Aecon Group Inc.

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

December 31, 2016

Management's Discussion And Analysis Of Operating Results And Financial Condition ("MD&A")

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. ("Aecon" or the "Company") should be read in conjunction with the Company's December 31, 2016 consolidated financial statements and notes. This MD&A has been prepared as at March 7, 2017. 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 four principal segments within the construction and infrastructure development industry: Infrastructure, Energy, Mining and Concessions.

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

INFRASTRUCTURE	
Sector	**Service Focus**
Transportation	• Roads and bridges • Rail and transit • Asphalt production and aggregates • Municipal construction • Commercial site design • Material engineering and design
Heavy Civil	• Hydroelectric • Tunnels and transit stations • Foundations • Airports • Marine • Major civil transportation infrastructure
Social Infrastructure	• Water treatment facilities • Mechanical systems

The Energy segment encompasses a full suite of service offerings to the energy sector including industrial construction and manufacturing activities such as in-plant construction, site construction and module assembly. The activities of the Energy segment are concentrated predominantly in Canada and focus primarily on the following sectors:

ENERGY	
Sector	**Service Focus**
Oil and Gas	• Steam Assisted Gravity Drainage (SAGD) operations in the oil sands • Turnkey well pad construction and field facilities • Liquefied natural gas (LNG) plants • Gas compression facilities
Power Generation	• Nuclear • Thermal and hydro • Natural gas

	• Renewables
Utilities	• Oil and gas pipeline construction and integrity programs • Telecom infrastructure • Power transmission and distribution networks • Water and sewer construction • District energy • Locate services • Utility design • High voltage transmission
Energy Support Services	• Fabrication (pipe fabrication, custom steel) • Modularization • Field installations • Plant maintenance turnaround

The Mining segment offers turnkey services consolidating Aecon's mining capabilities and services across Canada, including both mine site installations and contract mining. This segment focuses on delivering construction services that span the scope of a project's life cycle from overburden removal and resource extraction to processing and environmental reclamation. The Mining segment focuses primarily on the following sectors:

MINING	
Sector	**Service Focus**
Mine Site Installations and Contract Mining	• Mine site development including overburden removal and piling services • Environmental reclamation services • Ore storage and management • Heavy mechanical works • Complete process installations • Full fabrication for mine site installations

Activities within the Concessions segment include the development, financing, construction and operation of infrastructure projects by way of build-operate-transfer, build-own-operate-transfer and other public-private partnership contract structures. The Concessions segment focuses primarily on the following activities:

CONCESSIONS	
Activities	**Service Focus**
Project Financing	• Development of domestic and international Public-Private Partnership (P3) projects • Private finance solutions
Development	• Developing effective strategic partnerships • Leading and/or actively participating in development teams
Construction and Operation	• Seamlessly integrating the services of all project participants • Harnessing strengths and capabilities of Aecon

The construction industry in Canada is seasonal in nature for companies like Aecon which performs a significant portion of its 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. Although these forward-looking statements are based on currently available competitive, financial and economic data and operating plans, they are subject to risks and uncertainties. In addition to general global events outside Aecon's control, there are factors which could cause actual results, performance or achievements to vary from those expressed or inferred herein including risks associated with an investment in the common shares of Aecon and the risks related to Aecon's business, including Large Project Risk and Contractual Factors. Risk factors are discussed in greater detail in the section on "Risk Factors" later in this MD&A. Forward-looking statements include information concerning possible or assumed future results of Aecon's operations and financial position, as well as statements preceded by, followed by, or that include the words "believes", "expects", "anticipates", "estimates", "projects", "intends", "should" or similar expressions. Other important factors, in addition to those discussed in this document, could affect the future results of Aecon and could cause its results to differ materially from those expressed in any forward-looking statements. Aecon assumes no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

FINANCIAL REPORTING STANDARDS

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

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, restructuring costs, gain (loss) on mark-to-market adjustments related to the Company's long-term incentive plan ("LTIP") program, 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.
- **"Adjusted profit (loss)"** represents the profit (loss) adjusted to exclude the after-tax fair value gain (loss) on the embedded derivative portion of convertible debentures.
- **"Adjusted earnings (loss) per share"** represents earnings (loss) per share calculated using Adjusted profit (loss).
- **"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 expenses ("MG&A"), depreciation and amortization, income or losses from construction projects accounted for using the equity method, foreign exchange, interest, gains or losses on the sale of assets, 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.

BUSINESS STRATEGY

Aecon's overall strategic goal is to be a world class construction and infrastructure development company that safely, profitably, and sustainably delivers integrated services, products and solutions to meet its customers' needs.

Current Position

Aecon has made significant progress over the past ten years, initially building scale in core markets, then achieving geographic and end-market diversity, and, in more recent years, focusing on a strategic path that builds a culture of operating excellence and consistent performance in executing large, sophisticated turnkey projects for clients, all around the strong foundation of the concept of "One Aecon". This is highlighted by investment in, and deployment of, a common management and systems platform and enhanced project risk management and controls, which together help enable a "One Aecon" approach to three key end-markets: Infrastructure, Energy and Mining, supported by the capabilities of the Concessions segment. Today, Aecon has an unrivalled ability to provide a comprehensive suite of construction, contracting and infrastructure development services across Canada, providing a superior proposition to its clients. Looking forward, the core of Aecon's strategy continues to be to differentiate its service offering in its key end-markets, which leads to opportunities to secure projects that lead to higher overall returns by increasing the sophistication of the work being performed and limiting the ability of others to match what Aecon delivers to its clients.

There are four core elements that comprise the Aecon strategic path:

1. Invest in Aecon's People and their Safety

The Company is committed to the development of its 12,000-strong employees in order to build upon its leadership position in the sector and drive to be Canada's premier construction and infrastructure development company. This cornerstone is especially important as competition in Canada for skilled workers, engineers and project managers can be intense.

Initiatives are ongoing to strengthen practices related to recruitment, training, leadership development, and building a 'performance and learning culture'. Aecon University continues to be an innovative vehicle for employees to access the full range of learning, technical and development opportunities across the Company.

Aecon's investment in its employees was recognized again for 2017, as Aecon was ranked as one of the Best Employers in Canada for the tenth straight year by Aon. For the second year in a row and since the inception of the rating, Aecon is pleased to have received the highest platinum level ranking for being in the top 25 per cent of all companies surveyed.

A company's ability to demonstrate that it has industry leading safety programs, and a culture that puts safety first, is an important competitive differentiator in the construction industry. For many clients, most notably in the industrial sector, particularly with respect to resources and commodity related projects, a contractor's demonstrated commitment to safety throughout the organization is as important to selecting a contractor as their commitment to schedule, quality and price. This focus on safety is one of the reasons that maintaining and strengthening our industry leading safety program and culture is a key element of Aecon's business strategy.

The continued dedication and commitment to health and safety, from all levels of the Aecon organization, resulted in another year of notable safety achievements in 2016. The shift in focus towards leading indicators such as safety opportunities and behaviour based observations, predictive safety practices and a world class safety culture made 2016 a record breaking year. Aecon self-performed over 21.5 million man hours with zero lost time injuries, and achieved a new record low in both non-lost time injury frequency, 3.54 per 200,000 hours worked (2015 - 4.32), and total recordable injury frequency (TRIF) of 0.59 (2015 - 0.93).

2. Profitability

Aecon is one of the most diverse companies in its industry within Canada, able to self-perform a wide variety of construction, contracting and infrastructure development services. Aecon is able to offer clients a single solution to their needs – with turnkey capabilities embodied in the "One Aecon" strategy. This approach allows Aecon to focus on enhancing client value and competing for business on the basis of more than just price.

A key component of Aecon's operational diversity strategy is the development of its vertical and horizontal integration capabilities. The ability to self-perform services required at virtually every stage of a project, from site clearing to final construction, often including complete procurement services, is a competitive advantage for Aecon.

The depth and breadth of Aecon's capabilities also allow it to participate in projects beyond the scope of any one discipline or division. Further, leveraging capabilities and ensuring collaboration across diverse businesses allows for synergies and cost savings for both Aecon and its clients through economies of scale and resource sharing.

The Company has set a goal of ongoing Adjusted EBITDA margin improvement with a focus on the bottom line, rather than just top-line growth. World-class margins, combined with a focus on operational metrics, cash management, and capital discipline, is designed to deliver superior shareholder value.

Three main factors are expected to drive a higher margin mix of business and a culture of excellence in operational performance:

a) Leading partnerships and/or participating in larger scale, longer term, more complex projects which drive higher margin. This has resulted in revenue from joint arrangements and associates representing approximately 25% of total revenue and is further evidenced by Aecon currently executing the two largest contracts in its history, the six-year, $5.3 billion Eglinton Crosstown Light Rail Transit project ("Eglinton Crosstown LRT") in which Aecon is a 25% participant through its Infrastructure and Concessions segments, and the ten-year, $2.75 billion Darlington nuclear refurbishment project in which Aecon is a 50% participant through its Energy segment.

b) Achieving operational efficiencies and synergies from an ongoing focus on risk management, information technology and project control initiatives designed to ensure a more consistent and improved conversion of bid margin into final executed contract margin. The Company tracks a number of metrics evidencing the success of these initiatives, including the percentage of projects achieving bid margin, average deviation from bid margin, and overall margin realization percentage at many different levels of the Company and its operating business units.

c) Improving margins in the Energy and Infrastructure segments. This improvement reflects the current mix of work in backlog, the nature of recurring revenue contracts and associated work programs in 2017 and beyond, as well as opportunities to significantly increase the volume of nuclear work and large scale infrastructure projects to be performed in the coming years.

3. Building Partnerships and Alliances

Aecon has developed a strategy of building strong partnerships and alliances, including joint arrangements and public-private partnerships. The importance within the industry of a company's ability to develop and manage creative relationships and alliances has provided opportunities for innovative companies such as Aecon to grow their businesses. In 2016, approximately one-half of Aecon's revenue came from larger, more complex projects (over $100 million), up from approximately one-third in 2015.

Aecon's partnering skills have enabled it to capitalize on a number of opportunities such as its participation in the Eglinton Crosstown LRT and the Waterloo Region Light Rapid Transit projects in Ontario, the execution phase of the Darlington Refurbishment project in Ontario, Regina's new Wastewater Treatment Plant, the John Hart hydroelectric project in British Columbia, and the North East Anthony Henday ring road project in Edmonton, to name but a few. These and other alliances have given Aecon access to projects that are beyond any one contractor's capabilities to deliver alone. These partnerships also provide Aecon and its partners with an opportunity to exchange and optimize best operating practices with others in the industry.

4. Focus on Execution, Performance, Operational Discipline and Risk Management

The ability to effectively identify, mitigate and manage the construction risk inherent in every project it undertakes, and the ability to deliver those projects in a manner that appropriately protects the safety of employees, stakeholders and the public, are key elements of success in the construction industry. Developing industry leading capabilities in these areas is a fundamental part of Aecon's strategy.

Aecon has established a detailed set of project criteria and risk management practices that are continuously reviewed, updated and improved. From the criteria set for selecting the projects it bids, to the evaluation of project risks and appropriate mitigation measures, to project pricing and the senior management approval processes a bid must go through, risk management is a strategic and operational priority for Aecon.

