

Aecon Group Inc.

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

June 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 June 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 July 23, 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 and potential entitlements to government assistance programs relating to the COVID-19 pandemic. 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 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. Additionally, Aecon has reduced non-essential spend and discretionary capital investments. 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 businesses experiencing a certain level of reduced revenue in order to support these employers in retaining or hiring employees. The subsidy covers 75 per cent of an employee's wages (up to \$847 per week) for an eligible employer during the March 15th to August 30th, 2020 program period. The Company expects to submit formal applications for the CEWS in the third quarter of 2020 for eligible entities. As at June 30, 2020, the Company is unable to reasonably estimate the entitlement amount for this wage subsidy due to certain clarifications required, particularly with respect to the program’s criteria for calculating qualifying revenue for each specific entity, and due to potential amendments and extension to the program pursuant to pending legislation recently announced by the Government. As such, no amount has been included in the consolidated results of operations for the three and six-month periods ended June 30, 2020.

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		Six months ended	
	June 30		June 30	
	2020	2019	2020	2019
Revenue	\$ 779.4	\$ 867.3	\$ 1,527.0	\$ 1,517.7
Gross profit	53.8	96.3	115.1	143.1
Marketing, general and administrative expense	(40.5)	(46.6)	(90.8)	(90.0)
Income from projects accounted for using the equity method	2.7	2.2	5.5	4.7
Other income	2.6	0.1	2.0	1.9
Depreciation and amortization	(19.4)	(23.9)	(42.2)	(42.4)
Operating profit (loss)	(0.8)	28.1	(10.4)	17.4
Financing expense, net	(6.6)	(4.9)	(12.0)	(9.1)
Profit (loss) before income taxes	(7.4)	23.2	(22.4)	8.3
Income tax (expense) recovery	1.3	(2.8)	4.8	2.3
Profit (loss)	\$ (6.2)	\$ 20.4	\$ (17.6)	\$ 10.5
Gross profit margin	6.9%	11.1%	7.5%	9.4%
MG&A as a percent of revenue	5.2%	5.4%	5.9%	5.9%
Adjusted EBITDA	24.4	57.3	43.6	69.2
Adjusted EBITDA margin	3.1%	6.6%	2.9%	4.6%
Operating margin	(0.1)%	3.2%	(0.7)%	1.1%
Earnings (loss) per share - basic	\$ (0.10)	\$ 0.34	\$ (0.29)	\$ 0.17
Earnings (loss) per share - diluted	\$ (0.10)	\$ 0.31	\$ (0.29)	\$ 0.16
Backlog			\$ 7,255	\$ 6,755

Revenue for the three months ended June 30, 2020 of \$779 million was \$88 million, or 10%, lower compared to the second quarter of 2019, but for the six months ended June 30, 2020 was \$9 million, or 1%, higher compared to the same period in 2019. Revenue for the three months ended June 30, 2020 was lower in the Construction segment (\$69 million), driven by lower revenue in nuclear operations (\$95 million) and in civil operations and urban transportation systems (\$27 million), each of which was impacted to some extent by project slowdowns and suspensions related to COVID-19 during the second quarter. These decreases were partially offset by higher revenue in utilities (\$27 million) and industrial operations (\$26 million). Revenue for the six months ended June 30, 2020 was higher in the Construction segment (\$28 million), driven by higher revenue in civil operations and urban transportation systems (\$70 million), utilities (\$59 million), and industrial (\$48 million). Partially offsetting these increases was lower revenue in nuclear operations (\$149 million). In the Concessions segment, lower revenue for the three and six months ended June 30, 2020 of \$52 million and \$83 million, respectively, was primarily due to a slowdown and then suspension of commercial flight operations on March 20, 2020 at the Bermuda International Airport Redevelopment Project for reasons related to the COVID-19 pandemic and was partially offset by inter-segment revenue eliminations that decreased by \$33 million and \$64 million respectively, due to revenue between the Concessions and Construction segments related to the Bermuda International Airport Redevelopment Project.

