Aecon Group Inc.

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

June 30, 2024

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Management's Discussion and Analysis of Operating Results and Financial Condition ("MD&A")

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. ("Aecon" or the "Company") should be read in conjunction with the Company's June 30, 2024 interim condensed consolidated financial statements and accompanying 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, 2023 (the "2023 Annual MD&A"). This MD&A is dated as at July 24, 2024, when the Company's Board of Directors approved this document. Additional information on Aecon is available through the System for Electronic Data Analysis and Retrieval+ ("SEDAR+") at www.sedarplus.ca and includes the Company's Annual Information Form and other securities and continuous disclosure filings.

1. INTRODUCTION

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

The Construction segment includes all aspects of the construction of both public and private infrastructure, primarily in Canada and, on a selected basis, internationally, and focuses primarily on the following market sectors:

- Civil Infrastructure;
- Urban Transportation Solutions;
- Nuclear Power Infrastructure;
- Utility Infrastructure; and
- Industrial Infrastructure.

Activities within the Concessions segment include the development, financing, build, and operation of construction projects, primarily by way of public-private partnership contract structures, as well as integrating the services of all project participants, and harnessing the strengths and capabilities of Aecon. The Concessions segment focuses primarily on providing the following services:

- Development of domestic and international Public-Private Partnership ("P3") projects;
- Private finance solutions;
- Developing strategic partnerships;
- Leading and/or actively participating in development teams; and
- Operations and maintenance of infrastructure assets.

The infrastructure development industry in Canada is seasonal in nature for companies like Aecon that perform a significant portion of their work outdoors, particularly road construction and utilities work. As a result, less work is performed in the winter and early spring months than in the summer and fall months. Accordingly, Aecon has historically experienced a seasonal pattern in its operating results, with the first half of the year, and particularly the first quarter, typically generating lower revenue and profit than the second half of the year. Therefore, results in any one quarter are not necessarily indicative of results in any other quarter, or for the year as a whole.

2. FORWARD-LOOKING INFORMATION

The information in this Management's Discussion and Analysis includes certain forward-looking statements which may constitute forward-looking information under applicable securities laws. These forward-looking statements are based on currently available competitive, financial, and economic data and operating plans but are subject to risks and uncertainties. Forward-looking statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, ongoing objectives, strategies, and outlook for Aecon, including statements regarding: expectations regarding the impact of the four fixed price legacy projects and expected timelines of such projects; backlog and estimated duration; the impact of certain contingencies on Aecon (see: Section 10.2 "Contingencies"); the uncertainties related to the unpredictability of global economic conditions; its belief regarding the sufficiency of its current liquidity position including sufficiency of its cash position, unused credit capacity, and cash generated from its operations; its strategy of seeking to differentiate its service offering and execution capability and the expected results therefrom; its efforts to maintain a conservative capital position; expectations regarding the pipeline of opportunities available to Aecon; statements regarding the various phases of projects for Aecon; its strategic focus on projects linked to decarbonization, energy transition and sustainability, and the opportunities arising therefrom; expectations regarding ongoing recovery in travel through Bermuda International Airport in 2024 and opportunities to add to the existing portfolio of Canadian and international concessions in the next 12 to 24 months; Oaktree Capital Management, L.P.'s ("Oaktree") investment in Aecon Utilities Group Inc. ("Aecon Utilities"), the expected benefits thereof and results therefrom, including the acceleration of growth of Aecon Utilities in Canada and the U.S.; the anticipated use of proceeds from the investment; the expansion of Aecon Utilities' geographic reach and range of services in the U.S; the potential for additional contingent proceeds payable under the Aecon Utilities acquisition of a majority interest in Xtreme Powerline Construction ("Xtreme"); the ability of Aecon Utilities and Xtreme to integrate successfully following the acquisition, the expansion in the U.S. utility services market and driving continued growth in priority markets; and the effective collaboration with Xtreme management. Forward-looking statements may in some cases be identified by words such as "will," "plans," "schedule," "forecast," "outlook," "potential," "maintain," "seek," "strategy," "may," "could," "might," "can," "believes," "expects," "anticipates," "estimates," "projects," "intends," "prospects," "targets," "occur," "continue," "should" or the negative of these terms, or similar expressions. In addition to events beyond Aecon's control, there are factors which could cause actual or future results, performance, or achievements to differ materially from those expressed or inferred herein including, but not limited to: the risk of not being able to drive a higher margin mix of business by participating in more complex projects, achieving operational efficiencies and synergies, and improving margins; the risk of not being able to meet contractual schedules and other performance requirements on large, fixed priced contracts; the risk of not being able to meet its labour needs at reasonable costs; the risk of not being able to address any supply chain issues which may arise and pass on costs of supply increases to customers; the risk of not being able, through its joint ventures, to enter into implementation phases of certain projects following the successful completion of the relevant development phase; the risk of not being able to execute its strategy of building strong partnerships and alliances; the risk of not being able to execute its risk management strategy; the risk of not being able to grow backlog across the organization by winning major projects; the risk of not being able to maintain a number of open, recurring, and repeat contracts; the risk of not being able to accurately assess the risks and opportunities related to its industry's transition to a lower-carbon economy; the risk of not being able to oversee, and where appropriate, respond to known and unknown environmental and climate change-related risks, including the ability to recognize and adequately respond to climate change concerns or public, governmental, and other stakeholders' expectations on climate matters; the risk of not being able to meet its commitment to meeting its greenhouse gas emissions reduction targets; the risks associated with the strategy of differentiating its service offerings in key end markets; the risks associated with undertaking initiatives to train employees; the risks associated with the seasonal nature of its business; the risks associated with being able to participate in large projects; the risks associated with legal proceedings to which it is a party; the ability to successfully respond to shareholder activism; the risk that Aecon will not realize the opportunities presented by a transition to a net-zero economy; risks associated with future pandemics and Aecon's ability to respond to and implement measures to mitigate the impact of such pandemics; the risk that the strategic partnership with Oaktree will not realize the expected results and may negatively impact the existing business of Aecon Utilities; the risk that Aecon Utilities will not realize the anticipated balance sheet flexibility with the completion of the investment; the risk that Aecon Utilities will not realize opportunities to expand its geographic reach and range of services in the U.S; the risk of costs or difficulties related to the integration of Aecon Utilities and Xtreme being greater than expected; the risk of the anticipated benefits and synergies from the acquisition not being fully realized or taking longer than expected to realize; the risk of being unable to retain key personnel, including Xtreme management; and the risk of being unable to maintain relationships with customers, suppliers or other business partners of Xtreme.

These forward-looking statements are based on a variety of factors and assumptions including, but not limited to that: none of the risks identified above materialize, there are no unforeseen changes to economic and market conditions and no significant events occur outside the ordinary course of business. These assumptions are based on information currently available to Aecon, including information obtained from third-party sources. While the Company believes that such third-party sources are reliable sources of information, the Company has not independently verified the information. The Company has not ascertained the validity or accuracy of the underlying economic assumptions contained in such information from third-party sources and hereby disclaims any responsibility or liability whatsoever in respect of any information obtained from third-party sources.

Risk factors are discussed in greater detail in Section 13 - "Risk Factors" in this MD&A and in the 2023 Annual MD&A which is available on SEDAR+ at www.sedarplus.ca. Except as required by applicable securities laws, forward-looking statements speak only as of the date on which they are made and Aecon undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

3. FINANCIAL REPORTING STANDARDS

The Company prepares its interim condensed consolidated financial statements and the accompanying notes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards") applicable to the preparation of interim financial statements including International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

All financial information in this MD&A is presented in Canadian dollars, unless otherwise indicated.

4. NON-GAAP AND SUPPLEMENTARY FINANCIAL MEASURES

The MD&A presents certain non-GAAP and supplementary financial measures, as well as non-GAAP ratios to assist readers in understanding the Company's performance ("GAAP" refers to Generally Accepted Accounting Principles under IFRS Accounting Standards). These measures do not have any standardized meaning and therefore are unlikely to be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Throughout this MD&A, the following terms are used, which do not have a standardized meaning under GAAP.

Non-GAAP Financial Measures

A non-GAAP financial measure: (a) depicts the historical or expected future financial performance, financial position or cash flow of the Company; (b) with respect to its composition, excludes an amount that is included in, or includes an amount that is excluded from, the composition of the most comparable financial measure presented in the primary consolidated financial statements; (c) is not presented in the financial statements of the Company; and (d) is not a ratio.