An important element of Aecon's risk management strategy is the ongoing monitoring of projects under construction to ensure the risk management plan established at the bid stage of the project remains sufficient and is being effectively implemented. To assist in this effort, Aecon has established a project controls team, consisting of some of Aecon's most experienced and knowledgeable staff, whose mandate is to ensure complex projects are provided with state-of-the-art management controls for contract administration, cost control, scheduling and other best practices. This team also reviews the status of key projects against a set of predetermined criteria, and ensures the project is meeting its financial and risk management objectives.

Particular Focus for 2017 – Within this context, the Company is pursuing a number of programs and key initiatives to advance this strategy this year including:

- hire a new Chief Executive Officer to replace the current interim CEO;
- continue progress on initiatives outlined above toward meeting Aecon's goal of ongoing improvement in Adjusted EBITDA margin;
- continue to capitalize on the "One Aecon" strategy by leveraging tools and incentives to drive co-ordination and cooperation between the Infrastructure, Energy, Mining and Concessions segments for large, multi-disciplinary project opportunities;
- following strong revenue growth in 2016, grow backlog across the organization for 2017 and beyond by winning major project bids in what is expected to be a year of significant bidding activity;
- build on Aecon's expertise in the P3 space by successfully participating in targeted strategic concession opportunities in Canada and on a select basis internationally, as well as developing a strategy to drive future participation in the developing P3 market in the U.S.;
- achieve financial close and commence operations and construction of the L. F. Wade International Airport Redevelopment Project in Bermuda in the first half of 2017;
- following the disruption caused by the Alberta wildfires in 2016, grow Aecon's Contract Mining operations in the oil sands, including leveraging a recently secured Multiple Use Agreement ("MUA") with a major oil producer in Alberta that was announced in the fall of 2016;
- successfully execute recently secured large project wins in conjunction with Aecon's partners;
- continue to enhance standardized core operating and transactional processes and maximize utilization of an integrated Enterprise Resource Planning ("ERP") system to drive operational excellence through the use of timely and insightful data; and
- continue to monitor cost and schedule performance, and evaluation of all major projects by Aecon's senior management team (Operational Risk Committee) and by Aecon's Board of Directors (Risk Committee).

CONSOLIDATED FINANCIAL HIGHLIGHTS

$ millions (except per share amounts)		Three months ended December 31				Year ended December 31		
		2016		2015		**2016**		2015
Revenue	**$**	**845.1**	**$**	**874.3**	**$**	**3,213.1**	**$**	**2,918.1**
Gross profit		101.6		95.2		312.5		298.1
Marketing, general and administrative expenses		(53.0)[(1)]		(44.9)		(185.1)[(1)]		(169.8)
Income from projects accounted for using the equity method		8.1		3.1		12.4		22.3
Gain on sale of IST and Quito airport concession investments		-		48.8		-		62.9
Other income (expense)		7.5		0.4		11.4		(2.8)
Depreciation and amortization		(16.3)		(17.0)		(64.1)		(68.0)
Operating profit		**47.9**		**85.6**		**87.1**		**142.6**
Financing expense, net		(5.3)		(6.7)		(21.6)		(29.0)
Fair value gain on convertible debentures		-		-		-		0.2
Profit before income taxes		**42.6**		**78.9**		**65.5**		**113.9**
Income tax expense		(13.5)		(31.2)		(18.8)		(45.2)
Profit	**$**	**29.1**	**$**	**47.7**	**$**	**46.8**	**$**	**68.7**
Profit	**$**	**29.1**	**$**	**47.7**	**$**	**46.8**	**$**	**68.7**
Exclude:								
Fair value gain on convertible debentures		**-**		**-**		**-**		**(0.2)**
Adjusted profit	**$**	**29.1**	**$**	**47.7**	**$**	**46.8**	**$**	**68.5**
Gross profit margin		**12.0%**		**10.9%**		**9.7%**		**10.2%**
MG&A as a percent of revenue		**6.3%**		**5.1%**		**5.8%**		**5.8%**
Adjusted EBITDA		**64.7**		**57.3**		**158.3**		**169.8**
Adjusted EBITDA margin		**7.7%**		**6.6%**		**4.9%**		**5.8%**
Operating margin		**5.7%**		**9.8%**		**2.7%**		**4.9%**
Earnings per share - basic	**$**	**0.51**	**$**	**0.84**	**$**	**0.82**	**$**	**1.22**
Earnings per share - diluted	**$**	**0.43**	**$**	**0.68**	**$**	**0.77**	**$**	**1.03**
Adjusted earnings per share - basic	**$**	**0.51**	**$**	**0.84**	**$**	**0.82**	**$**	**1.22**
Adjusted earnings per share - diluted	**$**	**0.43**	**$**	**0.68**	**$**	**0.77**	**$**	**1.03**
Backlog					**$**	**4,204**	**$**	**3,261**

(1) Marketing, general and administrative expenses in the fourth quarter of 2016 and for the year ended December 31, 2016 include severance expense of $6.9 million related to the departure of the former Chief Executive Officer.

Revenue for the year ended December 31, 2016 was higher by $295 million, or 10%, compared to 2015, with increases across all three main operating segments. The most significant increase occurred in the Mining segment, with revenue higher by $155 million due to a higher volume of site installation work in the commodity mining sector ($255 million), partially offset by lower revenue from contract mining and civil and foundations operations ($100 million). Energy segment revenue was higher by $89 million, driven by increases in utilities ($93 million) and industrial operations ($4 million), and partially offset by lower revenue from Innovative Steam Technologies ("IST") ($8 million), which was sold in April 2015. In the Infrastructure segment, revenue was higher by $73 million as a result of increases in the transportation ($54 million) and heavy civil ($50 million) sectors, offset in part by lower revenue from social infrastructure ($31 million).

Operating profit for the year ended December 31, 2016 of $87.1 million declined by $55.5 million compared to $142.6 million in 2015. $59.9 million of the operating profit variance is related to the sale of Aecon's investment in the Quito airport concession in December 2015. The sale resulted in a one-time gain of $48.8 million in 2015, while the operating profit contribution from Quito airport operations was a further $11.1 million in 2015. The financial results and the gain on sale were reported in the Concessions segment in 2015. Similarly, there was a $14.1 million gain realized in the second quarter of 2015 on the sale of Aecon's wholly owned subsidiary IST. The gain and financial results of IST in 2015 were reported in the Energy segment.

Excluding the two above-noted divestitures, operating profit of $87.1 million in 2016 improved by $16.7 million compared to $70.4 million on a like-for-like basis in 2015. This improvement was driven, in large part, by a $14.4 million increase in gross profit. In the Energy segment, gross profit increased by $6.9 million due to higher volume and gross profit margin in industrial operations in Eastern Canada, and from higher utilities volume, partially offset by lower volume and gross profit margin on industrial work in Western Canada. Gross profit also increased in the Mining segment ($6.8 million) driven by higher volume in the commodity mining sector. This increase was partially offset by lower volume and gross profit margin in both civil and foundations and contract mining operations, the latter of which was impacted by the Alberta wildfires in 2016 (see further below in this section for more details). Gross profit also increased in the Infrastructure segment ($4.2 million) in 2016 from higher volume in transportation and heavy civil operations. However, a one-time charge ($6.7 million) in 2016, related to the resolution of a legal dispute that dated back to 2012, partially offset these positive operating improvements and reduced consolidated gross profit through its recording as a corporate cost in "Other & Eliminations".

Marketing, general and administrative expenses ("MG&A") increased in 2016 by $15.3 million compared to 2015, driven by higher bid costs ($3 million), professional fees ($5 million) and information technology costs ($4 million). Also impacting MG&A in 2016 was the severance expense ($6.9 million) related to the departure of the former Chief Executive Officer in the fourth quarter. MG&A as a percentage of revenue was unchanged at 5.8% with the aforementioned increases offsetting the impact of higher revenue.

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. For the year ended December 31, 2016, income from these projects decreased by $9.9 million in comparison to 2015, driven by there being no income in 2016 from Aecon's previous investment in the Quito airport concession (2015 - $13.7 million), partially offset by increased activity on Infrastructure projects accounted for using the equity method.

Aecon's operations in northern Alberta were impacted in 2016 by wildfires in Fort McMurray and the surrounding region. The operating profit impact was largely confined to contract mining operations in the Mining segment with operations affected beginning in early May. Included in operating profit in 2016 is $5.9 million of insurance proceeds (reported in Other Income in the December 31, 2016 consolidated financial statements), which partially offsets the losses incurred as a result of the wildfires. Aecon maintains various insurance coverages, including business interruption coverage, which may provide additional recoveries from insurance claim settlements with respect to the 2016 wildfires in the future.

Operating profit year-over-year was favourably impacted by changes to the LTIP program that led to a reclassification from a cash-settled plan to an equity-settled plan in 2015. This resulted in no mark-to-market adjustments in 2016 compared to a loss ($3.4 million) included in other income (expense) in 2015 that occurred as a result of remeasuring both the LTIP liability and related total return swaps at fair value. Operating profit in 2016 was also favourably impacted by an increase in foreign exchange gains year-over-year, and included in other income (expense), of $4.5 million, driven primarily by foreign currency sales contracts that were hedged at favourable foreign exchange rates in comparison to the actual exchange rates in 2016. For more information, refer to Note 22 of the December 31, 2016 consolidated financial statements.

The sales of IST and Aecon's investment in the Quito airport concession, in 2015, including the classification of the Quito airport concession as "held for sale" from June 8, 2015, have impacted Aecon's results for 2015 when compared to 2016. A summary of these impacts is included below:

$ millions		**Three months ended December 31**				**Year ended December 31**		
		2016	2015	Change		**2016**	2015	Change
Revenue as reported	$	**845.1**	874.3	(29.2)	$	**3,213.1**	2,918.1	295.0
Exclude:								
IST & Quiport Revenue		**-**	-	-		**-**	8.0	(8.0)
Revenue excluding IST & Quiport	$	**845.1**	874.3	(29.2)	$	**3,213.1**	2,910.1	303.0
Adjusted EBITDA as reported	$	**64.7**	57.3	7.4	$	**158.3**	169.8	(11.5)
Exclude:								
IST & Quiport EBITDA		**-**	(1.5)	1.5		**-**	23.0	(23.0)
Adjusted EBITDA excluding IST & Quiport	$	**64.7**	58.8	5.9	$	**158.3**	146.8	11.5
Operating Profit as reported	$	**47.9**	85.6	(37.7)	$	**87.1**	142.6	(55.5)
Exclude:								
IST & Quiport Operating Profit		**-**	47.3	(47.3)		**-**	72.2	(72.2)
Operating Profit excluding IST & Quiport	$	**47.9**	38.3	9.6	$	**87.1**	70.4	16.7
Adjusted EBITDA margin as reported		**7.7%**	6.6%	1.1%		**4.9%**	5.8%	(0.9)%
Adjusted EBITDA margin excluding IST & Quiport		**7.7%**	6.7%	1.0%		**4.9%**	5.0%	(0.1)%
Operating Profit margin as reported		**5.7%**	9.8%	(4.1)%		**2.7%**	4.9%	(2.2)%
Operating Profit margin excluding IST & Quiport		**5.7%**	4.4%	1.3%		**2.7%**	2.4%	0.3%

For the year ended December 31, 2016, depreciation and amortization expense of $64.1 million decreased by $3.9 million when compared to the same period last year. The decrease occurred primarily in the Mining segment as a result of decreased heavy equipment utilization on contract mining projects in Alberta.