Operating loss of \$0.8 million for the three months ended June 30, 2020 worsened by \$28.9 million compared to an operating profit of \$28.1 million in the same period in 2019 driven by a decrease in gross profit of \$42.5

million. In the Construction segment, gross profit in the second quarter decreased by \$22.3 million primarily from lower volume and gross profit margin in civil operations and urban transportation systems and 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 decreased by \$19.5 million compared to the same period in 2019, due to the suspension of commercial flight operations on March 20, 2020 at the Bermuda International Airport Redevelopment Project for reasons related to the COVID-19 pandemic.

Operating loss of \$10.4 million in the six months ended June 30, 2020 worsened by \$27.8 million compared to an operating profit of \$17.4 million in the same period in 2019. Contributing to this operating loss was a decrease in gross profit of \$28.0 million. In the Concessions segment, gross profit decreased by \$21.6 million, due to the impact of the COVID-19 pandemic on the operations of the Bermuda International Airport Redevelopment Project. In the Construction segment, gross profit in the period decreased by \$6.3 million primarily from lower gross profit margin in civil operations, urban transportation systems and utilities, largely offset by higher gross profit margin in industrial and nuclear operations.

Marketing, general and administrative expense (“MG&A”) decreased in the three months ended June 30, 2020 by \$6.1 million compared to the same period in 2019, primarily from a decrease in personnel, consulting, travel, and other discretionary costs. MG&A increased in the first six months of 2020 by \$0.8 million compared to the same period in 2019, primarily from an increase in information technology costs, project pursuit and bid costs, and professional fees. MG&A as a percentage of revenue for the second quarter decreased from 5.4% in 2019 to 5.2% in 2020, and for the six-month period was unchanged at 5.9% compared to the same period in 2019.

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 \$2.7 million in the second quarter of 2020 from projects accounted for using this method of accounting, compared to \$2.2 million in the second quarter of 2019, and income of \$5.5 million in the first six months of 2020 compared to \$4.7 million in the same period of 2019. The higher income in both the second quarter and first six months of 2020 was driven by increases in management and development fees in the Concessions segment (\$0.4 million and \$0.8 million, respectively).

Depreciation and amortization expense of \$19.4 million and \$42.2 million in the second quarter and six months ended June 30, 2020, respectively, was \$4.5 million and \$0.2 million lower than the same periods in 2019. The largest decrease in both periods occurred in the Concessions segment (\$8.2 million and \$8.0 million, respectively) and resulted from lower amortization expense related to the existing terminal at the Bermuda International Airport Redevelopment Project due to the new terminal’s construction completion date being extended due to impacts related to the COVID-19 pandemic. Construction segment and Corporate depreciation and amortization expense for the three and six-month periods ended June 30, 2020 was higher by \$3.7 million and \$7.8 million, respectively, compared to the same periods in 2019 primarily due to an increase in equipment deployed in the Construction segment.

Financing expense, net of interest income, of \$6.6 million in the second quarter of 2020, and \$12.0 million year-to-date in 2020 was \$1.7 million and \$2.9 million 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 the first six months of 2020.

Set out in Note 20 of the June 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 June 30, 2020 of \$7,255 million represents a new record backlog position for Aecon and compares to backlog of \$6,755 million as at June 30, 2019. The June 30, 2020 backlog surpasses the previous quarterly record of \$7,005 million as at September 30, 2018. New contract awards of \$1,080 million and \$1,992 million were booked in the second quarter and year-to-date, respectively, in 2020, compared to \$873 million and \$1,451 million, in the same periods in 2019.