Non-GAAP financial measures presented and discussed in this MD&A are as follows:

- **"Adjusted EBITDA"** represents operating profit (loss) adjusted to exclude depreciation and amortization, the gain (loss) on sale of assets and investments, and net income (loss) from projects accounted for using the equity method, but including "Equity Project EBITDA" from projects accounted for using the equity method (refer to Section 9 "Quarterly Financial Data" for a quantitative reconciliation to the most comparable financial measure).
- **"Equity Project EBITDA"** represents Aecon's proportionate share of the earnings or losses from projects accounted for using the equity method before depreciation and amortization, finance income, finance cost and income tax expense (recovery) (refer to Section 9 "Quarterly Financial Data" for a quantitative reconciliation to the most comparable financial measure).

Management uses the above non-GAAP financial measures to analyze and evaluate operating performance. Aecon also believes the above financial measures are commonly used by the investment community for valuation purposes, and are useful complementary measures of profitability, and provide metrics useful in the construction industry. The most directly comparable measures calculated in accordance with GAAP are operating profit and profit (loss) attributable to shareholders.

Primary Financial Statements

Primary financial statement means any of the following: the consolidated balance sheets, the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, and the consolidated statements of cash flows.

Key financial measures presented in the primary financial statements of the Company and discussed in this MD&A are as follows:

- **"Gross profit"** represents revenue less direct costs and expenses. Not included in the calculation of gross profit are marketing, general and administrative expense ("MG&A"), depreciation and amortization, income (loss) from projects accounted for using the equity method, other income (loss), finance income, finance cost, income tax expense (recovery), and non-controlling interests.
- **"Operating profit (loss)"** represents the profit (loss) from operations, before finance income, finance cost, income tax expense (recovery), and non-controlling interests.

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

- **"Backlog" (Remaining Performance Obligations)** means the total value of work that has not yet been completed that: (a) has a high certainty of being performed as a result of the existence of an executed contract or work order specifying job scope, value and timing; or (b) has been awarded to Aecon, as evidenced by an executed binding letter of intent or agreement, describing the general job scope, value and timing of such work, and where the finalization of a formal contract in respect of such work is reasonably assured. Operations and maintenance ("O&M") activities are provided under contracts that can cover a period of up to 30 years. In order to provide information that is comparable to the backlog of other categories of activity, Aecon limits backlog for O&M activities to the earlier of the contract term and the next five years.

Remaining Performance Obligations, i.e. Backlog, is presented in the notes to the Company's annual consolidated financial statements and is not meant to be a substitute for other amounts presented in accordance with GAAP, but rather should be evaluated in conjunction with such GAAP measures.

Non-GAAP Ratios

A non-GAAP ratio is a financial measure presented in the form of a ratio, fraction, percentage or similar representation, and that has a non-GAAP financial measure as one of its components and is not disclosed in the financial statements of the Company.

A non-GAAP ratio presented and discussed in this MD&A is as follows:

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

Management uses the above non-GAAP ratio to analyze and evaluate operating performance. The most directly comparable measures calculated in accordance with GAAP are gross profit margin and operating margin.

Supplementary Financial Measures

A supplementary financial measure: (a) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of the Company; (b) is not presented in the financial statements of the Company; (c) is not a non-GAAP financial measure; and (d) is not a non-GAAP ratio.

Key supplementary financial measures presented in this MD&A are as follows:

- **"Gross profit margin"** represents gross profit as a percentage of revenue.
- **"Operating margin"** represents operating profit (loss) as a percentage of revenue.
- **"MG&A as a percent of revenue"** represents marketing, general and administrative expense as a percentage of revenue.
- **"Debt to capitalization percentage"** represents total debt (excluding non-recourse debt and drawings on the Company's credit facilities presented as bank indebtedness) as a percentage of total

capitalization. The calculation of debt to capitalization percentage and management's use of this ratio is described in Section 10.5 "Capital Management" of this MD&A.

5. RECENT DEVELOPMENTS

Aecon Utilities Acquires Electrical Distribution Utility Contractor Xtreme Powerline

On July 2, 2024, Aecon Utilities Group Inc. ("Aecon Utilities") acquired a majority interest in Xtreme Powerline Construction ("Xtreme"), an electrical distribution utility contractor headquartered in Port Huron, Michigan for a base purchase price of approximately US$73.0 million ($100.0 million equivalent at July 2, 2024), with the potential for additional contingent proceeds (the "Transaction"). The Transaction is being financed through Aecon Utilities' standalone committed revolving credit facility. Xtreme management are committed to supporting Aecon Utilities' expansion in the U.S. and will retain a minority ownership in Xtreme as well as leadership responsibilities in the Xtreme business in partnership with Aecon Utilities' management team.

A privately-owned company founded in 2007, Xtreme is a full-service powerline constructor with approximately 300 employees. Xtreme specializes in overhead distribution line repair, maintenance and expansion services throughout the Eastern United States, and provides emergency restoration services for over 20 utility clients across the U.S. Xtreme has held a long-time overhead distribution master service agreement with DTE Energy.

Update on Certain Fixed Price Legacy Projects

- <u>Coastal Gaslink Pipeline Project Global Settlement Agreement</u>

On June 28, 2024, Aecon announced that SA Energy Group (a general partnership of Aecon Construction Group Inc. and Robert B. Somerville Co. Ltd.) and Coastal GasLink Pipeline Limited Partnership, by its general partner Coastal GasLink Pipeline Ltd., reached an amicable and mutually agreeable global settlement to resolve their dispute fully and finally over the construction of Sections 3 and 4 of the Coastal GasLink Pipeline Project in British Columbia.

The settlement agreement is not an admission of liability by either party and the parties have mutually released their respective claims in the arbitration, thereby avoiding the expense, burden and uncertainty associated with arbitration.

The terms of the settlement agreement are expected to result in no further cash impacts to Aecon. From an accounting perspective, Aecon recognized in its consolidated financial results a non-recurring charge of $127 million in both the second quarter and first six months of 2024 ($nil in both the second quarter and first six months of 2023) related to the construction of Sections 3 and 4 of the Coastal GasLink Pipeline Project.

- <u>Update on the Remaining Fixed Price Legacy Projects</u>

Within the Construction segment, as part of its ongoing review of critical accounting estimates in respect of the remaining three large fixed price legacy projects now nearing completion and being performed by joint ventures in which Aecon is a participant (see Section 10.2 "Contingencies" of this MD&A and Section 13 "Risk Factors" of the 2023 Annual MD&A), Aecon recognized an operating loss of $110 million in both the second quarter and first six months of 2024 (an operating loss of $81.3 million in the second quarter of 2023 and an operating loss of $84.1 million in the first six months of 2023). During the full year of 2023, an operating loss of $215.2 million was recognized from the three remaining legacy projects.

Aecon and its joint venture partners remain focused on dedicating all necessary resources to drive the remaining legacy projects to completion and in the meantime continue to pursue fair and reasonable settlement agreements with the respective clients in each case. Of the remaining three projects, one is currently expected to be substantially complete by the end of 2024, another in early 2025, and the final project by the end of the third quarter of 2025. Future downside risk remains in the event that assumptions, estimates, and/or circumstances change. Such downside risks include, among others, the level of compensation for past and future impacts, including through the dispute resolution process where appropriate, productivity not meeting expectations, potential for unforeseen supply chain delays and disruptions, unknown commissioning risks, inflation related risk, and further client changes.

At June 30, 2024, the remaining backlog to be worked off on the four projects was $269 million compared to backlog of $420 million at December 31, 2023 and $699 million at June 30, 2023. The four legacy projects comprised 4% of backlog at June 30, 2024 compared to 7% at December 31, 2023 and 10% at June 30, 2023.

6. BUSINESS STRATEGY

Refer to the discussion on Business Strategy as outlined in the 2023 Annual MD&A available on the Company’s website at www.aecon.com or through SEDAR+ at www.sedarplus.ca.