Financing expense, net of interest income, of $21.6 million in 2016 was $7.4 million lower than 2015, due primarily to the repayment of convertible debentures in the fourth quarter of 2015.

Set out in Note 18 of the December 31, 2016 consolidated financial statements is a reconciliation between the expected income tax expense for 2016 and 2015 based on statutory income tax rates and the actual income tax expense reported for both these periods. Included in the 2015 income tax expense is a $10.4 million non-cash charge related to modification of the LTIP program from a cash-settled plan to an equity-settled plan in 2015. As a result of this plan modification, previously recorded deferred income tax assets were reversed as accumulated timing differences to the date of modification and are now treated as a permanent difference for income tax accounting purposes. Also included in the 2015 income tax expense is a $29.5 million charge related to the sale of Aecon's interest in the Quito airport concessionaire of which $24.0 million is expected to be a non-cash expense as income taxes otherwise payable in Canada on the transaction will be offset by the utilization of available net operating losses.

Reported backlog as at December 31, 2016 of $4,204 million compares to backlog of $3,261 million as at December 31, 2015. New contract awards of $4,156 million were booked in 2016 compared to $3,526 million in 2015.

Further details of backlog for each of the segments are included in the discussion below under Reporting Segments.

Backlog **$ millions**	**As at December 31**	
	2016	2015
Infrastructure	**$ 1,664**	$ 2,195
Energy	**2,372**	735
Mining	**168**	331
Consolidated	**$ 4,204**	$ 3,261

Backlog duration, representing the expected period during which backlog on hand will be converted into revenue, is included in the table below:

Estimated backlog duration **$ millions**	**As at December 31**			
	2016		2015	
Next 12 months	**$ 1,304**	**31%**	$ 1,975	61%
Next 13 - 24 months	**563**	**13%**	731	22%
Beyond	**2,337**	**56%**	555	17%
	$ 4,204	**100%**	$ 3,261	100%

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 effective backlog at any given time is greater than what is reported.

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.

Further details for each of the segments are included in the discussion below under Reporting Segments.

REPORTING SEGMENTS

INFRASTRUCTURE

Financial Highlights

$ millions	Three months ended December 31				Year ended December 31			
		2016		2015		**2016**		2015
Revenue	**$**	**285.6**	$	293.3	**$**	**1,031.6**	$	958.7
Gross profit	**$**	**39.1**	$	32.0	**$**	**94.0**	$	89.8
Adjusted EBITDA	**$**	**30.6**	$	23.8	**$**	**50.7**	$	46.1
Operating profit	**$**	**27.1**	$	18.0	**$**	**32.4**	$	29.6
Gross profit margin		**13.7%**		10.9%		**9.1%**		9.4%
Adjusted EBITDA margin		**10.7%**		8.1%		**4.9%**		4.8%
Operating margin		**9.5%**		6.1%		**3.1%**		3.1%
Backlog					**$**	**1,664**	$	2,195

Revenue of $1,032 million in 2016 was $73 million, or 8%, higher than 2015. The largest increase occurred in transportation operations ($54 million), primarily from work related to light rail transit projects in Ontario. Heavy civil revenue ($50 million) was also higher than the previous year due to increased activity on light rail transit and hydroelectric projects. Partially offsetting these increases was a decrease in social infrastructure operations ($31 million) due to less mechanical work in Western Canada.

Operating profit in the Infrastructure segment of $32.4 million in 2016 increased by $2.8 million compared to 2015. A volume driven operating profit increase in heavy civil operations ($5.9 million), and a gross profit margin driven increase in social infrastructure ($1.6 million), were partially offset by decreased operating profit in transportation ($4.7 million).

Infrastructure backlog as at December 31, 2016 was $1,664 million, which is $531 million lower than the same time last year. The decrease occurred primarily in heavy civil ($316 million) and transportation operations ($195 million), with social infrastructure operations also down slightly ($20 million). These decreases in backlog reflect the work-off of projects exceeding new awards in each sector over the past year. New contract awards in 2016 totalled $501 million compared to $1,891 million in the prior year. The decrease in new awards year-over-year is due mainly to the Eglinton Crosstown LRT project, which was awarded in the third quarter of 2015 to a consortium in which Aecon has a 25 per cent interest ($1,325 million).

As discussed in the Consolidated Financial Highlights section, the Infrastructure segment's effective backlog at any given time is greater than what is reported.

ENERGY

Financial Highlights

$ millions	Three months ended December 31				Year ended December 31			
		2016		2015		**2016**		2015
Revenue	**$**	**373.6**	$	378.2	**$**	**1,356.9**	$	1,268.2
Gross profit	**$**	**35.0**	$	37.0	**$**	**113.7**	$	106.8
Adjusted EBITDA	**$**	**20.4**	$	20.5	**$**	**57.7**	$	46.1
Operating profit	**$**	**15.8**	$	17.7	**$**	**37.7**	$	46.3
Gross profit margin		**9.4%**		9.8%		**8.4%**		8.4%
Adjusted EBITDA margin		**5.5%**		5.4%		**4.3%**		3.6%
Operating margin		**4.2%**		4.7%		**2.8%**		3.7%
Backlog					**$**	**2,372**	$	735

Revenue in 2016 of $1,357 million in the Energy segment was $89 million, or 7%, higher than 2015 with revenue higher in utilities ($93 million) and industrial operations ($4 million), partially offset by lower revenue in IST ($8 million) which was sold in 2015. The higher revenue in utilities operations was driven by increased gas distribution work in Ontario and increased large diameter pipeline volume in Western Canada. Revenue was also higher in industrial operations in Eastern Canada ($179 million) from higher volume in the power generation, including nuclear, and gas distribution sectors, offset by lower site construction and fabrication volume in Western Canada ($175 million).

For the year ended December 31, 2016, operating profit of $37.7 million decreased by $8.6 million when compared to 2015. The decrease in operating profit was driven by the net of a $14.1 million gain on the sale of IST reported in 2015, and a $1.8 million operating loss in IST in 2015. Excluding all the impacts of IST, Energy segment operating profit improved by $3.7 million in 2016. Operating profit from industrial operations in Eastern Canada improved in 2016 by $21.4 million, from higher volume and improved gross profit margin in Ontario partially offset by lower profitability from fabrication operations on the east coast. Operating profit decreased in industrial operations in Western Canada ($14.9 million) from lower site construction and fabrication volume and in utilities ($2.8 million) primarily as a result of lower gross profit margin.

Backlog at December 31, 2016 of $2,372 million was $1,636 million higher than the same time last year, with increases in both industrial operations ($1,629 million) and utilities operations ($7 million). Backlog was higher in industrial operations in Eastern Canada ($1,806 million) due to new awards in the gas distribution and power generation sectors, including the execution phase of the Darlington nuclear refurbishment project, which was awarded in 2016 to a joint venture in which Aecon has a 50 per cent interest. This increase was partially offset by lower fabrication and site construction backlog from industrial operations in Western Canada ($177 million). New awards of $3,039 million in 2016, including $1,375 million for the Darlington nuclear refurbishment project, were $1,991 million higher than the previous year.

As discussed in the Consolidated Financial Highlights section, the Energy segment's effective backlog at any given time is greater than what is reported.

MINING

Financial Highlights

$ millions	**Three months ended December 31**		**Year ended December 31**	
	2016	2015	**2016**	2015
Revenue	**$ 195.4**	$ 207.2	**$ 860.6**	$ 706.1
Gross profit	**$ 27.4**	$ 27.8	**$ 110.7**	$ 103.9
Adjusted EBITDA	**$ 27.0**	$ 22.3	**$ 91.2**	$ 79.5
Operating profit	**$ 21.6**	$ 16.2	**$ 67.6**	$ 51.1
Gross profit margin	**14.0%**	13.4%	**12.9%**	14.7%
Adjusted EBITDA margin	**13.8%**	10.8%	**10.6%**	11.3%
Operating margin	**11.1%**	7.8%	**7.9%**	7.2%
Backlog			**$ 168**	$ 331

Mining segment revenue of $861 million in 2016 was $155 million, or 22%, higher compared to revenue of $706 million in 2015, due to an increase in volume from site construction work in the commodity mining sector ($255 million). Partially offsetting this increase was lower volume from contract mining operations and civil and foundations work ($100 million), in part due to the impact of the Alberta wildfires in 2016.

For the year ended December 31, 2016, operating profit of $67.6 million in the Mining segment improved by $16.5 million compared to $51.1 million in the prior year. The increase was driven primarily by the above-noted higher volume in the commodity mining sector ($24.7 million). Operating profit was down in the remaining Mining operations ($8.2 million) with lower volume and gross profit in contract mining operations and civil and foundations projects, only partially offset by insurance recoveries related to the Alberta wildfires of $5.9 million included in operating profit and Adjusted EBITDA in 2016. The impacts of the Alberta wildfires are also discussed in the consolidated financial highlights section of the MD&A.

Mining segment backlog as at December 31, 2016 of $168 million was $163 million lower than the same time last year. Backlog decreased in the commodity mining sector ($89 million) primarily due to work-off of existing site installation work outpacing new awards in the sector. Backlog in the contract mining sector also decreased compared to the prior year ($71 million) due to substantial completion of site development projects in Alberta, while civil and foundations backlog also decreased ($3 million). New contract awards of $652 million in 2016 were $51 million higher than 2015.

As discussed in the Consolidated Financial Highlights section, the Mining segment's effective backlog at any given time is greater than what is reported.

CONCESSIONS

Financial Highlights

$ millions	Three months ended December 31				Year ended December 31			
	2016		2015		**2016**		2015	
Revenue	**$**	**0.9**	$	1.2	**$**	**3.5**	$	3.7
Gross profit	**$**	**0.1**	$	(1.1)	**$**	**0.5**	$	(1.8)
Income from projects accounted for using the equity method	**$**	**1.4**	$	(0.1)	**$**	**2.4**	$	14.6
Adjusted EBITDA	**$**	**2.6**	$	0.7	**$**	**7.7**	$	27.2
Operating profit (loss)	**$**	**0.5**	$	46.5	**$**	**(1.0)**	$	57.6

Revenue in the Concessions segment for the year ended December 31, 2016 was $3.5 million, a decrease of $0.2 million, or 5%, compared to $3.7 million in 2015.

An operating loss in 2016 of $1.0 million compared to an operating profit of $57.6 million in the prior year, was caused by the sale of Aecon's investment in the Quito airport concession in 2015. This sale resulted in a one-time gain of $48.8 million, while another $11.1 million relates to 2015 operating profit from the Quito airport concession that did not repeat in 2016 as a result of the sale. Excluding the impact of the Quito airport concession, year-over-year operating profit in the Concessions segment improved by $1.3 million.