Backlog \$ millions	As at June 30	
	2020	2019
Construction	\$ 7,192	\$ 6,709
Concessions	63	46
Consolidated	<u>\$ 7,255</u>	<u>\$ 6,755</u>

Estimated backlog duration \$ millions	As at June 30			
	2020		2019	
Next 12 months	\$ 2,892	40%	\$ 2,439	36%
Next 13-24 months	1,943	27%	1,927	29%
Beyond	2,420	33%	2,389	35%
	<u>\$ 7,255</u>	<u>100%</u>	<u>\$ 6,755</u>	<u>100%</u>

The timing of work to be performed for projects in backlog as at June 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 June 30, 2020, reported backlog from projects that are accounted for using the equity method was \$nil (June 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		Six months ended	
	June 30		June 30	
	2020	2019	2020	2019
Revenue	\$ 777.8	\$ 846.9	\$ 1,513.2	\$ 1,484.8
Gross profit	\$ 57.1	\$ 79.4	\$ 112.7	\$ 119.0
Adjusted EBITDA	\$ 27.7	\$ 44.4	\$ 44.2	\$ 51.7
Operating profit	\$ 9.8	\$ 30.3	\$ 9.4	\$ 24.8
Gross profit margin	7.3%	9.4%	7.5%	8.0%
Adjusted EBITDA margin	3.6%	5.2%	2.9%	3.5%
Operating margin	1.3%	3.6%	0.6%	1.7%
Backlog			\$ 7,192	\$ 6,709

Revenue in the Construction segment for the three months ended June 30, 2020 of \$778 million was \$69 million, or 8%, lower compared to the same period in 2019. Construction segment revenue was lower in civil operations and urban transportation systems by \$27 million driven by decreases in major projects in both eastern and western Canada, due to the impact of slowdowns and suspensions related to COVID-19, partially offset by an increase in roadbuilding projects in both regions. Revenue was also lower in nuclear operations by \$95 million, driven by work on the next unit of the main reactor refurbishment at the Darlington nuclear facility in Ontario being delayed from the second quarter to later in the year due to impacts related to COVID-19. Partially offsetting these decreases was higher revenue from utilities operations (\$27 million) due in large part to the acquisition of Voltage announced on February 3, 2020 which contributed revenue of \$23 million in the second quarter of 2020, and higher revenue in industrial operations (\$26 million) primarily due to increased activity on mainline pipeline projects in western Canada.

Revenue in the Construction segment for the six months ended June 30, 2020 of \$1,513 million, was \$28 million, or 2%, higher compared to the same period in 2019. Construction segment revenue was higher in civil operations and urban transportation systems (\$70 million) driven by increases in major projects and transportation operations in both eastern and western Canada during the first quarter of 2020, and also from higher revenue in industrial (\$48 million) and utilities operations (\$59 million) for reasons in line with the second quarter commentary. These increases were partially offset by lower volume in nuclear operations (\$149 million) due 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 \$9.8 million in the three months ended June 30, 2020 decreased by \$20.5 million compared to an operating profit of \$30.3 million in the same period in 2019. Operating profit decreased in civil operations and urban transportation systems due to lower volume and gross profit margin on major projects, in nuclear operations due to lower volume, and in utilities operations due to a lower gross profit margin mix of work in the quarter. These decreases were partially offset by higher operating profit in industrial operations and from roadbuilding-related projects within civil operations, both driven by higher volume and gross profit margin in the current quarter.

Operating profit in the Construction segment of \$9.4 million in the six months ended June 30, 2020 decreased by \$15.4 million compared to an operating profit of \$24.8 million in the same period in 2019. Year-to-date operating profit decreased in civil operations, urban transportation systems and utilities operations and increased in industrial operations, all for reasons in line with the second quarter commentary. However, operating profit from nuclear operations increased as a result of higher gross profit margin period-over-period.

Construction backlog as at June 30, 2020 was \$7,192 million, which is \$483 million higher than the same time last year. Backlog increased period-over-period in industrial (\$575 million), nuclear (\$363 million), and utilities operations (\$91 million), and decreased in civil operations and urban transportation systems (\$546 million). New contract awards totalled \$1,074 million in the second quarter of 2020 and \$1,970 million year-to-date, compared to \$848 million and \$1,410 million respectively, in the same periods last year. The increase in new awards in the first six months of 2020 occurred largely in civil operations, driven primarily by the award for the Pattullo Bridge Replacement Project in British Columbia in the first quarter of 2020, as well as from higher awards in industrial and utilities operations.