7. CONSOLIDATED FINANCIAL HIGHLIGHTS

$ millions (except per share amounts)	Three months ended June 30		Six months ended June 30	
	2024	2023	**2024**	2023
Revenue	**$ 853.8**	**$ 1,166.9**	**$ 1,700.4**	**$ 2,274.1**
Gross profit	(137.9)	45.1	(75.1)	112.0
Marketing, general and administrative expense	(48.2)	(43.1)	(100.3)	(97.3)
Income from projects accounted for using the equity method	11.6	4.8	13.8	8.0
Other income	28.0	70.1	29.7	82.7
Depreciation and amortization	(19.8)	(21.2)	(38.6)	(44.2)
Operating profit (loss)	**(166.3)**	**55.6**	**(170.5)**	**61.2**
Finance income	2.1	1.8	5.3	3.2
Finance cost	(6.6)	(16.1)	(12.2)	(33.1)
Profit (loss) before income taxes	**(170.8)**	**41.3**	**(177.4)**	**31.4**
Income tax (expense) recovery	46.9	(13.1)	47.4	(12.6)
Profit (loss)	**$ (123.9)**	**$ 28.2**	**$ (130.0)**	**$ 18.8**
Gross profit margin[3]	**(16.2)%**	**3.9%**	**(4.4)%**	**4.9%**
MG&A as a percent of revenue[3]	**5.6%**	**3.7%**	**5.9%**	**4.3%**
Adjusted EBITDA[1]	**$ (153.5)**	**$ 16.7**	**$ (120.7)**	**$ 41.3**
Adjusted EBITDA margin[2]	**(18.0)%**	**1.4%**	**(7.1)%**	**1.8%**
Operating margin[3]	**(19.5)%**	**4.8%**	**(10.0)%**	**2.7%**
Earnings (loss) per share – basic	**$ (1.99)**	**$ 0.46**	**$ (2.09)**	**$ 0.30**
Earnings (loss) per share – diluted	**$ (1.99)**	**$ 0.38**	**$ (2.09)**	**$ 0.28**
Backlog (at end of period)			**$ 6,186**	**$ 6,851**

(1) This is a non-GAAP financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP financial measure.

(2) This is a non-GAAP ratio. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP ratio.

(3) This is a supplementary financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each supplementary financial measure.

Revenue for the three months ended June 30, 2024 of $854 million was $313 million, or 27%, lower compared to the second quarter of 2023. In the Construction segment, lower revenue of $288 million was driven by decreases in industrial ($205 million), urban transportation solutions ($87 million), and civil operations ($63 million), partially offset by higher revenue in nuclear ($63 million) and utilities ($4 million). In the Concessions segment, lower revenue of $25 million for the three months ended June 30, 2024 was primarily due to the use of the equity method of accounting in 2024 for Aecon’s 50.1% retained interest in the Bermuda International Airport concessionaire (“Skyport”) following the sale of a 49.9% interest in Skyport in the third quarter of 2023.

Revenue for the six months ended June 30, 2024 of $1,700 million was $574 million, or 25%, lower compared to the same period in 2023. Lower revenue in the Construction segment of $535 million was driven by decreases in industrial ($386 million), urban transportation solutions ($128 million), civil ($99 million), and utilities operations ($10 million), partially offset by higher revenue in nuclear operations ($88 million). In the

Concessions segment, lower revenue of $39 million was primarily related to Skyport for the same reason noted in the second quarter commentary.

Operating loss of $166.3 million for the three months ended June 30, 2024 compares to an operating profit of $55.6 million in the same period in 2023 for a decrease in operating profit of $221.9 million. The decrease in operating profit was largely due to lower quarter-over-quarter gross profit in the second quarter of 2024 of $183.0 million compared to the same period in 2023. In the Construction segment, gross profit decreased by $167.9 million largely from an increase in negative gross profit related to four fixed price legacy projects of $155.7 million compared to the second quarter of 2023. In the second quarter of 2024, Aecon recorded a charge of $127.0 million related to the Coastal GasLink Pipeline Project and an additional aggregate charge of $110.0 million related to the three remaining legacy projects, compared to negative gross profit on the four fixed price legacy projects of $81.3 million in the second quarter of 2023. These four fixed price legacy projects are discussed in Section 5 “Recent Developments” and Section 10.2 “Contingencies” in this MD&A, and Section 13 “Risk Factors” in the 2023 Annual MD&A. Other than the impact of these fixed price legacy projects in the second quarter, lower gross profit in the balance of the Construction segment was primarily due to lower gross profit in urban transportation solutions. In the Concessions segment, gross profit decreased by $14.8 million, primarily from the use of the equity method of accounting in 2024 for Aecon’s 50.1% retained interest in Skyport following the sale of a 49.9% interest in this project in the third quarter of 2023.

Operating loss of $170.5 million for the six months ended June 30, 2024 compares to an operating profit of $61.2 million in the same period in 2023 for a decrease in operating profit of $231.7 million. This decrease was driven by lower gross profit in the first six months of 2024 of $187.1 million compared to the same period in 2023. In the Construction segment, gross profit decreased by $166.5 million in the period. Similar to the second quarter commentary, gross profit related to the four fixed price legacy projects decreased by $152.9 million from negative gross profit on these projects in the first six months of 2024 of $237.0 million compared to negative gross profit on the four fixed price legacy projects of $84.1 million in the first six months of 2023. In addition to the impact of these fixed price legacy projects in the first six months of 2024, gross profit in the balance of the Construction segment was lower in industrial, civil, and urban transportation solutions, partially offset by higher gross profit in nuclear and utilities. In the Concessions segment, gross profit decreased by $20.1 million, primarily in Skyport for reasons consistent with the second quarter commentary.

Contributing to the decrease in operating profit in the second quarter of 2024 was lower other income of $42.1 million compared to the same period in 2023. The decrease was due to lower gains on the sale of property, buildings, and equipment of $21.7 million compared to the second quarter of 2023. In addition, gains on the sale of Aecon Transportation East (“ATE”) decreased by $25.5 million quarter-over-quarter (an initial gain of $38.0 million in the second quarter of 2023 compared to a further gain of $12.5 million in the second quarter of 2024 from incremental proceeds earned in 2024). Foreign exchange gains also decreased in the quarter by $1.0 million. These decreases were partially offset by a $5.9 million gain from incremental proceeds earned in the second quarter of 2024 related to the partial sale of Skyport that occurred in 2023), and by a fair value remeasurement gain $0.2 million in the quarter.

Other income was also lower in the first six months of 2024 by $53.0 million compared to the same period in 2023. The decrease was primarily due to lower gains on the sale of property, buildings, and equipment ($32.9 million), lower gains on the sale of ATE of $25.5 million ($12.5 million in the first six months of 2024 compared to $38.0 million in the same period in 2023), partially offset by an incremental gain of $5.9 million related to the partial sale of Skyport. Also impacting other income in the period was a decrease in foreign exchange gains ($0.8 million) and an increase in fair value remeasurement gains (0.2 million).

MG&A for the three and six months ended June 30, 2024 increased by $5.1 million and $3.0 million, respectively, compared to the same periods in 2023. Higher MG&A in both the second quarter and first six months of 2024 was primarily due to higher personnel and other discretionary costs, partially offset by lower MG&A related to the ATE operations sold in the second quarter of 2023. MG&A as a percentage of revenue for the second quarter increased from 3.7% in 2023 to 5.6% in 2024, and for the first six months increased from 4.3% in 2023 to 5.9% in 2024.

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 $11.6 million in the second quarter of 2024 from projects accounted for using this method of accounting, compared to $4.8 million in the second quarter of 2023, and income of $13.8 million in the first six months of 2024 compared to $8.0 million in the same period in 2023. In the Concessions segment, income was higher in the second quarter and first six months of 2024 ($7.1 million and $5.7 million, respectively) primarily due to higher operating results (after interest and income taxes) from Aecon's 50.1% ownership in Skyport which is reported using the equity method of accounting in 2024 driven by one-time recoveries of $5.9 million. In the Construction segment, income was lower ($0.2 million) in the second quarter while results were higher ($0.1 million) in the first six months of 2024.

Depreciation and amortization expense of $19.8 million and $38.6 million for the second quarter and six months ended June 30, 2024, respectively, was $1.4 million and $5.6 million lower than the same periods in 2023. In the Concessions segment, depreciation and amortization expense was lower in both periods ($5.6 million and $11.2 million, respectively) due to the use of the equity method of accounting in 2024 for Aecon's 50.1% retained interest in Skyport, partially offset by higher depreciation and amortization expense in the Construction segment in both periods ($4.4 million and $6.0 million, respectively) primarily related to an increase in equipment deployed.

Net financing expense of $4.5 million in the second quarter of 2024 consisting of finance cost of $6.6 million less finance income of $2.1 million, was $9.9 million lower than the same period in 2023, and net financing expense of $6.9 million in the first six months of 2024, consisting of finance cost of $12.2 million less finance income of $5.3 million, was $23.0 million lower than the same period in 2023. The decrease in both periods is primarily related to lower borrowings on Aecon's revolving credit facilities, the repayment of all convertible debentures on December 29, 2023, a reduction in reported interest from Skyport with the commencement of equity accounting for Aecon's retained 50.1% interest in the project, partially offset by higher net financing costs related to the Preferred Shares of Aecon Utilities.

