Next 13-24 months	**1,316**	**20%**	1,758	27%
Beyond	**2,449**	**36%**	2,317	35%
	$ 6,664	**100%**	$ 6,557	100%

The timing of work to be performed for projects in backlog as at September 30, 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 September 30, 2020, reported backlog from projects that are accounted for using the equity method was $nil (September 30, 2019 - $nil).

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

REPORTING SEGMENTS

CONSTRUCTION

Financial Highlights

$ millions	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Revenue	**$ 1,034.8**	$ 1,000.4	**$ 2,548.0**	$ 2,485.2
Gross profit	**$ 163.5**	$ 103.1	**$ 276.2**	$ 222.1
Adjusted EBITDA	**$ 131.3**	$ 73.1	**$ 175.5**	$ 124.9
Operating profit	**$ 112.6**	$ 57.7	**$ 122.0**	$ 82.5
Gross profit margin	**15.8%**	10.3%	**10.8%**	8.9%
Adjusted EBITDA margin	**12.7%**	7.3%	**6.9%**	5.0%
Operating margin	**10.9%**	5.8%	**4.8%**	3.3%
Backlog			**$ 6,596**	$ 6,507

Revenue in the Construction segment for the three months ended September 30, 2020 of $1,035 million was $34 million, or 3%, higher compared to the same period in 2019. Construction segment revenue was higher in industrial operations ($65 million) primarily due to increased activity on mainline pipeline projects in western Canada, and in civil operations and urban transportation systems ($34 million), driven by increases in major projects and roadbuilding operations in both eastern and western Canada. Revenue was also higher in utilities operations ($14 million) due in large part to the acquisition of Voltage announced on February 3, 2020 which contributed revenue of $12 million in the third quarter of 2020. Partially offsetting these increases was lower revenue from nuclear operations ($79 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 due to impacts related to COVID-19.

Revenue in the Construction segment for the nine months ended September 30, 2020 of $2,548 million, was $63 million, or 3%, higher compared to the same period in 2019. Similar to the third quarter commentary, Construction segment revenue was higher in industrial operations ($114 million), civil operations and urban transportation systems ($103 million), and utilities operations ($72 million) for reasons in line with the third quarter commentary. These increases were partially offset by lower volume in nuclear operations ($226 million) due primarily to the above noted delay in starting the next phase of refurbishment work at the Darlington nuclear facility and lower revenue in the first quarter as the volume of work on the now completed first reactor refurbishment at Darlington wound down.

Operating profit in the Construction segment of $112.6 million in the three months ended September 30, 2020 increased by $54.9 million compared to an operating profit of $57.7 million in the same period in 2019. As previously noted in the Consolidated Highlights section, Construction segment operating profit in the third quarter of 2020 included the operating profit impact of the CEWS program covering the period from March 15 to September 26, 2020, and totalling $69.0 million. After excluding amounts related to the CEWS program, operating profit in the third quarter of 2020 decreased by $14.1 million compared to the same period in 2019. Operating profit decreased in civil operations and urban transportation systems due to lower gross profit margin and from a volume driven decrease in nuclear operations. These decreases were partially offset by higher operating profit in industrial operations, primarily from increased volume, and in utilities, driven by higher volume and gross profit margin in the current quarter.

Operating profit in the Construction segment of $122.0 million in the nine months ended September 30, 2020 increased by $39.5 million compared to an operating profit of $82.5 million in the same period in 2019. Similar to the third quarter commentary, Construction segment operating profit in the first nine months of 2020 included the operating profit impact of the CEWS program, covering the period from March 15 to September 26, 2020, and totalling $69.0 million. After excluding amounts related to the CEWS program, year-to-date operating profit in 2020 decreased by $29.5 million compared to the same period in 2019. Operating profit decreased in civil operations and urban transportation systems due to lower gross profit margin, in utilities operations due to a lower gross profit margin due to mix of work in the period, and in nuclear operations due to lower volume. These decreases were partially offset by higher operating profit in industrial operations, driven by higher volume and gross profit margin in the first nine months of 2020.

Construction backlog as at September 30, 2020 was $6,596 million, which is $89 million higher than the same time last year. Backlog increased period-over-period in nuclear ($345 million), industrial ($321 million), and utilities operations ($19 million), and decreased in civil operations and urban transportation systems ($596 million). New contract awards totalled $439 million in the third quarter of 2020 and $2,409 million year-to-date, compared to $798 million and $2,208 million, respectively, in the same periods last year. The increase in new awards in the first nine months of 2020 occurred largely in civil operations, driven primarily by the award of the Pattullo Bridge Replacement Project in British Columbia in the first quarter of 2020.