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 is reported.

Quarterly Financial Data

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

$ millions (except per share amounts)

	2016				2015 (see Note 1)			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Revenue	**$ 845.1**	**$ 838.1**	**$ 839.3**	**$ 690.7**	$ 874.3	$ 874.9	$ 667.3	$ 501.5
Adjusted EBITDA	**64.7**	**60.0**	**29.4**	**4.2**	57.3	76.1	29.9	6.5
Earnings (loss) before income taxes	**42.6**	**37.6**	**6.6**	**(21.3)**	78.9	47.8	12.8	(25.7)
Profit (loss)	**29.1**	**27.4**	**7.1**	**(16.8)**	47.7	25.6	12.4	(17.0)
Adjusted profit (loss)	**29.1**	**27.4**	**7.1**	**(16.8)**	47.7	25.6	12.2	(17.0)
Earnings (loss) per share:								
Basic	**0.51**	**0.48**	**0.12**	**(0.29)**	0.84	0.45	0.22	(0.30)
Diluted	**0.43**	**0.42**	**0.12**	**(0.29)**	0.68	0.35	0.21	(0.30)
Adjusted earnings (loss) per share:								
Basic	**0.51**	**0.48**	**0.12**	**(0.29)**	0.84	0.45	0.22	(0.30)
Diluted	**0.43**	**0.42**	**0.12**	**(0.29)**	0.68	0.35	0.21	(0.30)

(1) The sale of IST in April 2015 and Aecon's investment in the Quito airport concession in December 2015, including the classification of the Quito airport concession as "held for sale" from June 8, 2015, have impacted Aecon's quarterly results for 2015 when compared to the same periods in the current year. A summary of these impacts for the three months and year ended December 31, 2016 and 2015 is included in the Consolidated Financial Highlights section of this MD&A.

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 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

	2016				2015			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Operating profit (loss)	**$ 47.9**	**$ 43.1**	**$ 12.3**	**$ (16.3)**	**$ 85.6**	**$ 55.4**	**$ 19.8**	**$ (18.2)**
Depreciation and amortization	**16.3**	**14.3**	**14.4**	**19.0**	**17.0**	**17.3**	**16.7**	**17.0**
(Gain) loss on sale of assets	**(0.6)**	**(0.5)**	**(0.4)**	**(0.3)**	**(0.4)**	**(1.3)**	**(0.4)**	**0.7**
Gain on sale of IST and Quito airport concession investment	**-**	**-**	**-**	**-**	**(48.8)**	**-**	**(14.1)**	**-**
(Gain) loss on mark-to-market of LTIP program	**-**	**-**	**-**	**-**	**-**	**2.2**	**1.3**	**(0.2)**
Income from projects accounted for using the equity method	**(8.1)**	**(2.1)**	**(1.9)**	**(0.2)**	**(3.1)**	**(3.9)**	**(6.9)**	**(8.3)**
Equity Project EBITDA	**9.1**	**5.1**	**5.0**	**2.0**	**7.1**	**6.4**	**13.5**	**15.5**
Adjusted EBITDA	**$ 64.7**	**$ 60.0**	**$ 29.4**	**$ 4.2**	**$ 57.3**	**$ 76.1**	**$ 29.9**	**$ 6.5**

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)	2016				2015			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Operating profit	**$ 9.0**	**$ 5.0**	**$ 4.9**	**$ 1.9**	**$ 7.0**	**$ 6.3**	**$ 10.7**	**$ 11.4**
Depreciation and amortization	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**2.8**	**4.1**
Equity Project EBITDA	**9.1**	**5.1**	**5.0**	**2.0**	**7.1**	**6.4**	**13.5**	**15.5**

(1) Refer to Note 11 "Projects Accounted for Using the Equity Method" in the 2016 consolidated financial statements

Quarterly Financial Highlights

$ millions	**Three months ended December 31**			
	Revenue		**Operating profit (loss)**	
	2016	2015	**2016**	2015
Infrastructure	**$ 285.6**	$ 293.3	**$ 27.1**	$ 18.0
Energy	**373.6**	378.2	**15.8**	17.7
Mining	**195.4**	207.2	**21.6**	16.2
Concessions	**0.9**	1.2	**0.5**	46.5
Other costs and eliminations	**(10.5)**	(5.6)	**(17.1)**	(12.8)
Consolidated	**$ 845.1**	$ **874.3**	**$ 47.9**	$ 85.6

The analysis of operating results for each of the first three quarters of 2016 is included in Management's Discussion and Analysis incorporated in the Interim Reports to Shareholders for each respective quarter.

Revenue in the Infrastructure segment in the fourth quarter of 2016 decreased $8 million, or 3%, compared to 2015. Revenue was higher in transportation operations ($4 million) due to a higher volume of road building construction in Ontario, but was offset by lower activity in heavy civil operations ($8 million) and social infrastructure ($4 million).

Operating profit in the Infrastructure segment of $27.1 million in the fourth quarter of 2016 increased by $9.1 million compared to $18.0 million in the fourth quarter of 2015. The majority of this increase occurred in heavy civil operations, primarily from higher gross profit margin on power generation and light rail transit projects, as well as in the transportation sector from higher gross profit margin on road building projects.

Energy segment revenue in the fourth quarter of 2016 was $5 million, or 1%, lower than revenue reported in the same quarter of 2015. This decrease was driven by lower revenue in industrial operations ($19 million), which was partially offset by higher revenue in utilities operations ($14 million). The decrease in industrial operations was driven by lower fabrication and module assembly work in Western Canada ($84 million), which was only partially offset by higher volume in the power generation, including nuclear, and gas distribution sectors in

Eastern Canada ($65 million). In utilities, higher volume in gas and hydro distribution work was partially offset by lower volume in Western Canada on pipeline projects.

Operating profit in the Energy segment of $15.8 million in the fourth quarter of 2016 decreased by $1.9 million compared to the same period in 2015. Increased operating profit from industrial operations in Eastern Canada was driven by the above-noted higher volume, but was more than offset by the impact of lower volume from industrial operations in Western Canada, and lower gross profit margin in utilities operations.

Revenue in the Mining segment for the three months ended December 31, 2016 was $12 million, or 6%, lower than the same period in 2015. The decrease was driven by lower volume from civil and foundations projects ($38 million), due primarily to the completion of a project in Ontario earlier in 2016, offset in part by increased site installation work in the commodity mining sector ($19 million) and higher volume from contract mining operations ($7 million).

Operating profit in the Mining segment of $21.6 million in the fourth quarter of 2016, compared to $16.2 million in the same period in 2015, an increase of $5.4 million. The largest improvement occurred in the contract mining sector, with insurance proceeds of $5.9 million recorded in the fourth quarter of 2016 following the Alberta wildfires that impacted operations in the second quarter of 2016 and onwards. Operating profit in the commodity mining sector also increased when compared to the same period in 2015, primarily due to higher volume and gross profit margin. Partially offsetting these improvements was a volume driven decrease in operating profit from civil and foundations work.

Concessions segment operating profit of $0.5 million in the fourth quarter of 2016 represents a $46.0 million decrease over the same three-month period in 2015, due to the $48.8 million gain on sale of the Quito airport concession reported in the fourth quarter of 2015.

MG&A expense increased by $8.1 million in the fourth quarter of 2016 compared to 2015 and MG&A as a percentage of revenue increased from 5.1% to 6.3%, driven mostly by $6.9 million of severance expense related to the departure of the former Chief Executive Officer in the fourth quarter of 2016.

Selected Annual Information

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

($ millions, except per share amounts)	2016	2015	2014
Total revenue	**$ 3,213.1**	$ 2,918.1	$ 2,614.1
Adjusted EBITDA	**158.3**	169.8	170.2
Operating profit	**87.1**	142.6	63.7
Profit	**46.8**	68.7	30.0
Per share:			
Basic	**0.82**	1.22	0.55
Diluted	**0.77**	1.03	0.51
Adjusted profit	**46.8**	68.5	21.8
Per share:			
Adjusted Basic	**0.82**	1.22	0.40
Adjusted Diluted	**0.77**	1.03	0.40
Total assets	**2,005.5**	1,874.4	1,830.1
Total long-term financial liabilities	**387.1**	384.3	350.2
Cash dividends declared per common share	**0.46**	0.40	0.36

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 11 to the December 31, 2016 consolidated financial statements.

Cash and Debt Balances

Cash balances as at December 31, 2016 and 2015 are as follows:

$ millions		December 31, 2016		
		Balances excluding Joint Operations	Joint Operations	Consolidated Total
Cash and cash equivalents	(1)	$ -	$ 232	$ 232
Bank indebtedness	(2)	(7)	-	(7)
		December 31, 2015		
		Balances excluding Joint Operations	Joint Operations	Consolidated Total
Cash and cash equivalents	(1)	$ 110	$ 172	$ 283

(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 facility.

Total long-term debt of $302.8 million as at December 31, 2016 compares to $322.5 million as at December 31, 2015, the composition of which is as follows:

$ millions	December 31, 2016	December 31, 2015
Current portion of long-term debt	**$ 51.6**	$ 56.1
Long-term debt	**86.4**	105.4
Convertible debentures	**164.8**	161.0
Total long-term debt	**$ 302.8**	$ 322.5

Most of the $19.7 million net decrease in total long-term debt results from a decrease in finance leases and equipment loans during 2016 of $23.5 million, offset partly by an increase in convertible debentures of $3.8 million related to the accretion of notional interest.

Aecon's liquidity position and capital resources are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future. Aecon's liquidity position is strengthened by its ability to draw on a committed revolving credit facility of $400 million of which $321 million was unutilized as at December 31, 2016. When combined with an additional $500 million letter of credit facility provided by Export Development Canada ("EDC"), Aecon's total committed credit facilities for working capital and letter of credit requirements total $900 million. In 2016, the expiry date of the above-noted revolving credit facility was extended to November 2020 from March 2019. As at December 31, 2016, Aecon was in compliance with all debt covenants related to its credit facility.

In the first quarter of 2016, Aecon's Board of Directors approved an increase in the dividend to be paid to all holders of Aecon common shares. Annual dividends increased to $0.46 per share, to be paid in four quarterly payments of $0.115 per share. Prior to this increase, Aecon paid an annual dividend of $0.40 per share ($0.10 each quarter). The first quarterly dividend payment of $0.115 per share was paid on April 1, 2016.

Summary Of Cash Flows

$ millions	Consolidated Cash Flows Year ended December 31 2016	2015
Cash provided by (used in):		
Operating activities	**$ 26.9**	$ 58.1
Investing activities	**(20.4)**	249.0
Financing activities	**(57.0)**	(163.2)
Increase (decrease) in cash and cash equivalents	**(50.5)**	143.9
Effects of foreign exchange on cash balances	**(0.3)**	(0.1)
Cash and cash equivalents - beginning of year	**282.7**	138.9
Cash and cash equivalents - end of year	**$ 231.9**	$ 282.7

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.

Operating Activities

Cash provided by operating activities of $27 million in 2016 compares with cash provided by operating activities of $58 million in the same period in 2015. Most of the $31 million year-over-year decrease in cash provided by operating activities resulted from higher investments in working capital which otherwise offset an improvement in cash flows generated from operations.