Set out in Note 18 of the June 30, 2024 interim condensed consolidated financial statements is a reconciliation between the expected income tax expense (recovery) for the first six months of 2024 and 2023 based on statutory income tax rates and the actual income tax expense (recovery) reported for both these periods. In both the first six months of 2024 and 2023, the effective income tax rate differed from the Canadian statutory income tax rate of 26.4% mainly due to the geographic mix of earnings, largely related to international projects and in particular the Skyport project. In the first six months of 2023, the higher effective income tax rate was also impacted by the income tax treatment of transactions related to the disposal of subsidiaries.

Reported backlog at June 30, 2024 of $6,186 million compares to backlog of $6,157 million at December 31, 2023 and $6,851 million at June 30, 2023. New contract awards of $766 million and $1,729 million were booked in the second quarter and year-to-date, respectively, in 2024 compared to $2,016 million and $2,828 million in the same periods in 2023.

Backlog **$ millions**	**At June 30**			
		2024		2023
Construction	**$**	**6,081**	$	6,752
Concessions		**105**		99
Consolidated	**$**	**6,186**	$	6,851

Estimated backlog duration **$ millions**	**At June 30**					
		2024			2023	
Next 12 months	**$**	**3,102**	**50%**	$	2,998	44%
Next 13-24 months		**1,568**	**25%**		1,776	26%
Beyond		**1,516**	**25%**		2,077	30%
	$	**6,186**	**100%**	$	6,851	100%

The timing of work to be performed for projects in backlog at June 30, 2024 is based on current project schedules, taking into account the current estimated impacts of supply chain disruptions and availability of labour. It is possible that these estimates could change in the future based on changes in these or other factors impacting the schedule of these projects.

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

Further detail for each segment is included in the discussion below under Section 8 “Reportable Segments Financial Highlights”.

8. REPORTABLE SEGMENTS FINANCIAL HIGHLIGHTS

8.1. CONSTRUCTION

Financial Highlights

$ millions	Three months ended June 30		Six months ended June 30	
	2024	2023	**2024**	2023
Revenue	**$ 851.5**	$ 1,139.4	**$ 1,695.3**	$ 2,229.9
Gross profit	**$ (136.8)**	$ 31.1	**$ (73.2)**	$ 93.3
Adjusted EBITDA(1)	**$ (172.6)**	$ (4.4)	**$ (144.9)**	$ 17.9
Operating profit (loss)	**$ (185.0)**	$ (7.5)	**$ (177.5)**	$ 8.7
Gross profit margin(3)	**(16.1)%**	2.7%	**(4.3)%**	4.2%
Adjusted EBITDA margin(2)	**(20.3)%**	(0.4)%	**(8.5)%**	0.8%
Operating margin(3)	**(21.7)%**	(0.7)%	**(10.5)%**	0.4%
Backlog (at end of period)			**$ 6,081**	$ 6,752

(1) This is a non-GAAP financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP financial measure.
(2) This is a non-GAAP ratio. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP ratio.
(3) This is a supplementary financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each supplementary financial measure.

Revenue in the Construction segment for the three months ended June 30, 2024 of $851 million was $288 million, or 25%, lower compared to the same period in 2023. Revenue was lower in industrial operations ($205 million) driven primarily by decreased activity on mainline pipeline work following the achievement of substantial completion on a large project in the third quarter of 2023, which offset a higher volume of field construction work primarily at wastewater treatment facilities in western Canada. In urban transportation solutions, revenue was lower ($87 million) primarily from a decrease in light rail transit (“LRT”) work in Ontario and Québec as three of these LRT projects near completion. Lower revenue in civil operations ($63 million) was driven by a lower volume of major projects work, largely related to the substantial completion of a large hydroelectric project in western Canada in 2023, and from a lower volume of roadbuilding construction work primarily in eastern Canada as a result of the sale of ATE in the second quarter of 2023 ($20 million). Partially offsetting these decreases was higher revenue in nuclear operations ($63 million) from an increased volume of refurbishment work at nuclear generating stations located in Ontario, and in utilities operations ($4 million) from a higher volume of electrical transmission and battery energy storage system work, partially offset by a lower volume of telecommunications and gas distribution work.

Revenue in the Construction segment for the six months ended June 30, 2024 of $1,695 million was $535 million, or 24%, lower compared to the same period in 2023. Construction segment revenue was lower in industrial ($386 million), urban transportation solutions ($128 million), and civil operations ($99 million), and higher in nuclear operations ($88 million), all for reasons consistent with the second quarter commentary. Within civil operations, roadbuilding construction work was lower by $51 million as a result of the sale of ATE in the second quarter of 2023. Additionally, in utilities operations, lower revenue ($10 million) resulted from a lower volume of telecommunications and gas distribution work, partially offset by an increase in electrical transmission and battery energy storage system work.

Operating loss in the Construction segment of $185.0 million in the three months ended June 30, 2024 compares to an operating loss of $7.5 million in the same period in 2023, for a decrease in operating profit of $177.5 million. The largest driver of the decrease in operating profit was negative gross profit from the four fixed price legacy projects of $237.0 million in the second quarter of 2024 compared to negative gross profit on the four fixed price legacy projects of $81.3 million in the second quarter of 2023, for a net negative quarter-over-quarter impact on operating profit of $155.7 million. These four fixed price legacy projects are discussed in Section 5 “Recent Developments” and Section 10.2 “Contingencies” in this MD&A, and Section 13 “Risk Factors” in the 2023 Annual MD&A. In addition to the impact of these fixed price legacy projects in the second quarter, lower operating profit in the balance of the Construction segment was primarily the result of lower gross profit in urban transportation solutions from rail electrification work, and from lower gains on the sale of property, buildings, and equipment ($3.9 million) in the quarter.

Operating loss in the Construction segment of $177.5 million in the six months ended June 30, 2024 compares to an operating profit of $8.7 million in the same period in 2023, a decrease in operating profit of $186.2 million. Similar to the second quarter commentary, the decrease in operating profit was driven by negative gross profit from the four fixed price legacy projects of $237.0 million in the first six months of 2024 compared to negative gross profit on the four fixed price legacy projects of $84.1 million in the same period in 2023, for a net negative quarter-over-quarter impact on operating profit of $152.9 million. In addition to the impact of these fixed price legacy projects in the period, lower operating profit in the balance of the Construction segment was due to lower gross profit in industrial, urban transportation solutions and civil operations, partially offset by higher volume and increased gross profit in nuclear operations and higher gross profit margin in utilities operations. Also contributing to the decrease in operating profit in the period was lower gains on the sale of property, buildings, and equipment ($15.0 million).

Construction backlog at June 30, 2024 was $6,081 million, which was $671 million lower than the same time last year. Backlog decreased period-over-period in nuclear ($295 million), utilities ($132 million), urban transportation solutions ($123 million), civil ($82 million), and industrial operations ($39 million). New contract awards totaled $763 million in the second quarter of 2024 and $1,724 million year-to-date, compared to $1,990 million and $2,785 million, respectively, in the same periods last year. During the first six months of 2024, Aecon was awarded a number of projects including a consortium, of which Aecon is a participant, was awarded a contract to design and build the Surrey Langley SkyTrain Stations project in British Columbia.

As discussed in Section 7 “Consolidated Financial Highlights”, the Construction segment’s anticipated future work to be performed at any given time is greater than what is reported as backlog.

8.2. CONCESSIONS

Financial Highlights

$ millions	Three months ended June 30				Six months ended June 30			
	2024		2023		**2024**		2023	
Revenue	**$**	**2.3**	$	27.3	**$**	**5.2**	$	44.3
Gross profit	**$**	**(1.1)**	$	13.7	**$**	**(1.7)**	$	18.4
Income from projects accounted for using the equity method	**$**	**11.9**	$	4.8	**$**	**14.1**	$	8.3
Adjusted EBITDA(1)	**$**	**29.5**	$	27.6	**$**	**47.1**	$	42.6
Operating profit	**$**	**16.8**	$	14.4	**$**	**17.9**	$	16.8
Backlog (at end of period)					**$**	**105**	$	99

(1) This is a non-GAAP financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP financial measure.

Aecon currently holds a 50.1% interest in Skyport, the concessionaire responsible for the Bermuda airport’s operations, maintenance, and commercial functions, and the entity that will manage and coordinate the overall delivery of the Bermuda International Airport Redevelopment Project over a 30-year concession term that commenced in 2017. Aecon’s participation in Skyport is accounted for using the equity method. On September 20, 2023, Aecon sold a 49.9% interest in Skyport to Connor, Clark & Lunn Infrastructure with Aecon retaining the management contract for the airport. Prior to this transaction, Aecon’s participation in Skyport was 100% consolidated and, as such, was accounted for in the consolidated financial statements by reflecting, line by line, the assets, liabilities, revenue and expenses of Skyport. Aecon’s concession participation in the Eglinton Crosstown LRT, Finch West LRT, Gordie Howe International Bridge, Waterloo LRT, and the GO Expansion On-Corridor Works projects are joint ventures that are also accounted for using the equity method.