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

CONCESSIONS

Financial Highlights

$ millions	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Revenue	$ **9.0**	$ 61.5	$ **44.6**	$ 179.7
Gross profit (loss)	$ **(1.2)**	$ 17.6	$ **1.2**	$ 41.6
Income from projects accounted for using the equity method	$ **3.0**	$ 2.9	$ **8.6**	$ 7.7
Adjusted EBITDA	$ **8.0**	$ 25.2	$ **27.1**	$ 63.2
Operating profit (loss)	$ **(3.2)**	$ 9.6	$ **(3.0)**	$ 22.4
Backlog			$ **68**	50

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. 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 three and nine-month periods ended September 30, 2020, revenue in the Concessions segment of $9 million and $45 million, respectively, decreased by $52 million and $135 million when compared to the same periods 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 the three and nine-month periods ended September 30, 2020 was $3 million and $23 million, respectively, of construction revenue that was eliminated on consolidation as inter-segment revenue (2019 - $36 million and $114 million, respectively).

Operating profit in the Concessions segment for the three and nine-month periods ended September 30, 2020 decreased by $12.8 million and $25.4 million, respectively, compared to the same periods in 2019. The lower operating profit in both periods 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.

Quarterly Financial Data

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

$ millions (except per share amounts)

	2020			2019				2018
	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4
Revenue	$ 1,039.5	$ 779.4	$ 747.5	$ 917.3	$ 1,025.4	$ 867.3	$ 650.3	$ 948.5
Adjusted EBITDA	137.2	24.4	19.2	61.7	91.1	57.3	11.9	72.4
Earnings (loss) before income taxes	100.1	(7.4)	(15.0)	25.3	53.2	23.2	(14.9)	35.7
Profit (loss)	73.6	(6.2)	(11.4)	20.2	42.1	20.4	(9.8)	27.9
Earnings (loss) per share:								
Basic	1.23	(0.10)	(0.19)	0.33	0.69	0.34	(0.16)	0.46
Diluted	0.99	(0.10)	(0.19)	0.31	0.60	0.31	(0.16)	0.41

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				2018
	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4
Operating profit (loss)	$ 106.8	$ (0.8)	$ (9.7)	$ 31.1	$ 58.8	$ 28.1	$ (10.8)	$ 42.6
Depreciation and amortization	22.3	19.4	22.8	24.9	26.8	23.9	18.5	25.3
(Gain) loss on sale of assets	(0.9)	(1.8)	(0.3)	(1.0)	(0.7)	(1.1)	(0.5)	0.1
Income from projects accounted for using the equity method	(4.4)	(2.7)	(2.9)	(3.5)	(4.3)	(2.2)	(2.5)	(6.2)
Equity Project EBITDA	13.4	10.3	9.4	10.1	10.6	8.6	7.2	10.6
Adjusted EBITDA	$ 137.2	$ 24.4	$ 19.2	$ 61.7	$ 91.1	$ 57.3	$ 11.9	$ 72.4

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

$ millions

	2020			2019				2018
Aecon's proportionate share of projects accounted for using the equity method (1)	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4
Operating profit	$ 13.2	$ 10.1	$ 9.2	$ 10.0	$ 10.4	$ 8.4	$ 7.1	$ 10.5
Depreciation and amortization	0.2	0.2	0.2	0.1	0.2	0.2	0.1	0.1
Equity Project EBITDA	$ 13.4	$ 10.3	$ 9.4	$ 10.1	$ 10.6	$ 8.6	$ 7.2	$ 10.6

(1) Refer to Note 10 "Projects Accounted for Using the Equity Method" in the September 30, 2020 interim condensed consolidated financial statements.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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 10 to the September 30, 2020 interim condensed 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 $364 million Kemano Generating Station Second Tunnel Project, an 8-kilometre tunnel project in Kitimat, British Columbia. 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. To date, Rio Tinto has not articulated any counter position or an amount of damages it may seek from the joint venture, but 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.

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 $137 million of unbilled revenue and accounts receivable as at September 30, 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. The Company believes that it will be successful in its claim and considers KSPC's claim to be without merit. These claims may not be resolved for several years. The Company does not expect that the resolution of these claims will cause a material impact to its financial position.

Cash and Debt Balances

Cash balances at September 30, 2020 and December 31, 2019 are as follows:

$ millions		September 30, 2020		
		Balances excluding Joint Operations	Joint Operations	Consolidated Total
Cash and cash equivalents	(1)	**$ 56**	**$ 521**	**$ 577**
Restricted cash	(2)	**71**	**-**	**71**
		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.
(3) Bank indebtedness represents borrowings on Aecon's revolving credit facility.