Investing Activities

In 2016, investing activities resulted in a use of cash of $20 million, which compares to cash provided of $249 million in the same period in 2015. The $269 million year-over-year decrease in cash provided is due to net proceeds, in 2015, from the sale of IST and the Quito airport concession of $26 million and $247 million, respectively. In addition, lower cash distributions from projects accounted for using the equity method decreased from $13 million in 2015 to $10 million in 2016. Partially offsetting these factors, $30 million of cash was used for expenditures (net of disposals) on property, plant and equipment and intangible assets in 2016 compared to $42 million of cash used in 2015. Cash provided in 2015 also benefitted from a reduction in restricted cash balances of $4 million.

In 2016, Aecon acquired, either through purchase or finance leases, property, plant and equipment totalling $50 million. Most of this investment in property, plant and equipment related to the purchase of new machinery and construction equipment as part of normal ongoing business operations in each operating segment. In 2015, investments in property, plant and equipment totalled $49 million.

Financing Activities

In 2016, cash used by financing activities amounted to $57 million, compared to cash used of $163 million in the same period in 2015. The higher cash used in 2015 was due largely to the repayment of $92 million of convertible debenture in 2015. Issuances of long-term debt in 2016 amounted to $16 million, while repayments totalled $56 million, for a net outflow of $40 million. The majority of the net debt repayment related to equipment financing arrangements. In 2015, net debt repayments totalled $54 million, relating primarily to equipment financing arrangements. Dividends of $26 million were paid in 2016, compared to $22 million in the same period in 2015.

NEW ACCOUNTING STANDARDS

Note 6 to the 2016 consolidated financial statements includes new IFRS standards that became effective for the Company on January 1, 2016, and Note 7 to the 2016 consolidated financial statements discusses IFRS standards and interpretations that are issued, but not yet effective as at December 31, 2016.

SUPPLEMENTAL DISCLOSURES

Disclosure Controls and Procedures

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), together with management, evaluated the design and operating effectiveness of the Company's disclosure controls and procedures as at the financial year ended December 31, 2016. Based on that evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2016 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities and that information required to be disclosed by the Company in its annual and interim filings and other reports submitted under securities legislation was recorded, processed, summarized and reported within the periods specified in securities legislation.

Internal Controls over Financial Reporting

The CEO and CFO, together with management, evaluated the design and operating effectiveness of the Company's internal controls over financial reporting as at the financial year ended December 31, 2016. Based on that evaluation, the CEO and the CFO concluded that the design and operation of internal controls over financial reporting were effective as at December 31, 2016 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. In designing and implementing such controls, it should be recognized that any system of internal control over financial reporting, no matter how well designed and operated, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect all misstatements due to error or fraud.

See also the section on "*Internal and Disclosure Controls*" in the Risk Factors section of this MD&A.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Contractual Obligations

Aecon has commitments for equipment and premises under operating leases and has principal repayment obligations under long-term debt as follows:

$ millions		**Lease payments**		**Other long-term debt**		**Convertible debentures [1]**
2017	$	14.4	$	55.0	$	-
2018 - 2021		22.4		85.7		172.5
Beyond		6.4		5.1		-
	$	**43.2**	**$**	**145.8**	**$**	**172.5**

[1] Assumes all convertible debentures are redeemed at maturity for cash.

As at December 31, 2016, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was $4,204 million.

Off-Balance Sheet Arrangements

Aecon's defined benefit pension plans (the "Pension Plans") had a combined deficit of $2.8 million as at December 31, 2016 (2015 - $2.5 million). Details relating to Aecon's defined benefit plans are set out in Note 20 to the 2016 consolidated financial statements.

The latest actuarial valuation of the Pension Plans for statutory and contribution purposes was completed as at December 31, 2013. Under current pension benefits regulations, the next actuarial valuation of the Pension Plans must be performed with a valuation date of no later than December 31, 2016. Accordingly, any change in contributions in 2017 and thereafter will reflect December 31, 2016 market conditions.

The defined benefit obligations and benefit cost levels will change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future remeasurement gains or losses, none of which have been anticipated at this time. Emerging experience, differing from the assumptions, will result in gains or losses that will be revealed in future accounting valuations. Consequently, the accounting for pension plans involves a number of assumptions including those that are disclosed in Note 20 to the 2016 consolidated financial statements. As a result of the uncertainty associated with these estimates, there is no assurance that the Pension Plans will be able to earn the assumed rate of return on plan assets, and furthermore, market driven changes may result in changes to discount rates and other variables which would result in Aecon being required to make contributions to the Pension Plans in the future that may differ significantly from estimates. As a result, there is a significant amount of measurement uncertainty involved in the actuarial valuation process. This measurement uncertainty may lead to potential fluctuations in financial results attributable to the selection of actuarial assumptions and other accounting estimates involved in the determination of pension expense and obligations. A significant actuarial and accounting assumption impacting the reporting of Pension Plans is the discount rate assumption. As at December 31, 2016, Aecon used a discount rate of 3.5% in its Pension Plan calculations for consolidated financial statement purposes. The impact of a 0.5% decrease in the discount rate assumption would have resulted in an increase in the pension benefit obligation of approximately $2.6 million as at December 31, 2016 and an increase in the estimated 2017 pension expense of approximately $0.1 million.

Further details of contingencies and guarantees are included in the 2016 consolidated financial statements.

Related Party Transactions

There were no significant related party transactions in 2016 except for the severance expense ($6.9 million) related to the departure of the former Chief Executive Officer in the fourth quarter.

Critical Accounting Estimates and Judgements

The reader is referred to the detailed discussion on critical accounting estimates and judgements found in Note 4 to the 2016 consolidated financial statements.

RISK FACTORS

The following risk factors, and the information incorporated by reference herein, should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

Large Project Risk

A substantial portion of Aecon's revenue is derived from large projects, some of which are conducted through joint ventures. These projects provide opportunities for significant revenue and profit contributions but, by their nature, carry significant risk and, as such, can result and have occasionally resulted in significant losses. As a result of the existing infrastructure deficit throughout Canada a significant number of large projects are expected to be tendered over the next several years. In addition to a growing involvement in large projects in response to changing market conditions, Aecon is also active in the Public Private Partnership ("P3") market in Canada. The P3 procurement model typically involves a transfer of certain risks to a contractor beyond those contained in a conventional fixed price contract. As such, a failure to properly execute and complete a P3 project may subject Aecon to significant losses. The risks associated with such large scale infrastructure and industrial projects are often proportionate to their size and complexity, thereby placing a premium on risk assessment and project execution.

Joint ventures are often formed to undertake a specific project, jointly controlled by the partners, and are dissolved upon completion of the project. Aecon selects its joint venture partners based on a variety of criteria including relevant expertise, past working relationships, as well as analysis of prospective partners' financial and construction capabilities. Joint venture agreements spread risk between the partners and they generally state that companies supply their proportionate share of operating funds and that they share profits and losses in accordance with specified percentages. Nevertheless, each participant in a joint venture is usually liable to the client for completion of the entire project in the event of a default by any of its partners. Therefore, in the event that a joint venture partner fails to perform its obligations due to financial or other difficulties or is disallowed from performing or is otherwise unable to perform its obligations as a result of the client's determination, whether pursuant to the relevant contract or because of modifications to government or agency procurement policies or rules or for any other reason, Aecon may be required to make additional investments or provide additional services which may reduce or eliminate profit, or even subject Aecon to significant losses with respect to the joint venture. As a result of the complexity and size of such projects that Aecon has pursued in recent years or is likely to pursue going forward, the failure of a joint venture partner on a larger, more complex project could have a more significant impact on Aecon's results.

The contract price on large projects is based on cost estimates using a number of assumptions. Given the size of these projects, if these assumptions prove incorrect, whether due to faulty estimates, unanticipated circumstances, or a failure to properly assess risk, profit may be materially lower than anticipated or, in a worst case scenario, result in a significant loss.

The recording of the results of large project contracts can distort revenue and earnings on both a quarterly and an annual basis and can, in some cases, make it difficult to compare the financial results between reporting periods. For greater detail on the potential impact of contractual factors, including unpriced change orders, see "Contractual Factors" under "Risk Factors" herein.

Aecon has a number of commitments and contingencies. If Aecon was called upon to honour these contingent obligations, its financial results could be adversely affected. For additional details, see Note 21 "Contingencies" and Note 22 "Commitments Under Non-Cancellable Operating Leases" to the Company's December 31, 2016 consolidated financial statements filed on Aecon's SEDAR profile at www.sedar.com.

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

Contractual Factors

Aecon performs construction activities under a variety of contracts including lump sum, fixed price, guaranteed maximum price, cost reimbursable, design-build, design-build-finance, design-build-finance-maintain and design-build-finance-operate-maintain. Some forms of construction contracts carry more risk than others. Aecon attempts to maintain a diverse mix of contracts to prevent overexposure to the risk profile of any particular contractual structure; however, conditions influencing both private sector and public authority clients may alter the desired mix of available projects and contractual structures that Aecon undertakes.

Historically, a substantial portion of Aecon's revenue is derived from lump sum contracts pursuant to which a commitment is provided to the owner of the project to complete the project at a fixed price ("Lump Sum") or guaranteed maximum price ("GMP"). In Lump Sum and GMP projects, in addition to the risk factors of a unit price contract (as described below), any errors in quantity estimates or schedule delays or productivity losses, for which contracted relief is not available, must be absorbed within the Lump Sum or GMP, thereby adding a further risk component to the contract. Such contracts, given their inherent risks, have from time to time resulted in significant losses. The failure to properly assess a wide variety of risks, appropriately execute such contracts, or contractual disputes may have an adverse impact on financial results.

Aecon is also involved in fixed unit price construction contracts under which the Company is committed to provide services and materials at a fixed unit price (e.g. dollars per tonne of asphalt or aggregate). While this shifts the risk of estimating the quantity of units to the contract owner, any increase in Aecon's cost over the unit price bid, whether due to estimating error, inefficiency in project execution, inclement weather, inflation or other factors, will negatively affect Aecon's profitability.

In certain instances, Aecon guarantees to a customer that it will complete a project by a scheduled date or that the facility will achieve certain performance standards. If the project or facility subsequently fails to meet the schedule or performance standards, Aecon could incur additional costs or penalties commonly referred to as liquidated damages. Although Aecon attempts to negotiate waivers of consequential or liquidated damages, on some contracts the Company is required to undertake such damages for failure to meet certain contractual provisions. Such penalties may be significant and could impact Aecon's financial position or results of future operations. Furthermore, schedule delays may also reduce profitability because staff may be prevented from pursuing and working on new projects. Project delays may also reduce customer satisfaction which could impact future awards.

Aecon is also involved in design-build, design-build-finance, design-build-finance-maintain and design-build-finance-operate-maintain contracts or certain contracts for owners such as Infrastructure Ontario and Partnerships British Columbia where, in addition to the responsibilities and risks of a unit price or lump sum construction contract, Aecon is responsible for certain aspects of the design of the facility being constructed. This form of contract adds the risk of Aecon's liability for design errors as well as additional construction costs that might result from such design errors.