For the three months ended June 30, 2024, revenue in the Concessions segment of $2 million was $25 million lower compared to the same period in 2023, while for the six months ended June 30, 2024, revenue of $5 million was $39 million lower when compared to the same period in 2023. Lower revenue for both periods was primarily due to lower reported revenue from Skyport due to the commencement of the equity method of accounting for the project following the above noted sale of a 49.9% interest in Skyport in the third quarter of 2023.

Operating profit in the Concessions segment of $16.8 million and $17.9 million, respectively, for the three months and six months ended June 30, 2024 improved by $2.4 million and $1.1 million, respectively. Operating profit related to the Bermuda International Airport project was higher in both periods driven by one-time recoveries of $5.9 million in 2024 and an incremental gain on sale of $5.9 million reported in 2024 related to additional proceeds earned from the 2023 partial sale of Skyport. Operating results from Skyport in 2024 were also impacted by the sale of a 49.9% interest in Skyport in the third quarter of 2023 and from the use of the equity method of accounting in 2024 where operating results for Aecon’s interest in Skyport were reported net of financing costs and income taxes, which contributed to lower period-over-period operating profit results from the ongoing operations at Skyport. Operating profit in the segment was also impacted in both periods by a decrease in management and development fees from the balance of the concessions operations.

Except for O&M activities under contract for the next five years and that can be readily quantified, Aecon does not include in its reported backlog expected revenue from concession agreements. As such, while Aecon expects future revenue from its concession assets, no concession backlog, other than from such O&M activities for the next five years, is reported.

9. QUARTERLY FINANCIAL DATA

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

$ millions (except per share amounts)

	2024		2023				2022	
	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3
Revenue	$ 853.8	$ 846.6	$ 1,130.2	$ 1,239.6	$ 1,166.9	$ 1,107.2	$ 1,266.8	$ 1,320.5
Adjusted EBITDA(1)	(153.5)	32.9	70.2	32.0	16.7	24.6	67.5	92.6
Earnings (loss) before income taxes	(170.8)	(6.7)	20.3	125.8	41.3	(9.9)	25.8	46.5
Profit (loss)	(123.9)	(6.1)	9.7	133.4	28.2	(9.4)	19.7	34.5
Earnings (loss) per share:								
Basic	$ (1.99)	$ (0.10)	$ 0.16	$ 2.16	$ 0.46	$ (0.15)	$ 0.32	$ 0.57
Diluted	(1.99)	(0.10)	0.15	1.63	0.38	(0.15)	0.26	0.45

(1) This is a non-GAAP financial measure. Refer to Section 4 "Non-GAAP and Supplementary Financial Measures" in this MD&A for more information on each non-GAAP financial measure.

Earnings (loss) per share for each quarter has been computed using the weighted average number of shares issued and outstanding during the respective quarter. Any dilutive securities, which increase the earnings per share or decrease the loss per share, are excluded for purposes of calculating diluted earnings per share. Due to the impacts of dilutive securities, such as convertible debentures, and share issuances and repurchases throughout the periods, the sum of the quarterly earnings (losses) per share will not necessarily equal the total for the year.

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

$ millions

	2024		2023				2022	
	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3
Operating profit (loss)	$ (166.3)	$ (4.2)	$ 39.6	$ 140.1	$ 55.6	$ 5.6	$ 40.7	$ 61.0
Depreciation and amortization	19.8	18.8	14.6	20.3	21.2	22.9	23.9	23.8
(Gain) on sale of assets	(28.4)	(1.1)	(1.9)	(138.6)	(69.6)	(12.2)	(7.6)	(2.5)
(Income) from projects accounted for using the equity method	(11.6)	(2.3)	(5.5)	(5.2)	(4.8)	(3.3)	(5.9)	(5.0)
Equity Project EBITDA(1)	32.9	21.6	23.4	15.4	14.2	11.6	16.4	15.4
Adjusted EBITDA(1)	$ (153.5)	$ 32.9	$ 70.2	$ 32.0	$ 16.7	$ 24.6	$ 67.5	$ 92.6

(1) This is a non-GAAP financial measure. Refer to Section 4 "Non-GAAP and Supplementary Financial Measures" in this MD&A for more information on each non-GAAP financial measure.

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

$ millions

	2024		2023				2022	
Aecon's proportionate share of projects accounted for using the equity method(1)	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3
Operating profit	$ 29.0	$ 17.8	$ 19.6	$ 15.4	$ 14.1	$ 11.4	$ 16.2	$ 15.2
Depreciation and amortization	3.9	3.8	3.8	-	0.1	0.2	0.2	0.2
Equity Project EBITDA(2)	$ 32.9	$ 21.6	$ 23.4	$ 15.4	$ 14.2	$ 11.6	$ 16.4	$ 15.4

(1) Refer to Note 10 "Projects Accounted for Using the Equity Method" in the June 30, 2024 interim condensed consolidated financial statements.

(2) This is a non-GAAP financial measure. Refer to Section 4 "Non-GAAP and Supplementary Financial Measures" in this MD&A for more information on each non-GAAP financial measure.

Set out below is the calculation of Adjusted EBITDA by segment for the three months and six months ended June 30, 2024 and 2023:

$ millions

	Three months ended June 30, 2024				Six months ended June 30, 2024			
	Construction	Concessions	Other costs and eliminations	Consolidated	Construction	Concessions	Other costs and eliminations	Consolidated
Operating profit (loss)	$ (185.0)	$ 16.8	$ 1.8	$ (166.4)	$ (177.5)	$ 17.9	$ (10.8)	$ (170.4)
Depreciation and amortization	19.5	0.1	0.3	19.9	38.1	0.1	0.4	38.6
(Gain) on sale of assets	(9.9)	(5.9)	(12.5)	(28.3)	(11.0)	(5.9)	(12.5)	(29.4)
(Income) loss from projects accounted for using the equity method	0.3	(11.9)	-	(11.6)	0.2	(14.1)	-	(13.9)
Equity Project EBITDA(1)	2.5	30.4	-	32.9	5.4	49.1	-	54.5
Adjusted EBITDA(1)	$ (172.6)	$ 29.5	$ (10.4)	$ (153.5)	$ (144.9)	$ 47.1	$ (22.9)	$ (120.7)

$ millions

	Three months ended June 30, 2023				Six months ended June 30, 2023			
	Construction	Concessions	Other costs and eliminations	Consolidated	Construction	Concessions	Other costs and eliminations	Consolidated
Operating profit (loss)	$ (7.5)	$ 14.4	$ 48.8	$ 55.6	$ 8.7	$ 16.8	$ 35.8	$ 61.2
Depreciation and amortization	15.1	5.6	0.5	21.3	32.1	11.3	0.8	44.2
(Gain) on sale of assets	(13.8)	-	(55.8)	(69.6)	(26.1)	-	(55.8)	(81.9)
(Income) loss from projects accounted for using the equity method	0.1	(4.8)	-	(4.8)	0.3	(8.3)	-	(8.0)
Equity Project EBITDA(1)	1.7	12.5	-	14.2	2.9	22.9	-	25.8
Adjusted EBITDA(1)	$ (4.4)	$ 27.6	$ (6.5)	$ 16.7	$ 17.9	$ 42.6	$ (19.2)	$ 41.3

(1) This is a non-GAAP financial measure. Refer to Section 4 "Non-GAAP and Supplementary Financial Measures" in this MD&A for more information on each non-GAAP financial measure.