Total long-term recourse debt of $375.1 million as at September 30, 2020 compares to $370.2 million as at December 31, 2019, the composition of which is as follows:

$ millions	September 30, 2020	December 31, 2019
Current portion of long-term debt – recourse	**$ 61.0**	$ 60.1
Long-term debt – recourse	**146.2**	145.7
Long-term portion of convertible debentures	**167.9**	164.4
Total long-term recourse debt	**$ 375.1**	$ 370.2
Long-term project debt - non-recourse	**$ 375.9**	$ 365.9

The $4.9 million net increase in total long-term recourse debt in the first nine months of 2020 primarily results from increases in equipment loans of $2.9 million and convertible debentures of $3.5 million related to the accretion of notional interest, offset partially by a decrease in leases of $1.5 million.

The $10.0 million increase 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 between December 31, 2019 and September 30, 2020.

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 $50.7 million in the first nine months of 2020, with another $40.9 million in payments expected in the fourth quarter for CEWS periods up to September 26, 2020. As at September 30, 2020, Aecon had $56 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 $7 million utilized for letters of credit. When combined with an additional $700 million performance security guarantee facility to support letters of credit provided by Export Development Canada, Aecon's committed credit facilities for working capital and letter of credit requirements total $1,300 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 September 30, 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 is 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. For the nine months ended September 30, 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 September 30, 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 have been acquired under the NCIB since March 16, 2020 and between September 30, 2020 and the date that its third quarter 2020 results were released, Aecon did not make any additional purchases of its common shares pursuant to its NCIB.

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.

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 and nine months ended September 30, 2020 and 2019 is as follows:

$ millions	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Operating Activities				
Cash provided by (used in):				
Cash flows from operations before changes in working capital	**$ 122.1**	$ 81.0	**$ 121.1**	$ 130.5
Lower (higher) investments in working capital	**3.3**	(104.1)	**(62.2)**	(209.0)
Cash provided by (used in) operating activities	**$ 125.4**	$ (23.1)	**$ 58.9**	$ (78.5)
Investing Activities				
Cash provided by (used in):				
Decrease in restricted cash balances held by Skyport to finance the Bermuda International Airport Redevelopment Project	**$ 5.1**	$ 30.0	**$ 8.3**	$ 103.3
Expenditures made by Skyport related to the construction of the new airport terminal in Bermuda	**(11.3)**	(40.5)	**(41.7)**	(121.7)
Expenditures (net of disposals) on property, plant and equipment and intangible assets	**(7.5)**	(5.4)	**(32.6)**	(28.8)
Cash outflow related to the acquisition of Voltage	**-**	-	**(29.8)**	-
Increase in other investments	**-**	-	**-**	(3.8)
Proceeds on sale of contract mining business	**-**	-	**11.8**	11.8
Cash distributions received from projects accounted for using the equity method	**0.8**	3.2	**1.0**	3.4
Cash used for investments in long-term financial assets	**-**	(2.6)	**(0.3)**	(2.6)
Cash used in investing activities	**$ (12.9)**	$ (15.3)	**$ (83.3)**	$ (38.4)
Financing Activities				
Cash provided by (used in):				
Increase (decrease) in bank indebtedness associated with borrowings under the Company's revolving credit facility	**$ (30.0)**	$ 23.0	**$ -**	$ 23.0
Increase in long-term recourse debt borrowings	**4.8**	3.4	**12.6**	15.8
Repayments of long-term recourse debt relating primarily to equipment financing arrangements	**(19.9)**	(16.3)	**(51.3)**	(40.7)
Cash used for dividends paid	**(9.6)**	(8.8)	**(28.0)**	(25.2)
Common shares purchased under NCIB	**-**	-	**(15.5)**	-
Cash provided by (used in) financing activities	**$ (54.7)**	$ 1.3	**$ (82.2)**	$ (27.1)
Increase (decrease) in cash and cash equivalents	**57.8**	(37.1)	**(106.6)**	(144.0)
Effects of foreign exchange on cash balances	**(2.3)**	1.5	**1.5**	(0.6)
Cash and cash equivalents - beginning of period	**521.6**	522.0	**682.3**	631.0
Cash and cash equivalents - end of period	**$ 577.1**	$ 486.4	**$ 577.1**	$ 486.4

In the first nine months of 2020, Aecon acquired, either through purchase or lease, property, plant and equipment totalling $65 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 the first nine months of 2019, investments in property, plant and equipment totalled $83 million.

NEW ACCOUNTING STANDARDS

Note 5, *"New Accounting Standards"*, to Aecon's September 30, 2020 interim condensed consolidated financial statements includes new IFRS standards that became effective for the Company on January 1, 2020, and Note 6, *"Future Accounting Changes"* discusses IFRS standards and interpretations that are issued, but not yet effective.