Certain of Aecon's contractual requirements may also involve financing elements, where Aecon is required to provide one or more letters of credit, performance bonds, financial guarantees or equity investments. For greater detail see "Access to Bonding, Pre-qualification Rating and Letters of Credit" under "Risk Factors" herein.

Change orders, which modify the nature or quantity of the work to be completed, are frequently issued by clients. Final pricing of these change orders is often negotiated after the changes have been started or completed. As such, disputes regarding the quantum of unpriced change orders could impact Aecon's profitability on a particular project, its ability to recover costs or, in a worst case scenario, result in significant project losses. Until pricing has been agreed, these change orders are referred to as "unpriced change orders." Revenues from unpriced change orders are recognized to the extent of the costs incurred on executing the change order or, if lower, to the extent to which recovery is probable. Only when pricing is agreed to is any profit on such change orders recognized. If, ultimately, there are disputes with clients on the pricing of change orders or disputes regarding additional payments owing as a result of changes in contract specifications, delays, additional work or changed conditions, Aecon's accounting policy is to record all costs for these changes but not to record any revenues anticipated from these disputes until resolution is probable. The timing of the resolution of such events can have a material impact on income and liquidity and thus can cause fluctuations in the revenue and income of Aecon in any one reporting period.

Aecon Operates in a Highly Competitive Industry

Aecon operates businesses in highly competitive product and geographic markets in Canada, the United States and internationally. Aecon competes with other major contractors, as well as many mid-size and smaller companies, across a range of industry segments. In addition, an increase in the number of international companies entering into the Canadian marketplace has also made the market more competitive. Each has its own advantages and disadvantages relative to Aecon. New contract awards and contract margin are dependent on the level of competition and the general state of the markets in which the Company operates. Fluctuations in demand in the segments in which the Company operates may impact the degree of competition for work. Competitive position is based on a multitude of factors including pricing, ability to obtain adequate bonding, backlog, financial strength, appetite for risk, reputation for safety, quality, timeliness and experience. Aecon has little control over and cannot otherwise affect these competitive factors. If the Company is unable to effectively respond to these competitive factors, results of operations and financial condition will be adversely impacted. In addition, a prolonged economic slump or slower than anticipated recovery may affect one or more of Aecon's competitors or the markets in which it operates, resulting in increased competition in certain market segments, price or margin reductions or decreased demand for services, which may adversely affect results.

Resources and Commodities Sector

Delays, scope reductions and/or cancellations in previously announced or anticipated projects in the Alberta oil sands and commodities mining sector demonstrated that economic activity in the resources and commodities sector could be impacted by a variety of factors. General factors include but are not limited to: the pricing of oil, potash and other commodities; market volatility; the impact of global economic conditions affecting demand or the worldwide financial markets; cost overruns on announced projects; efforts by owners to contractually shift risk for cost overruns to contractors; fluctuations in the availability of skilled labour; lack of sufficient governmental infrastructure to support growth; the introduction of new "green" legislation; negative perception of the Alberta oil sands and their potential environmental impact; and a shortage of sufficient pipeline capacity to transport production to major markets.

The prices of oil, natural gas and other commodities are determined based on world demand, supply, production, speculative activities and other factors, all of which are beyond the control of the Company. Investment decisions by many of Aecon's clients are dependent on the clients' outlook on the long-term price of commodities. If that outlook is unfavourable it may cause delay, reduction or cancellation of current and future projects. Continued low prices of oil and commodities in recent years, combined with potential further declines in prices, could result in ongoing or further reductions in the oil and gas development activities and capital expenditure plans of the Company's Energy and Mining segment clients, which could in turn have a negative effect on the frequency, number and size of the projects for which the Company would bid.

Given the volatility of world oil and commodity prices, a sustained period of low prices on a going forward basis may result in material differences in previously projected oil sands and resource development. Postponements or cancellations of investment in existing and new projects could have an adverse impact on Aecon's business and financial condition.

Economic Factors

Aecon's profitability is closely tied to the general state of the economy in those geographic areas in which it operates. More specifically, the demand for construction and infrastructure development services, which is the principal component of Aecon's operations, is perhaps the largest single driver of the Company's growth and profitability. In periods of strong economic growth, there is generally an increase in the number of opportunities available in the construction and infrastructure development industry as capital spending increases. In periods of weak economic growth, the demand for Aecon's services from private sector and public authority clients may be adversely affected by economic downturns.

In North America, which tends to have relatively sophisticated infrastructure, Aecon's profitability is dependent both on the development, rehabilitation and expansion of basic infrastructure (such as, among others, highways, airports, dams and hydroelectric plants) and on the type of infrastructure that flows from commercial and population growth. Commercial growth demands incremental facilities for the movement of goods within and outside of the community, along with water and sewer systems and heat, light and power supplies. Population growth creates a need to move people to and from work, schools and other public facilities, and demands similar services to new homes. Since growth in both these areas, with the possible exception of road maintenance and construction, is directly affected by the general state of the local economy, a prolonged economic downturn in the markets in which Aecon operates or related constraints on public sector funding, including as a result of government deficits, may have a significant impact on Aecon's operations.

Concessionaire Risk

In addition to providing design, construction, procurement, operation and other services on a given project, Aecon will sometimes invest as a concessionaire in an infrastructure asset. In such instances, Aecon assumes a degree of risk (essentially equity risk) associated with the performance of the asset during the concession period. The Eglinton Crosstown LRT project is a current example of such a project.

The financing arrangements on concession projects are typically based on a set of projections regarding the cash flow to be generated by the asset during the life of the concession. The ability of the asset to generate the cash flows required to provide a return to the concessionaire can be influenced by a number of factors, some of which are partially beyond the concessionaire's control, such as, among others, political or legislative changes, traffic demand and thus operating revenues, collection success and operating cost levels.

While project concession agreements often provide a degree of risk mitigation, and insurance products are available to limit some of the concession risks, the value of Aecon's investment in these infrastructure assets can be impaired, and certain limited risk guarantees can be called, if the financial performance of the asset does not meet certain requirements.

On a going forward basis, a future economic downturn may directly or indirectly impact the ability of Aecon to make the necessary financing arrangements to pursue all of the concession opportunities it would otherwise be interested in.

Labour Factors

A significant portion of Aecon's labour force is unionized and accordingly, Aecon is subject to the detrimental effects of a strike or other labour action, in addition to competitive cost factors.

The Company's future prospects depend to a significant extent on its ability to attract sufficient skilled workers. The construction industry at various times is faced with a shortage of skilled labourers in some areas and disciplines, particularly in remote locations that require workers to live in temporary "camp" environments. The resulting competition for labour may limit the ability of the Company to take advantage of opportunities otherwise available or alternatively may impact the profitability of such endeavours on a going forward basis. The Company believes that its union status, size and industry reputation will help mitigate this risk but there can be no assurance that the Company will be successful in identifying, recruiting or retaining a sufficient number of skilled workers.

Subcontractor Performance

The profitable completion of some contracts depends to a large degree on the satisfactory performance of the subcontractors as well as design and engineering consultants who complete different elements of the work. If these subcontractors do not perform to accepted standards, Aecon may be required to hire different subcontractors to complete the tasks, which may impact schedule, add costs to a contract, impact profitability on a specific job and, in certain circumstances, lead to significant losses. A major subcontractor default or failure to properly manage subcontractor performance could materially impact results.

Litigation Risk and Claims Risk

Disputes are common in the construction industry and as such, in the normal course of business, the Company is involved in various legal actions and proceedings which arise from time to time, some of which may be substantial. In view of the quantum of the amounts claimed and the insurance coverage maintained by the Company in respect of these matters, management of the Company does not believe that any of the legal actions or proceedings that are presently known or anticipated by the Company are likely to have a material impact on the Company's financial position. However, there is no assurance that the Company's insurance arrangements will be sufficient to cover any particular claim or claims that may arise in the future. Furthermore, the Company is subject to the risk of claims and legal actions for various commercial and contractual matters, primarily arising from construction disputes, in respect of which insurance is not available. Although as of the date hereof, Aecon has not seen a material shift, there can be no guarantee that one of the by-products of weak economic conditions will not be a rise in litigation which, depending on the nature of the litigation, could impact Aecon's results.

Risk of Non-Payment

Credit risk of non-payment with private owners under construction contracts is to a certain degree minimized by statutory lien rights which give contractors a high priority in the event of foreclosures as well as progress payments based on percentage completion. However, there is no guarantee that these measures will in all circumstances mitigate the risk of non-payment from private owners and a significant default or bankruptcy by a private owner may impact results. A greater incidence of default (including cash flow problems) or corporate bankruptcy amongst clients, subcontractors or suppliers related to current or future economic conditions could also impact results.

Credit risk is typically less with public (government) owners, who generally account for a significant portion of Aecon's business, as funds have generally been appropriated prior to the award or commencement of the project. Please see "Dependence on the Public Sector" under "Risk Factors" herein for additional discussion of the risks associated with this type of contract.

Dependence on the Public Sector

A significant portion of Aecon's revenue is derived from contracts with various governments or their agencies. Consequently, any reduction in demand for Aecon's services by the public sector whether from traditional funding constraints, the long-term impact of weak economic conditions (including future budgetary constraints, concerns regarding deficits or an eroding tax base), changing political priorities, change in government or delays in projects caused by the election process would likely have an adverse effect on the Company if that business could not be replaced from within the private sector.

Large government sponsored projects typically have long and often unpredictable lead times associated with the government review and political assessment process. The time delays and pursuit costs incurred as a result of this lengthy process, as well as the often unknown political considerations that can be part of any final decision, constitute a significant risk to those pursuing such projects.

Ongoing Financing Availability

Aecon's business strategy involves the selective growth of its operations through internal growth and acquisitions. Certain of Aecon's operating segments, particularly its Infrastructure, Mining and Energy segments, require substantial working capital during their peak busy periods. Aecon relies on its cash position and the availability of credit and capital markets to meet these working capital demands. As these businesses grow, Aecon is continually seeking to enhance its access to funding in order to finance the higher working capital associated with this growth. However, given the expected demand for infrastructure services over the next several years and the size of many of these projects, Aecon may be constrained in its ability to capitalize on growth opportunities to the extent that financing is either insufficient or unavailable. Further, instability or disruption of capital markets, or a weakening of Aecon's cash position could restrict its access to, or increase the cost of obtaining financing. Aecon cannot guarantee that it will maintain an adequate cash flow to fund its operations and meet its liquidity needs. Additionally, if the terms of the credit facility are not met lenders may terminate Aecon's right to use its credit facility, or demand repayment of whole or part of all outstanding indebtedness, which could have a material adverse effect on Aecon's financial position.

One or more third parties drawing on letters of credit or guarantees could have a material adverse effect on Aecon's cash position and operations.

Some of Aecon's clients also depend on the availability of credit to finance their projects. If clients cannot arrange financing, projects may be delayed or cancelled, which could have a material adverse effect on Aecon's growth and financial position. Diminution of a client's access to credit may also affect Aecon's ability to collect payments, negotiate change orders, and settle claims with clients which could have a material adverse effect on Aecon's financial position.