Set out below is the calculation of Equity Project EBITDA by segment for the three months and six months ended June 30, 2024 and 2023:

$ millions

Aecon's proportionate share of projects accounted for using the equity method (1)	Three months ended June 30, 2024				Six months ended June 30, 2024			
	Construction	Concessions	Other costs and eliminations	Consolidated	Construction	Concessions	Other costs and eliminations	Consolidated
Operating profit	$ 2.5	$ 26.5	$ -	$ 29.0	$ 5.4	$ 41.5	$ -	$ 46.9
Depreciation and amortization	-	3.9	-	3.9	-	7.6	-	7.6
Equity Project EBITDA(2)	$ 2.5	$ 30.4	$ -	$ 32.9	$ 5.4	$ 49.1	$ -	$ 54.5

$ millions

Aecon's proportionate share of projects accounted for using the equity method (1)	Three months ended June 30, 2023				Six months ended June 30, 2023			
	Construction	Concessions	Other costs and eliminations	Consolidated	Construction	Concessions	Other costs and eliminations	Consolidated
Operating profit	$ 1.6	$ 12.5	$ -	$ 14.1	$ 2.7	$ 22.9	$ -	$ 25.6
Depreciation and amortization	0.1	-	-	0.1	0.2	-	-	0.2
Equity Project EBITDA(2)	$ 1.7	$ 12.5	$ -	$ 14.2	$ 2.9	$ 22.9	$ -	$ 25.8

(1) Refer to Note 10 “Projects Accounted for Using the Equity Method” in the June 30, 2024 interim condensed consolidated financial statements.
(2) This is a non-GAAP financial measure. Refer to Section 4 “Non-GAAP and Supplementary Financial Measures” in this MD&A for more information on each non-GAAP financial measure.

10. FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

10.1. INTRODUCTION

Aecon’s participation in joint arrangements classified as joint operations is accounted for in the Company’s consolidated financial statements by reflecting, line by line, Aecon’s share of the assets held jointly, liabilities incurred jointly, and revenue and expenses arising from the joint operations.

Aecon’s participation in joint arrangements classified as joint ventures, as well as Aecon’s participation in project entities where Aecon exercises significant influence over the entity but does not control or jointly control the entity (i.e. associates), is accounted for using the equity method.

For further information, see Note 10 “Projects Accounted for Using the Equity Method” to the June 30, 2024 interim condensed consolidated financial statements.

10.2. CONTINGENCIES

Coastal GasLink Pipeline, Sections 3 and 4

On June 28, 2024, Aecon announced that SA Energy Group (a general partnership of Aecon Construction Group Inc. and Robert B. Somerville Co. Ltd.) and Coastal GasLink Pipeline Limited Partnership, by its general partner Coastal GasLink Pipeline Ltd., reached an amicable and mutually agreeable global settlement to resolve their dispute fully and finally over the construction of Sections 3 and 4 of the Coastal GasLink Pipeline Project in British Columbia. The settlement agreement is not an admission of liability by either party and the parties have mutually released their respective claims in the arbitration, thereby avoiding the expense, burden and uncertainty associated with arbitration. The terms of the settlement agreement are expected to result in no cash impacts to Aecon (See Section 5 "Recent Developments" of this MD&A).

Kemano Generating Station Second Tunnel Project

During the second quarter of 2020, Rio Tinto issued a notice of termination of contract to the joint venture in which Aecon holds a 40% interest with respect to the Kemano Generating Station Second Tunnel Project. Rio Tinto also issued notice to the joint ventures' sureties asserting a claim on the 50% performance bonds; the sureties entered into a cooperation agreement with Rio Tinto but have not taken a position on the validity of this claim on the bonds. In the third quarter of 2020, the joint venture issued a notice of civil claim seeking approximately $105 million in damages from Rio Tinto. The joint venture also registered and perfected a builders' lien against project lands, providing security over approximately $97 million of the claimed damages. In the first quarter of 2021, Rio Tinto issued a counterclaim against the joint venture but did not articulate the amount of damages it may seek from the joint venture. Near the end of the first quarter of 2024, Rio Tinto applied to the Court to amend its pleadings to add the joint venture's parent companies to the action pursuant to parent company guarantees issued by said companies, and also to articulate counterclaim damages of approximately $428 million; the Court's decision is pending on Rio Tinto's application. While it is possible that this commercial dispute could result in a material impact to Aecon's earnings and cash flow if not resolved, the ultimate results cannot be predicted at this time. The aforementioned notice of civil claim was commenced in the Supreme Court of British Columbia between Frontier Kemper Constructors and Frontier Kemper – Aecon Joint Venture as plaintiffs/defendants by counterclaim and Rio Tinto Alcan Inc. and Aluminum Company of Canada Limited/Aluminum Du Canada Limitée as the defendants/plaintiffs by counterclaim.

K+S Potash Canada

During the second quarter of 2018, the Company filed a statement of claim in the Court of King's Bench for Saskatchewan (the "Court") against K+S Potash Canada ("KSPC") and KSPC filed a statement of claim in the Court against the Company. Both actions relate to the Legacy mine project in Bethune, Saskatchewan. The Company is seeking $180 million in payments due to it pursuant to agreements entered into between the Company and KSPC with respect to the project plus approximately $14 million in damages. The Company has recorded $141 million of unbilled revenue and accounts receivable at June 30, 2024. Offsetting this amount to some extent, the Company has accrued $45 million in trade and other payables for potential payments to third parties pending the outcome of the claim against KSPC. KSPC is seeking an order that the Company repay to KSPC approximately $195 million already paid to the Company pursuant to such agreements. The Company has also been brought into two other lawsuits in the same Court between KSPC and various other contractors involved with the Legacy mine project, both relating to matters which the Company believes are materially covered by insurance coverage, to the extent of any liability. In the fourth quarter of 2022, the Court issued a decision allowing an application by Aecon to add KSPC's parent company K+S Aktiengesellschaft ("KSAG") as a defendant to the lawsuit arising from KSAG's conduct in inducing KSPC to breach its contract with Aecon. These claims may not be resolved for several years. While the Company considers KSPC's claim to be without merit and does not expect that the resolution of these claims will cause a material impact to its financial position, the ultimate results cannot be predicted at this time.

Critical Accounting Estimates – Certain Fixed Price Legacy Projects

Certain large fixed price legacy projects being performed by joint ventures in which Aecon is a participant (see Section 13 “Risk Factors” in this MD&A), are being negatively impacted due to additional costs for which the joint ventures assert that the owners are contractually responsible, including for, among other things, unforeseeable site conditions, third party delays, impacts of COVID-19, supply chain disruptions, and inflation related to labour and materials. Revenue and income from these contracts are determined by the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs at completion of the project. The Company has a process whereby progress to completion is reviewed by management on a regular basis and estimated costs to complete are updated as necessary. Claims are amounts in excess of the agreed contract price, or amounts not included in the original contract price, that the relevant joint venture seeks to collect from clients for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs that the Company and the relevant joint venture believes the owner is contractually responsible. Due to unforeseen changes in estimates of the nature or cost of the work to be completed and / or changes in estimates of related revenue, contract profit can differ significantly from earlier estimates (See Section 13 “Risk Factors”: “Large Projects”, “Certain Fixed Price Legacy Projects”, “Contractual Factors”, “Litigation and Claims”, “Increases in the Cost of Raw Materials”, and “Force Majeure Events” in the 2023 Annual MD&A). In the full year of 2022 and 2023, due to the factors discussed above that impacted these fixed price legacy projects during the year, Aecon recognized an operating loss of $120.0 million and $215.2 million, respectively, related to these four projects. In the first six months of 2024, Aecon recognized an operating loss of $237.0 million from these four legacy projects. See also Section 5 “Recent Developments” in this MD&A.

10.3. CASH AND DEBT BALANCES

Cash balances at June 30, 2024 and December 31, 2023 are as follows:

$ millions		June 30, 2024		
		Balances excluding Joint Operations	Joint Operations	Consolidated Total
Cash and cash equivalents	(1)	$ 131	$ 368	$ 499
Bank indebtedness	(2)	(98)	-	(98)
		December 31, 2023		
		Balances excluding Joint Operations	Joint Operations	Consolidated Total
Cash and cash equivalents	(1)	$ 259	$ 387	$ 646
Bank indebtedness	(2)	(112)	-	(112)

(1) Cash and cash equivalents include cash on deposit in bank accounts of joint operations which Aecon cannot access directly.
(2) Bank indebtedness represents borrowings on Aecon’s revolving credit facilities.

Long-term debt balances at June 30, 2024 and December 31, 2023 are as follows:

$ millions	June 30, 2024	December 31, 2023
Current portion of long-term debt – recourse	$ **39.0**	$ 42.6
Long-term debt – recourse	**104.8**	106.8
Total long-term recourse debt	$ **143.8**	$ 149.4
Preferred Shares of Aecon Utilities - current	$ **158.2**	$ 157.1

Total long-term recourse debt of $143.8 million at June 30, 2024 compares to $149.4 million at December 31, 2023. The $5.6 million net decrease in total long-term recourse debt resulted primarily from a decrease in equipment leases of $1.3 million and equipment financing of $4.3 million.

The $1.1 million increase in the Preferred Shares of Aecon Utilities resulted from accrued dividends of $9.6 million less net fair value gains totalling $8.5 million in the first six months of 2024.