The new accounting standards had no significant impact on profit (loss), comprehensive income (loss), or earnings (loss) per share in the first nine months of 2020.

SUPPLEMENTAL DISCLOSURES

Disclosure Controls and Procedures

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

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the period beginning on July 1, 2020 and ended on September 30, 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

At September 30, 2020, the Company had commitments totalling $442 million for equipment and premises under leases requiring minimum payments, and for obligations under long-term recourse debt and convertible debentures.

At September 30, 2020, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was $6,664 million.

Further details on Contractual Obligations are included in the Company's 2019 Annual Report.

Off-Balance Sheet Arrangements

Aecon's defined benefit pension plans (the "Pension Plans") had a combined surplus of $0.9 million as at September 30, 2020 (December 31, 2019 - $0.8 million). The defined benefit obligations and benefit cost levels will change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future experience gains or losses, none of which have been anticipated at this time. Emerging experience, differing from assumptions, will result in gains or losses that will be disclosed in future accounting valuations. Refer to the Company's 2019 Annual Report for further details regarding Aecon's Pension Plans.

Further details of contingencies and guarantees are included in the September 30, 2020 interim condensed consolidated financial statements and in the 2019 Annual Report.

Related Party Transactions

There were no significant related party transactions in the first nine months of 2020.

Critical Accounting Estimates and Judgements

The reader is referred to the detailed discussion on Critical Accounting Estimates as outlined in Note 4 to the September 30, 2020 interim condensed consolidated financial statements.

RISK FACTORS

The reader is referred to the detailed discussion on Risk Factors as outlined in the Company's 2019 Annual MD&A and as updated in the Company's Annual Information Form dated March 30, 2020 (the "2020 AIF") and available on SEDAR at www.sedar.com. 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.

The Risk Factors previously disclosed in the Company's 2019 Annual MD&A addressed the risks of epidemics and pandemics and their impact on the Company's business and operations as reasonably understood at the time. Given the rapid global spread of the novel coronavirus and the declaration of a global pandemic by the World Health Organization on March 11, 2020, the Company, subsequent to the release of the 2019 Annual MD&A, updated its Risk Factors in the 2020 AIF to include the disclosure that follows:

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 could be impacted 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. Projects that were expected to be available to the Company to bid on to secure new revenue may be delayed, suspended, or cancelled.

Aecon has 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, minimize recovery time and reduce 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.

Risks and uncertainties, which management reviews on a quarterly basis, have not materially changed in the period since March 30, 2020.

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)		**October 29, 2020**
Number of common shares outstanding		59,877,812
Outstanding securities exchangeable or convertible into common shares:		
Principal amount of convertible debentures outstanding (see Note 17 to the September 30, 2020 interim condensed consolidated financial statements)	$	180,575
Number of common shares issuable on conversion of convertible debentures		7,666,667
Increase in paid-up capital on conversion of convertible debentures	$	180,575
DSUs and RSUs outstanding under the Long-Term Incentive Plan and the Director DSU Plan		3,337,317

OUTLOOK

Aecon's operations continue to be impacted by the COVID-19 pandemic, either by 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, during the fourth quarter, nuclear operations are expected to only be in the ramp up phase rather than full run rate for the next stage of work on a number of projects that were originally scheduled to start earlier in the year but were delayed due to COVID-19. In the Concessions segment, commercial operations at the Bermuda International Airport Redevelopment Project continue to recover slowly due to COVID-19 related travel restrictions which have significantly impacted the aviation industry. The new Bermuda International Airport terminal is expected to be open for operations on December 9, 2020 at which time Aecon will contribute an equity investment of approximately US$40 million. The opening of the new terminal will mark a significant milestone for the Company. While the primary impact from COVID-19 will be to reduce revenue across a number of areas of Aecon's business 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.

The current backlog and level of new awards year-to-date have remained strong with backlog of $6.7 billion at the end of the third quarter of 2020, which was $107 million higher than the same time last year. To date, no projects that were previously recorded in Aecon's backlog have been cancelled due to COVID-19. The Company expects that demand for its services will remain strong following the COVID-19 pandemic as the federal government and provincial governments across Canada have identified investment in infrastructure as a key source of economic stimulus as part of the recovery plan.

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 September 30, 2020, Aecon had $56 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 $7 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.

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 to receive $40.9 million in cash in the fourth quarter of 2020 related to CEWS filings for the period July 5 to September 26, 2020. 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. As this situation may continue to evolve for some time, shifting directives and policies from clients and governments are expected to continue.

The overall outlook for 2020 remains solid and 2021 is expected to be a strong year as construction continues on a number of projects that have ramped up in 2019 and 2020, the strong level of new awards in 2020, and the strong demand environment for Aecon's services, 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 this challenging time.