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		Six months ended	
	June 30		June 30	
	2020	2019	2020	2019
Revenue	\$ 8.5	\$ 60.2	\$ 35.6	\$ 118.2
Gross profit (loss)	\$ (3.3)	\$ 16.2	\$ 2.4	\$ 24.0
Income from projects accounted for using the equity method	\$ 2.3	\$ 1.8	\$ 5.6	\$ 4.8
Adjusted EBITDA	\$ 4.8	\$ 23.2	\$ 19.1	\$ 38.0
Operating profit (loss)	\$ (2.3)	\$ 8.3	\$ 0.2	\$ 12.8
Backlog			\$ 63	\$ 46

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 six-month periods ended June 30, 2020, revenue in the Concessions segment of \$9 million and \$36 million, respectively, decreased by \$52 million and \$83 million, respectively, when compared to the same periods in 2019. The lower revenue in both periods was due to a slowdown and then suspension of commercial flight operations on March 20, 2020 and throughout the remainder of the second quarter at the Bermuda International Airport Redevelopment Project for reasons related to the COVID-19 pandemic, as well as decreased construction activity related to this project. Included in Concessions’ revenue for the three and six-month periods ended June 30, 2020 was \$6 million and \$20 million, respectively, of construction revenue that was eliminated on consolidation as inter-segment revenue (2019 - \$36 million and \$79 million, respectively).

Operating profit in the Concessions segment for the three and six-month periods ended June 30, 2020 decreased by \$10.6 million and \$12.6 million, respectively. 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 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3
Revenue	\$ 779.4	\$ 747.5	\$ 917.3	\$ 1,025.4	\$ 867.3	\$ 650.3	\$ 948.5	\$ 1,019.7
Adjusted EBITDA	24.4	19.2	61.7	91.1	57.3	11.9	72.4	89.5
Earnings (loss) before income taxes	(7.4)	(15.0)	25.3	53.2	23.2	(14.9)	35.7	51.0
Profit (loss)	(6.2)	(11.4)	20.2	42.1	20.4	(9.8)	27.9	42.0
Earnings (loss) per share:								
Basic	(0.10)	(0.19)	0.33	0.69	0.34	(0.16)	0.46	0.70
Diluted	(0.10)	(0.19)	0.31	0.60	0.31	(0.16)	0.41	0.60

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 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3
Operating profit (loss)	\$ (0.8)	\$ (9.7)	\$ 31.1	\$ 58.8	\$ 28.1	\$ (10.8)	\$ 42.6	\$ 56.2
Depreciation and amortization	19.4	22.8	24.9	26.8	23.9	18.5	25.3	29.5
(Gain) loss on sale of assets	(1.8)	(0.3)	(1.0)	(0.7)	(1.1)	(0.5)	0.1	(0.2)
Income from projects accounted for using the equity method	(2.7)	(2.9)	(3.5)	(4.3)	(2.2)	(2.5)	(6.2)	(3.9)
Equity Project EBITDA	10.3	9.4	10.1	10.6	8.6	7.2	10.6	7.9
Adjusted EBITDA	\$ 24.4	\$ 19.2	\$ 61.7	\$ 91.1	\$ 57.3	\$ 11.9	\$ 72.4	\$ 89.5

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

\$ millions

Aecon's proportionate share of projects accounted for using the equity method (1)	2020		2019				2018	
	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3
Operating profit	\$ 10.1	\$ 9.2	\$ 10.0	\$ 10.4	\$ 8.4	\$ 7.1	\$ 10.5	\$ 7.8
Depreciation and amortization	0.2	0.2	0.1	0.2	0.2	0.1	0.1	0.1
Equity Project EBITDA	10.3	9.4	10.1	10.6	8.6	7.2	10.6	7.9