At June 30, 2024, Aecon had a committed revolving credit facility of $450 million and a separate committed credit facility for Aecon Utilities of $400 million. At June 30, 2024, $98 million was drawn on the facilities and $4 million was utilized for letters of credit. Cash drawings under the revolving credit facilities bear interest at rates between prime and prime plus 1.85% per annum. The revolving credit facilities, when combined with an additional $900 million performance security guarantee facility to support letters of credit provided by Export Development Canada ("EDC"), brings Aecon's committed credit facilities for working capital and letter of credit requirements to a total of $1,750 million. The Company has no other debt or working capital credit facility maturities until 2027, except equipment and property loans and leases in the normal course. At June 30, 2024, Aecon was in compliance with all debt covenants related to its credit facilities.

Aecon's financial position, liquidity, and capital resources are subject to the risks and uncertainties described in Section 10.2 "Contingencies" of this MD&A regarding certain pending legal proceedings to which Aecon is a party. Aecon and its joint venture partners also continue to advance negotiations and work towards resolution of claims for additional costs related to certain fixed price legacy projects, and in conjunction strengthen the Company's balance sheet through reducing working capital related to these projects. While the Company believes each relevant joint venture has a strong claim to recover at least a substantial portion of these costs, the ultimate outcome of these matters cannot be predicted at this time (see Section 13 "Risk Factors": "Certain Fixed Price Legacy Projects" in the 2023 Annual MD&A). Aecon's operations also remain subject to uncertainties related to the unpredictability of future potential impacts related to global economic conditions, notably from supply chain disruptions, inflation related to labour and materials, and availability of labour (see Section 5 "Recent Developments" of this MD&A). As such, while the Company remains subject to risks which individually or in the aggregate, could result in material impacts to Aecon's earnings, cash flow, liquidity and financial position, the Company believes that its current liquidity position, including its cash position, unused credit capacity, and cash generated from its operations, is sufficient to fund its operations.

In the second quarter of 2024, Aecon's Board of Directors approved a quarterly dividend of $0.19 per share (annual dividend of $0.76 per share) to be paid to all holders of Aecon common shares. Prior to this increase, Aecon paid a quarterly dividend of $0.185 per share (annual dividend of $0.74 per share). The second quarterly dividend payment of $0.19 per share was paid on July 3, 2024.

10.4. SUMMARY OF CASH FLOWS

The construction industry in Canada is seasonal in nature for companies like Aecon that perform a significant portion of their work outdoors, particularly road construction and utilities work. As a result, a larger portion of this work is performed in the summer and fall months than in the winter and early spring months. Accordingly, Aecon has historically experienced a seasonal pattern in its operating cash flow, with cash balances typically being at their lowest levels in the middle of the year as investments in working capital increase. These seasonal impacts typically result in cash balances peaking near year-end or during the first quarter of the year.

A summary of sources and uses of cash during the three and six months ended June 30, 2024 and 2023 is as follows:

$ millions	Three months ended June 30				Six months ended June 30			
		2024		2023		**2024**		2023
Operating Activities								
Cash provided by (used in):								
Cash flows used by operations before changes in working capital	**$**	**(187.3)**	$	(29.8)	**$**	**(185.0)**	$	(28.9)
Lower (higher) investments in working capital		**249.1**		(76.6)		**96.8**		(207.2)
Cash provided by (used in) operating activities	**$**	**61.8**	$	(106.4)	**$**	**(88.2)**	$	(236.1)
Investing Activities								
Cash provided by (used in):								
Decrease (increase) in restricted cash balances held by Skyport to finance the Bermuda International Airport project	**$**	**-**	$	(2.1)	**$**	**-**	$	8.1
(Expenditures) net of proceeds on property, plant, and equipment and intangible assets		**(8.7)**		45.6		**(17.3)**		54.3
Proceeds on the sale of subsidiaries (net of cash in subsidiaries disposed)		**11.5**		155.3		**11.5**		155.3
Cash distributions received from projects accounted for using the equity method		**0.3**		0.1		**3.6**		0.4
Cash used for investments in long-term financial assets		**(0.5)**		(6.3)		**(0.3)**		(6.5)
Cash provided by (used in) investing activities	**$**	**2.6**	$	192.6	**$**	**(2.5)**	$	211.6
Financing Activities								
Cash provided by (used in):								
Increase (decrease) in bank indebtedness associated with borrowings under the Company's revolving credit facilities	**$**	**22.7**	$	(52.0)	**$**	**(13.3)**	$	67.0
Increase in long-term recourse debt borrowings		**-**		2.2		**3.0**		6.4
Repayments of long-term recourse debt relating primarily to property and equipment financing arrangements		**(10.6)**		(22.8)		**(24.6)**		(40.9)
Repayment of non-recourse project debt of the Bermuda International Airport project		**-**		-		**-**		(2.0)
Cash used for dividends paid		**(11.9)**		(11.4)		**(23.4)**		(22.8)
Cash provided by (used in) financing activities	**$**	**0.2**	$	(84.0)	**$**	**(58.2)**	$	7.7
Increase (decrease) in cash and cash equivalents	**$**	**64.7**	$	2.2	**$**	**(148.8)**	$	(16.8)
Effects of foreign exchange on cash balances		**1.2**		(2.0)		**2.4**		(1.8)
Cash and cash equivalents – beginning of period		**433.5**		358.4		**645.8**		377.2
Cash and cash equivalents – end of period	**$**	**499.4**	$	358.6	**$**	**499.4**	$	358.6

In the first six months of 2024, Aecon acquired, either through purchase or lease, property, plant, and equipment totaling $53.5 million. Of this amount, $11.3 million was largely related to office and warehouse leases with the balance of the investment in property, plant, and equipment primarily related to the purchase or lease of new machinery and construction equipment as part of normal ongoing business operations in the Construction segment. In the first six months of 2023, Aecon acquired, either through purchase or lease, property, plant, and equipment totaling $20.6 million. Of this amount, $4.5 million was largely related to an office and warehouse lease in Ontario, with the balance of the investment in property, plant and equipment primarily related to the purchase or lease of new machinery and construction equipment as part of normal ongoing business operations in the Construction segment.

10.5. CAPITAL MANAGEMENT

For capital management purposes, the Company defines capital as the aggregate of its shareholders' equity and debt. Debt includes the current and non-current portions of long-term debt (excluding non-recourse debt and drawings on the Company's credit facilities presented as bank indebtedness), convertible debentures, and Preferred Shares of Aecon Utilities.

The Company's principal objectives in managing capital are:

- to ensure sufficient liquidity to adequately fund the ongoing operations of the business;
- to provide flexibility to take advantage of contract and growth opportunities that are expected to provide returns to shareholders;
- to maintain a strong capital base;
- to provide a rate of return in excess of its cost of capital to its shareholders; and
- to comply with financial covenants required under its various borrowing facilities.

The Company manages its capital structure and adjusts it in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new debt or repay existing debt, issue new shares, issue convertible debt, or adjust the quantum of dividends paid to shareholders. Financing decisions are generally made on a specific transaction basis and depend on such things as the Company's needs, capital markets, and economic conditions at the time of the transaction.

Although the Company monitors capital on a number of bases, including liquidity and working capital, total debt (excluding non-recourse debt and drawings on the Company's credit facilities presented as bank indebtedness) as a percentage of total capitalization (debt to capitalization percentage) is considered by the Company to be the most important metric in measuring the strength and flexibility of its consolidated balance sheets. At June 30, 2024, the debt to capitalization percentage was 25% (December 31, 2023 - 22%). If the Preferred Shares of Aecon Utilities were to be excluded from debt and added to equity on the basis that they could be converted or redeemed for equity of Aecon Utilities, either at the Company's option or at the holder's option, then the adjusted debt to capitalization percentage would be 12% at June 30, 2024 (December 31, 2023 - 11%). While the Company believes these debt to capitalization percentages are acceptable, because of the cyclical nature of its business and the uncertainties described in Section 10.2 "Contingencies", Section 5 "Recent Developments" in this MD&A, and Section 13 "Risk Factors" in the 2023 Annual MD&A, the Company will continue its efforts to maintain a conservative capital position.

Debt to capitalization percentage is presented in Note 28 "Capital Disclosures" of the Company's June 30, 2024 interim condensed consolidated financial statements and accompanying notes.