Access to Bonding, Pre-qualification Rating and Letters of Credit

Many of Aecon's construction contracts require sufficient bonding, pre-qualification rating or letters of credit. The surety industry has endured a certain degree of instability and uncertainty arising from weaker economic conditions, the long-term effects of which may constrain overall industry capacity. Furthermore, the issuance of bonds under surety facilities is at the sole discretion of the surety company on a project by project basis. As such, even sizeable surety facilities are no guarantee of surety support on any specific individual project. Although the Company believes it will be able to continue to maintain surety capacity adequate to satisfy its requirements, should those requirements be materially greater than anticipated, or should sufficient surety capacity not be available to Aecon or its joint venture partners (see “Large Project Risk” under “Risk Factors” herein) for reasons related to an economic downturn or otherwise, or should the cost of bonding rise substantially (whether Aecon specific or industry wide), this may have an adverse effect on the ability of Aecon to operate its business or take advantage of all market opportunities. The Company also believes that it has sufficient capacity with respect to letters of credit to satisfy its requirements, but should these requirements be materially greater than anticipated or should industry capacity be materially impacted by domestic or international conditions unrelated to Aecon, this may have an adverse effect on the ability of Aecon to operate its business.

Insurance Risk

Aecon maintains insurance in order to both satisfy the requirements of its various construction contracts as well as a corporate risk management strategy. Insurance products from time to time experience market fluctuations that can impact pricing and availability. Therefore, senior management, through Aecon's insurance broker, monitors developments in the insurance markets to ensure that the Company's insurance needs are met. Insurance risk entails inherent unpredictability that can arise from assuming long-term policy liabilities or from uncertainty of future events. Although Aecon has been able to meet its insurance needs, there can be no assurances that Aecon will be able to secure all necessary or appropriate insurance on a going forward basis. Failure to do so could lead to uninsured losses or limit Aecon's ability to pursue some construction contracts, both of which could impact results.

Environmental and Safety Factors

Unfavourable weather conditions represent one of the most significant uncontrollable risks for Aecon to the extent that such risk is not mitigated through contractual terms. Construction projects are susceptible to delays as a result of extended periods of poor weather, which can have an adverse effect on profitability arising from either late completion penalties imposed by the contract or from the incremental costs arising from loss of productivity, compressed schedules, or from overtime work utilized to offset the time lost due to adverse weather.

During its history, Aecon has experienced a number of incidents, emissions or spills of a non-material nature in the course of its construction activities. Although none of these environmental incidents to date have resulted in a material liability to the Company, there can be no guarantee that any future incidents will also be of a non-material nature.

Aecon is subject to, and complies with, federal, provincial and municipal environmental legislation in all of its manufacturing and construction operations. Aecon recognizes that it must conduct all of its business in such a manner as to both protect and preserve the environment in accordance with this legislation. At each place where work is performed, Aecon develops and implements a detailed quality control plan as the primary tool to demonstrate and maintain compliance with all environmental regulations and conditions of permits and approvals. Given its more than one hundred-year history in the construction industry, the large number of companies incorporated into its present structure, and the fact that environmental regulations tend not to have a statute of limitations, there can be no guarantee that a historical claim may not arise on a go forward basis. Management is not aware of any pending environmental legislation that would be likely to have a material impact on any of its operations, capital expenditure requirements or competitive position, although there can be no guarantee that future legislation (including without limitation the introduction of "green" legislation that may impact segments of Aecon's business such as work in Alberta's oil sands) will not be proposed and, if implemented, might have an impact on the Company and its financial results.

Aecon is also subject to, and complies with, health and safety legislation in all of its operations in the jurisdictions in which it operates. The Company recognizes that it must conduct all of its business in such a manner as to ensure the protection of its workforce and the general public. Aecon has developed a comprehensive health and safety program. Nevertheless, given the nature of the industry, accidents will inevitably occur from time to time. Management is not aware of any pending health and safety legislation or prior incidents which would be likely to have a material impact, taken as a whole, on any of its operations, capital expenditure requirements or competitive position. Nevertheless, there can be no guarantee with respect to the impact of future legislation or accidents. Increasingly across the construction industry safety standards, records and culture are an integral component of winning new work. Should Aecon fail to maintain its safety standards, such failure may impact future job awards, or in a worst case scenario impact financial results.

Cyclical Nature of the Construction Industry

Fluctuating demand cycles are common in the construction industry and can have a significant impact on the degree of competition for available projects. As such, fluctuations in the demand for construction services or the ability of the private and/or public sector to fund projects in the current economic climate could adversely affect backlog and margin and thus Aecon's results.

Given the cyclical nature of the construction industry, the financial results of Aecon, similar to others in the industry, may be impacted in any given period by a wide variety of factors beyond its control (as outlined herein) and, as a result, there may be from time to time, significant and unpredictable variations in Aecon's quarterly and annual financial results.

Failure of Clients to Obtain Required Permits and Licences

The development of construction projects requires Aecon's clients to obtain regulatory and other permits and licenses from various governmental licensing bodies. Aecon's clients may not be able to obtain all necessary permits and licenses required for the development of their projects, in a timely manner or at all. These delays are generally outside the Company's control. The major costs associated with these delays are personnel and associated overhead that is designated for the project which cannot be reallocated effectively to other work. If the client's project is unable to proceed, it may adversely impact the demand for the Company's services.

International/Foreign Jurisdiction Factors

Aecon is from time to time engaged in large international projects in foreign jurisdictions. International projects can expose Aecon to risks beyond those typical for its activities in its home market, including without limitation, economic, geopolitical, geotechnical, military, repatriation of undistributed profits, currency and foreign exchange risks, and other risks beyond the Company's control including the duration and severity of the impact of global economic downturns.

Aecon continually evaluates its exposure to unusual risks inherent in international projects and, where deemed appropriate in the circumstances, mitigates these risks through specific contract provisions, insurance coverage and forward exchange agreements. However, there are no assurances that such measures would offset or materially reduce the effects of such risks.

Foreign exchange risks are actively managed and hedged where possible and considered cost effective, when directly tied to quantifiable contractual cash flows accruing directly to Aecon within periods of one or two years. Major projects executed through joint ventures generally have a longer term and result in foreign exchange translation exposures that Aecon has not hedged. Such translation exposure will have an impact on Aecon's consolidated financial results. Practical and cost effective hedging options to fully hedge this longer term translational exposure are not generally available.

Internal and Disclosure Controls

Inadequate disclosure controls or ineffective internal controls over financial reporting could result in an increased risk of material misstatements in the financial reporting and public disclosure record of Aecon. Inadequate controls could also result in system downtime, give rise to litigation or regulatory investigation, fraud or the inability of Aecon to continue its business as presently constituted. Aecon has designed and implemented a system of internal controls and a variety of policies and procedures to provide reasonable assurance that material misstatements in the financial reporting and public disclosures are prevented and detected on a timely basis and other business risks are mitigated. In accordance with the guidelines adopted in Canada, Aecon assesses the effectiveness of its internal and disclosure controls using a top-down, risk-based approach in which both qualitative and quantitative measures are considered. An internal control system, no matter how well conceived and operated, can provide only reasonable – not absolute – assurance to management and the Board of Directors regarding achievement of intended results. Aecon's current system of internal and disclosure controls places reliance on key personnel across the Company to perform a variety of control functions including key reviews, analysis, reconciliations and monitoring. The failure of individuals to perform such functions or properly implement the controls as designed could adversely impact results.

Interruption or Failure of Information Systems

Aecon relies extensively on information systems, data and communication networks to effectively manage its operations. Complete, accurate, available and secure information is vital to the Company's operations and any compromise in such information could result in improper decision making, inaccurate or delayed operational and/or financial reporting, delayed resolution to problems, breach of privacy and/or unintended disclosure of confidential materials. Failure in the completeness, accuracy, availability or security of Aecon's information systems, the risk of system interruption or failure during system upgrades or implementation, or a breach of data security could adversely affect the Company's operations and financial results.

Cybersecurity Threats

Aecon has established and continues to enhance security controls which protect its information systems and infrastructure and which meet or exceed its obligations under applicable law or professional standards. The Company's Information Services Security Group oversees the cybersecurity and risk mitigation strategy with oversight from the Company's Board of Directors. Aecon is IT general controls (ITGC) certified and governed by the National Institute of Standards and Technology (NIST) Cybersecurity Framework. Aecon annually conducts a comprehensive assessment with third party auditors in order to re-certify its compliance with the ITGC principles. While audits occur annually, information security risk reviews and assessments are conducted more frequently in accordance with established processes to ensure that Aecon's security controls are protecting the Company's information systems and infrastructure on an ongoing basis. Aecon has also established safeguards to ensure that appropriate physical access controls are in place to protect the Company's facilities and information technology resources from unauthorized access. The Company has a cyber insurance policy which provides broad coverage of cyber incidents as well as third party costs as a result of breaches and costs to restore, recreate or recollect electronic data.

Given the rapid evolution and sophisticated level of cyber incidents, all the foregoing security measures and controls may not be sufficient to prevent third party access of digital data with the intent to misappropriate information, corrupt data or cause operational disruptions. Such incidents could cause delays in the Company's operations and construction projects, result in lost revenues due to a disruption of activities, lead to the loss, destruction or inappropriate use of sensitive data, or result in theft of the Company's or its' clients' or joint venture partners' intellectual property or confidential information. If any of the foregoing events occurs, the Company may be subject to a number of consequences, including reputational damage, which could have a material adverse effect on the Company.

Integration and Acquisition Risk

The integration of any acquisition raises a variety of issues including, without limitation, identification and execution of synergies, elimination of cost duplication, systems integration (including accounting and information technology), execution of the pre-deal business strategy in an uncertain economic market, development of common corporate culture and values, integration and retention of key staff, retention of current clients as well as a variety of issues that may be specific to Aecon and the industry in which it operates. There can be no assurance that Aecon will maximize or realize the full potential of any of its acquisitions. A failure to successfully integrate acquisitions and execute a combined business plan could materially impact the future financial results of Aecon. A failure to expand the existing client base and achieve sufficient utilization of the assets acquired could also materially impact the future financial results of Aecon.

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

The Company's future prospects depend to a significant extent on the continued service of its key executives and staff. Furthermore, the Company's continued growth and future success depends on its ability to identify, recruit, assimilate and retain key management, technical, project and business development personnel. The competition for such employees, particularly during periods of high demand in certain sectors, is intense and there can be no assurance that the Company will be successful in identifying, recruiting or retaining such personnel.

Adjustments in Backlog

There can be no assurance that the revenues projected in Aecon's backlog at any given time will be realized or, if realized, that they will perform as expected with respect to margin. Projects may from time to time remain in backlog for an extended period of time prior to contract commencement, and after commencement may occur unevenly over current and future earnings periods. Project suspensions, terminations or reductions in scope do occur from time to time in the construction industry due to considerations beyond the control of a contractor such as Aecon and may have a material impact on the amount of reported backlog with a corresponding impact on future revenues and profitability. A variety of factors outlined in these "Risk Factors" including, without limitation, conditions in the oil sands or other resource related sectors and the impact of economic weakness could lead to project delays, reductions in scope and/or cancellations which could, depending on severity, negatively affect the ability of the Company to replace its existing backlog which may adversely impact results.