(1) Refer to Note 10 "Projects Accounted for Using the Equity Method" in the June 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 June 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 have not yet taken a position on the validity of this claim on the bonds. The joint venture disputes the validity of Rio Tinto's purported termination, asserts a number of claims against Rio Tinto, and continues to seek a mutually agreeable

resolution. To date, neither Rio Tinto nor the joint venture have articulated the amount of damages, if any, that each might seek from the other should the matter proceed to a formal dispute resolution process. 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 June 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 June 30, 2020 and December 31, 2019 are as follows:

\$ millions	June 30, 2020		
	Balances excluding Joint Operations	Joint Operations	Consolidated Total
Cash and cash equivalents (1)	\$ 20	\$ 502	\$ 522
Restricted cash (2)	78	-	78
Bank indebtedness (3)	(30)	-	(30)
	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 \$374.9 million as at June 30, 2020 compares to \$370.2 million as at December 31, 2019, the composition of which is as follows:

\$ millions	June 30, 2020	December 31, 2019
Current portion of long-term debt – recourse	\$ 64.6	\$ 60.1
Long-term debt – recourse	143.6	145.7
Long-term portion of convertible debentures	166.7	164.4
Total long-term recourse debt	\$ 374.9	\$ 370.2
Long-term project debt - non-recourse	\$ 384.0	\$ 365.9

The \$4.7 million net increase in total long-term recourse debt in the first six months of 2020 primarily results from increases in equipment loans of \$3.8 million and convertible debentures of \$2.3 million related to the accretion of notional interest, offset partially by a decrease in leases of \$1.4 million.

The \$18.1 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 June 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 at June 30, 2020, Aecon had \$20 million of cash on hand (excluding cash in joint operations and restricted cash), and a committed revolving credit facility of \$600 million, of which \$30 million was drawn and \$5 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 June 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 six months ended June 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 June 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. Between June 30, 2020 and the date that its second 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 and the second quarterly dividend of \$0.16 per share was paid on July 3, 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 six months ended June 30, 2020 and 2019 is as follows:

\$ millions	Three months ended		Six months ended	
	June 30		June 30	
	2020	2019	2020	2019
Operating Activities				
Cash provided by (used in):				
Cash flows from operations before changes in working capital	\$ 18.8	\$ 46.7	\$ 2.4	\$ 48.9
Higher investments in working capital	(62.7)	(90.7)	(65.5)	(104.9)
Cash used in operating activities	\$ (43.9)	\$ (44.0)	\$ (63.1)	\$ (56.0)
Investing Activities				
Cash provided by (used in):				
Decrease in restricted cash balances held by Skyport to finance the Bermuda International Airport Redevelopment Project	\$ 2.8	\$ 37.8	\$ 3.2	\$ 73.3
Expenditures made by Skyport related to the construction of the new airport terminal in Bermuda	(17.6)	(45.3)	(30.4)	(81.2)
Expenditures (net of disposals) on property, plant and equipment and intangible assets	(4.6)	(13.8)	(25.1)	(23.3)
Cash outflow related to the acquisition of Voltage	(0.4)	-	(29.8)	-
Increase in other investments	-	(3.8)	-	(3.8)
Proceeds on sale of contract mining business	11.8	11.8	11.8	11.8
Cash distributions received from projects accounted for using the equity method	-	-	0.1	0.2
Cash used for investments in long-term financial assets	-	-	(0.3)	-
Cash used in investing activities	\$ (8.0)	\$ (13.3)	\$ (70.5)	\$ (23.0)
Financing Activities				
Cash provided by (used in):				
Increase in bank indebtedness associated with borrowings under the Company's revolving credit facility	\$ -	\$ -	\$ 30.0	\$ -
Increase in long-term recourse debt borrowings	5.6	6.7	7.8	12.4
Repayments of long-term recourse debt relating primarily to equipment financing arrangements	(15.5)	(11.2)	(31.4)	(24.4)
Stock based compensation settlements and receipts	(1.7)	0.6	(3.3)	0.6
Cash used for dividends paid	(9.6)	(8.8)	(18.4)	(16.4)
Common shares purchased under NCIB	-	-	(15.5)	-
Cash used in financing activities	\$ (21.2)	\$ (12.7)	\$ (30.8)	\$ (27.8)
Decrease in cash and cash equivalents	(73.1)	(70.0)	(164.4)	(106.9)
Effects of foreign exchange on cash balances	(1.9)	(1.2)	3.7	(2.1)
Cash and cash equivalents - beginning of period	596.6	593.2	682.3	631.0
Cash and cash equivalents - end of period	\$ 521.6	\$ 522.0	\$ 521.6	\$ 522.0