Set out below is the calculation of the Company's debt to capitalization percentage at June 30, 2024 and December 31, 2023 using the definitions provided in the preceding paragraphs:

$ millions				
		June 30, 2024		**December 31, 2023**
Current portion of long-term debt	**$**	**39.0**	$	42.6
Long-term debt		**104.8**		106.8
Preferred shares of Aecon Utilities		**158.2**		157.1
Debt	**$**	**302.0**	$	306.5
Shareholders' equity	**$**	**919.1**	$	1,064.3
Capitalization	**$**	**1,221.0**	$	1,370.8
Debt to capitalization percentage		**25%**		22%

		June 30, 2024		**December 31, 2023**
Current portion of long-term debt	**$**	**39.0**	$	42.6
Long-term debt		**104.8**		106.8
Debt	**$**	**143.9**	$	**149.4**
Shareholders' equity	**$**	**919.1**	$	1,064.3
Preferred shares of Aecon Utilities		**158.2**		157.1
Shareholders' equity and Preferred Shares of Aecon Utilities	**$**	**1,077.2**	$	**1,221.4**
Capitalization	**$**	**1,221.1**	$	1,370.8
Debt (excluding Preferred Shares) to capitalization percentage		**12%**		11%

10.6. FINANCIAL INSTRUMENTS

From time to time, the Company enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar but does not hold or issue such financial instruments for speculative trading purposes. In addition, some of the Company’s investments in projects accounted for using the equity method enter into derivative financial instruments, namely interest rate swaps, to hedge the variability of interest rates related to non-recourse project debt.

The Company discloses information on the classification and fair value of its financial instruments, as well as on the nature and extent of risks arising from financial instruments, and related risk management in Note 27 “Financial Instruments” to the Company’s June 30, 2024 interim condensed consolidated financial statements and the notes thereto.

11. NEW ACCOUNTING STANDARDS

Note 5 “New Accounting Standards” to Aecon’s June 30, 2024 interim condensed consolidated financial statements includes new IFRS standards and amendments that became effective for the Company on January 1, 2024, and Note 6 “Future Accounting Changes” discusses IFRS standards and amendments that are issued, but not yet effective. Upon the adoption of the amendments to IAS 1, the Preferred Shares of Aecon Utilities at December 31, 2023 and 2022 were reclassified from non-current liabilities to current liabilities and bank indebtedness at December 31, 2023 and 2022 was reclassified from current liabilities to non-current liabilities in the consolidated balance sheets.

Other than as noted above, 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 2024.

12. SUPPLEMENTAL DISCLOSURES

Disclosure Controls and Procedures

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

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company’s internal controls over financial reporting during the period beginning on April 1, 2024 and ended on June 30, 2024 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

Contractual Obligations

Aecon has obligations for equipment and premises as follows:

$ millions	Finance lease payments	Equipment and other loans
Due within one year	$ 39.1	$ 6.1
Due between one and five years	83.5	15.4
Due after five years	11.4	6.4
	$ 134.0	**$ 27.9**

Contractual obligations related to the Preferred Shares of Aecon Utilities are as follows:

$ millions		**Preferred Shares** [(1)]
2025	$	-
2026 - 2029		-
Beyond		381.3
	$	**381.3**

(1) The Preferred Shares have no fixed repayment terms (see Note 16 "Preferred Shares of Aecon Utilities" to the Company's June 30, 2024) interim condensed consolidated financial statements and the accompanying notes. The Preferred Shares are assumed to have a contractual maturity of 7 years from issuance in this summary.

At June 30, 2024, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was $6,186 million.

Further details on Contractual Obligations are included in the Company's 2023 Annual MD&A.

Defined Benefit Pension Plans

Aecon's defined benefit pension plans (the "Pension Plans") had a combined surplus of $0.4 million at June 30, 2024 (December 31, 2023 a combined deficit of $0.3 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 2023 Annual MD&A for further details regarding Aecon's Pension Plans.

Further details of contingencies and guarantees are included in the June 30, 2024 interim condensed consolidated financial statements and in the 2023 Annual MD&A.

Related Party Transactions

Other than transactions with certain equity accounted investees as part of the normal course of operations, there were no significant related party transactions in the first six months of 2024.

Critical Accounting Estimates and Judgments

Refer to the detailed discussion outlined in Note 4 "Critical Accounting Estimates" of the June 30, 2024 interim condensed consolidated financial statements.

13. RISK FACTORS

Refer to the detailed discussion on Risk Factors as outlined in the Company's 2023 Annual MD&A dated March 5, 2024. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. These risks and uncertainties, which management reviews on a quarterly basis, have not materially changed in the period since March 4, 2024 except as described in Section 10.2 “Contingencies” and Section 10.3 “Cash And Debt Balances” in this MD&A.

14. OUTSTANDING SHARE DATA

Aecon is authorized to issue an unlimited number of common shares. The following are details of common shares outstanding and securities that are convertible into common shares of Aecon Group Inc.

In thousands of dollars (except share amounts)	**July 24, 2024**
Number of common shares outstanding	62,448,801
Outstanding securities exchangeable or convertible into common shares:	
DSUs and RSUs outstanding under the Long-Term Incentive Plan and the 2014 Director DSU Plan	4,289,263

15. OUTLOOK

Aecon's goal is to build a resilient company through a balanced and diversified work portfolio across sectors, markets, geographies, project types, sizes, and delivery models while enhancing critical execution capabilities and project selection to play to its strengths. With backlog of $6.2 billion at the end of the second quarter of 2024, recurring revenue programs continuing to see robust demand, and a strong bid pipeline, Aecon believes it is positioned to achieve further revenue growth commencing in 2025 and over the next few years and is focused on achieving improved profitability and margin predictability.

In the Construction segment, demand for Aecon's services across Canada continues to be strong. Development phase work is ongoing in consortiums in which Aecon is a participant to deliver the long-term GO Expansion On-Corridor Works project, the Scarborough Subway Extension Stations, Rail and Systems project, and the Darlington New Nuclear Project, all in Ontario, and the Contrecoeur Terminal Expansion project in-water works in Quebec. These projects are being delivered using progressive design-build or alliance models and each project is expected to move into the construction phase in 2025. The GO Expansion On-Corridor Works project also includes an operations and maintenance component over a 23-year term commencing January 1, 2025. None of the anticipated work from these four significant long-term progressive design-build projects is yet reflected in backlog.

In the Concessions segment, there are a number of opportunities to add to the existing portfolio of Canadian and international concessions in the next 12 to 24 months, including projects with private sector clients that support a collective focus on sustainability and the transition to a net-zero economy as well as private sector development expertise and investment to support aging infrastructure, mobility, connectivity, and population growth. The GO Expansion On-Corridor Works project noted above and the Oneida Energy Storage project, a consortium in which Aecon Concessions is an equity partner that will deliver a 250 megawatt / 1,000 megawatt-hour energy storage facility near Nanticoke Ontario, are examples of the role Aecon's Concessions segment is playing in developing, operating, and maintaining assets related to this transition. In addition, in the first quarter of 2024, an Aecon-led consortium was selected by the U.S. Virgin Islands Port Authority to redevelop the Cyril E. King Airport in St. Thomas and the Henry E. Rohlsen Airport in St. Croix under a collaborative Design, Build, Finance, Operate and Maintain Public-Private Partnership model.

Global and Canadian economic conditions impacting inflation, interest rates, and overall supply chain efficiency have stabilized, and these factors have largely been and will continue to be reflected in the pricing and commercial terms of the Company's recent and prospective project awards and bids. However, certain ongoing joint venture projects that were bid some years ago have experienced impacts related, in part, to those factors, that will require satisfactory resolution of claims with the respective clients. Results have been negatively impacted by these four legacy projects in recent periods, undermining positive revenue and profitability trends in the balance of Aecon's business. Until these projects are complete and related claims have been resolved, there is a risk that this could also occur in future periods – see Section 5 "Recent Developments" and Section 10.2 "Contingencies" in this MD&A, and Section 13 "Risk Factors" in the 2023 Annual MD&A regarding the risk on certain large fixed price legacy projects entered into in 2018 or earlier by joint ventures in which Aecon is a participant. However, the recent Coastal GasLink Pipeline settlement along with the additional write-downs on the fixed price legacy projects in the second quarter of 2024 are anticipated to lead to improved profitability and margin predictability especially as the remaining three projects move closer to substantial completion.

Revenue in 2024 will be impacted by the three strategic transactions completed in 2023, the substantial completion of several large projects in 2023, the four legacy projects, and the five major projects currently in the development phase by consortiums in which Aecon is a participant being delivered using the progressive design-build or alliance models which are expected to move into the construction phase in 2025. The completion and satisfactory resolution of claims on the remaining three legacy projects with the respective clients remains a critical focus for the Company and its partners, while the remainder of the business continues to perform as expected, supported by the strong level of backlog, and the strong demand environment for Aecon's services, including recurring revenue programs.