Tax Accrual Risks

Aecon is subject to income taxes in both Canada and several foreign jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although Aecon believes its tax estimates are reasonable, there can be no assurance that the final determination of any tax audits and litigation will not be materially different from that reflected in historical income tax provisions and accruals. Although management believes it has adequately provided for any additional taxes that may be assessed as a result of an audit or litigation, the occurrence of either of these events could have an adverse effect on the Company's current and future results and financial condition.

Public Procurement Laws and Regulations

As part of its business dealings with governmental bodies, Aecon must comply with public procurement laws and regulations aimed at ensuring that public sector bodies award contracts in a transparent, competitive, efficient, ethical and non-discriminatory way. Although Aecon has adopted control measures and implemented policies and procedures to mitigate such risks, these control measures, policies and procedures may not always be sufficient to protect the Company from the consequences of acts prohibited by public procurement laws and regulations committed by its directors, officers, employees and agents. If Aecon fails to comply with these laws and regulations it could be subject to administrative or civil liabilities and to mandatory or discretionary exclusion or suspension, on a permanent or temporary basis, from contracting with governmental bodies in addition to other penalties and sanctions that could be incurred by the Company.

Reputation in the Construction Industry

Reputation and goodwill play an important role in the long-term success of any company in the construction industry. Negative opinion may impact long-term results and can arise from a number of factors including competence, losses on specific projects, questions concerning business ethics and integrity, corporate governance, the accuracy and quality of financial reporting and public disclosure as well as the quality and timing of the delivery of key products and services. Aecon has implemented various procedures and policies to help mitigate this risk including the adoption of a comprehensive Code of Conduct which all employees are expected to review and abide by. Nevertheless, the adoption of corporate policies and training of employees cannot guarantee that a future breach or breaches of the Code of Conduct or other corporate policies will not occur which may or may not impact the financial results of the Company.

Increases in the Cost of Raw Materials

The cost of raw materials represents a significant component of Aecon's operating expenses. As contractors are not always able to pass such risks on to their customers, unexpected increases in the cost of raw materials may negatively impact the Company's results. At times, the global availability of basic construction materials such as cement and steel can be impacted by high periods of demand which can result in significant price fluctuations, price escalation and periodic supply shortages. Periods of high demand or the failure to anticipate or mitigate demand fluctuations may add a significant risk to many vendors and subcontractors, some of whom may respond by no longer guaranteeing price or availability on long-term contracts which in turn increases the risk for contractors who are not always able to pass this risk on to their customers.

Impact of Extreme Weather Conditions and Natural Disasters

Much of Aecon's construction activities are performed outdoors. Extreme weather conditions or natural or other disasters, such as earthquakes, fires, floods, epidemics or pandemics and similar events, may cause delays in the progress of Aecon's projects, which to the extent that such risk is not mitigated through contractual terms, may result in loss of revenues that otherwise would be recognized while certain costs continue to be incurred. Delays in the completion of Aecon's services may also lead to incurring additional non-compensable costs, including overtime work, that are necessary to meet clients' schedules. Delays in the commencement or completion of a project may also result in penalties or sanctions under contracts or even the cancellation of contracts.

Climate Change Regulations

Global climate change continues to attract considerable public, scientific and regulatory attention, and greenhouse gas emission regulation is becoming more commonplace and stringent. Government action to address climate change may involve both economic instruments such as carbon taxation as well as restrictions on economic sectors such as cap-and-trade. Aecon is subject to carbon taxation and cap-and-trade systems in some of the jurisdictions in which it operates and there is a possibility in other jurisdictions in the future. The Company's cost of business may rise and the Company may be required to purchase new equipment to reduce emissions in order to comply with new regulatory standards or to mitigate the financial impact of carbon taxation. Cap-and-trade programs and other government restrictions on certain market sectors can also impact current or potential clients in industries such as petroleum crude oil.

Impairment in the Value of Aecon's Assets

New events or circumstances may lead Aecon to reassess the value of goodwill, property, plant and equipment, and other non-financial assets, and record a significant impairment loss, which could have a material adverse effect on its financial position. Aecon's financial assets, other than those accounted for at fair value, are assessed for indicators of impairment quarterly. Financial assets are considered impaired when there is objective evidence that estimated future cash flows of the investment have been affected by one or more events that occurred after the initial recognition of the financial asset. In such a case, Aecon may be required to reduce carrying values to their estimated fair value. Aecon's estimates of future cash flows are inherently subjective which could have a significant impact on the analysis. Further, there could be a material adverse effect on Aecon's financial position from any future write-offs or write-downs of Aecon's assets or in the carrying value of its investments.

Outsourced Software

Aecon relies on third party providers of software and infrastructure to run critical accounting, project management and financial systems. Discontinuation of development or maintenance of third party software and infrastructure could cause a disruption in Aecon's systems.

Protection of Intellectual Property and Proprietary Rights

The Company, depends, in part, on its ability to protect its intellectual property rights. Aecon relies primarily on patent, copyright, trademark and trade secret laws to protect its proprietary technologies. The failure of any patents or other intellectual property rights to provide protection to Aecon's technologies would make it easier for competitors to offer similar products, which could result in lower sales or gross margin.

The Company's trademarks and trade names are registered in Canada and the United States and the Company intends to keep these filings current and seek protection for new trademarks to the extent consistent with business needs. The Company relies on trade secrets and proprietary know-how and confidentiality agreements to protect certain of its technologies and processes.

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)		March 7, 2017
Number of common shares outstanding		57,863,017
Outstanding securities exchangeable or convertible into common shares:		
Number of stock options outstanding		270,000
Number of common shares issuable on exercise of stock options		270,000
Increase in paid-up capital on exercise of stock options	$	3,342
Principal amount of convertible debentures outstanding (see Note 18 to the December 31, 2016 consolidated financial statements)	$	173,452
Number of common shares issuable on conversion of convertible debentures		8,625,000
Increase in paid-up capital on conversion of convertible debentures	$	173,452

OUTLOOK

Aecon ended 2016 with a backlog of $4.2 billion, 29% higher than the $3.3 billion at the same time in the prior year, largely reflecting the significant nuclear project awards during 2016 in the Energy segment. Much of the growth in backlog relative to a year ago is longer term backlog that provides greater visibility and stability to Aecon's outlook. However, backlog in the next 24 months of $1.9 billion is lower than the $2.7 billion at the same time last year, due in part to higher work-off in the last twelve months but also reflecting the fact that certain end markets remain challenging, notably oil and commodity markets across Canada. The commitment to increase infrastructure investment by all levels of government across Canada bodes well for Aecon although the benefits of this program are not likely to be seen until at least late 2017 and beyond. Following a year in 2016 that saw 10% revenue growth, 2017 is expected to be a year of significant bidding activity that will build backlog for 2018 and beyond. As such, although backlog at the start of 2017 will be supplemented by projects awarded in 2017 for work off in the same year and by higher expected recurring revenue from master service agreements in 2017, overall revenue expectations for 2017 are for flat to modestly lower volume. Offsetting this is an expectation that Adjusted EBITDA margin improvement in 2017 will result in an overall improvement in Adjusted EBITDA in the year.

Infrastructure segment backlog, at the end of 2016, was $1,664 million compared to $2,195 million at the same time last year. Increased infrastructure investment to address both the significant infrastructure deficit in Canada and slower economic growth is a key area of focus for federal, provincial, and municipal governments and Aecon is well positioned to successfully bid on, secure, and deliver these projects, as larger projects with longer procurement cycles begin to roll out during 2017. While Aecon expects to be a beneficiary of this increased infrastructure investment, competition in this space was strong in 2016, although the expectation of a large increase in infrastructure investment in the U.S. may mitigate this competitive environment to some extent going forward.

Backlog in the Energy segment was $2,372 million at the end of 2016 compared to $735 million at the end of 2015 due primarily to new awards in the first half of 2016 in the gas distribution and power generation sectors including the execution phase of the Darlington nuclear refurbishment project being awarded to a joint venture in which Aecon has a 50 per cent interest. The execution phase commenced in 2016 and will take approximately ten years. Revenue from Aecon's fabrication and modular assembly services in Western Canada will be lower in 2017 compared to the prior year due to the completion of fabrication and field work on a major project in Alberta and securing additional oil related backlog will be challenging in the current environment. Aecon expects increased backlog and ongoing demand for gas distribution facilities, utilities work, power and nuclear refurbishment in 2017 will help offset lower oil related volume. Aecon's capability in the nuclear refurbishment sector, combined with the ten-year plus refurbishment project at the Bruce Power Nuclear Plant in Ontario currently in the development and procurement phase, provides a significant long-term growth opportunity for Aecon in nuclear work.

Backlog in the Mining segment at the end of 2016 was $168 million compared to $331 million at the end of 2015. Commodity prices generally remain soft which is reducing the number of new projects being developed. Although Aecon is involved in a number of pursuits related to potential projects, the timing of when these projects may move into construction is uncertain. New backlog in the process installation sector of Aecon's Mining segment is required for the second half of 2017. Contract mining, which is primarily recurring revenue work over and above what is reported as backlog for the segment, is expected to improve in 2017 after the impact of the Alberta wildfires in 2016 and with a new operating site coming on line during the second half of 2017.

The Concessions segment continues to partner with Aecon's other segments to focus on the significant number of Public Private Partnership ("P3") opportunities, and is actively pursuing a number of large-scale infrastructure projects that require private finance solutions while participating as a concessionaire on the Waterloo and Eglinton Crosstown LRT projects. Aecon is working with the Canadian and Bermudian governments to achieve financial close in the first half of 2017 on a project to rebuild and operate the L. F. Wade International Airport in Bermuda as a 30-year concession. Aecon has significant experience in airport development having built and operated the Quito airport in Ecuador. Construction, to be performed by Aecon's Infrastructure segment, is expected to run for approximately three years starting in 2017 and Aecon looks forward to working with the people of Bermuda to create a world class facility. Operation of the airport, through Aecon's Concessions segment, would commence on financial close.

The Company's consolidated balance sheet and financial capacity remain key advantages for Aecon in its ability to continue to grow and take advantage of the significant infrastructure investment, including P3s, expected in coming years, as well as respond to an eventual rebound in oil and commodity markets. Aecon continues to be disciplined in responding to requests for its services, becoming pre-qualified, bidding, negotiating and carrying out work. The overall outlook for 2017 remains generally positive with areas of strength in Aecon's business expected to outweigh the impact of softness in certain markets. We expect to improve on our solid results in 2016 and all four segments continue to bid on opportunities that should enhance the level of backlog and support the goal of improving Adjusted EBITDA and Adjusted EBITDA margin.

As usual, the first half of 2017 is expected to be weaker than the second half of 2016 reflecting the typical seasonality of Aecon's work. Capital expenditures are expected to remain relatively consistent with 2016 levels. Aecon's consolidated balance sheet, financial liquidity and substantial bonding capacity continue to provide the financial resources required to capitalize on the opportunities before it.