In the first six months of 2020, Aecon acquired, either through purchase or lease, property, plant and equipment totaling \$47 million (excluding property, plant and equipment acquired at the time of the Voltage acquisition). \$16.5 million of this expenditure 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 six months of 2019, investments in property, plant and equipment totaled \$55 million.

NEW ACCOUNTING STANDARDS

Note 5, “*New Accounting Standards*”, to Aecon’s June 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 six 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 April 1, 2020 and ended on June 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 June 30, 2020 the Company had commitments totaling \$444 million for equipment and premises under leases requiring minimum payments, and for obligations under long-term recourse debt and convertible debentures.

At June 30, 2020, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was \$7,255 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 June 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 June 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 six 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 June 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)	<u>July 23, 2020</u>
Number of common shares outstanding	59,876,307
Outstanding securities exchangeable or convertible into common shares:	
Principal amount of convertible debentures outstanding (see Note 17 to the June 30, 2020 interim condensed consolidated financial statements)	\$ 179,394
Number of common shares issuable on conversion of convertible debentures	7,666,667
Increase in paid-up capital on conversion of convertible debentures	\$ 179,394
DSUs and RSUs outstanding under the Long-Term Incentive Plan and the Director DSU Plan	3,298,803

OUTLOOK

While the impact of COVID-19 on Aecon's operating environment has stabilized during the second quarter, operations continue to be impacted either by client decisions related to schedules or operating policies or due to broader government directives to modify work practices to meet health and safety standards related to the COVID-19 pandemic. During the second quarter, the Montreal REM LRT and Site C projects, where construction had been suspended, restarted albeit gradually, particularly with respect to Site C, and with modified work practices. In the second half of the year, the main impacts are expected to be from the slow ramp up, starting in early July, of commercial operations at the Bermuda International Airport Redevelopment Project as well as in nuclear operations where ramp up on the next phase of work on a number of projects has been delayed until late in the third quarter and into the fourth quarter. While the impact to these projects, as well as others, will be to reduce revenue until normal operations resume, there is no guarantee that all related costs will be recovered and therefore it is possible that future project margins could be impacted.

In addition, certain projects that were expected to be available to Aecon to bid on to secure new revenue have been delayed. Any such delays are currently expected to be temporary, and the current backlog and level of new awards year-to-date have remained robust as evidenced by the record backlog of \$7.3 billion at the end of the second quarter. 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 once the country reaches the recovery phase.

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 June 30, 2020, Aecon had \$20 million of cash on hand (excluding cash in joint operations and restricted cash), and a committed revolving credit facility of \$600 million, of which \$30 million was drawn and \$5 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 submit formal applications for the Canada Emergency Wage Subsidy ("CEWS") in the third quarter of 2020 for eligible entities. As at June 30, 2020, the Company is unable to reasonably estimate the entitlement amount for this wage subsidy due to certain clarifications required, particularly with respect to the program's criteria for calculating qualifying revenue for each specific entity, and due to potential amendments and extension to the program pursuant to pending legislation recently announced by the Government. As such, no amount has been included in the consolidated results of operations for the three and six-month periods ended June 30, 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.

Aecon again thanks its employees, in particular its front-line construction workers, for their dedication, commitment and professionalism during this challenging time.