

**AECON GROUP INC. THIRD QUARTER REPORT 2008**

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Nine Months ended September 30, 2008

***Aecon***

Dear Fellow Shareholders,

On behalf of Aecon's Board of Directors, I am pleased to report that Aecon has once again delivered record results – continuing in the third quarter of 2008 to build on the momentum established over the past two years.

Overall, the third quarter was characterized by increased revenues, continued profit growth and record backlog.

We saw very strong growth in the Industrial segment, where third quarter operating profits of \$21.2 million represented a 175% increase over the same quarter of 2007. While the entire segment performed well, the bulk of the year-over-year improvement occurred in Western Canada and Ontario Construction operations.

Infrastructure segment operating profits of \$16.8 million represented a \$4.9 million increase over the third quarter of 2007. The largest increase occurred in heavy civil operations, with quarter-over-quarter operating profits also increasing in utilities operations.

The Buildings segment suffered a temporary setback, reporting an operating loss of \$0.9 million in the third quarter compared to a profit of \$2.4 million in the same quarter last year. The decline is largely due to disappointing results in the Montreal business unit where project write-downs and severance costs associated with a restructuring of this operation negatively impacted earnings.

The Concessions segment continued to deliver solid results in the third quarter, with an operating profit of \$3.3 million representing an increase of \$2.2 million compared with the same quarter last year.

On a consolidated basis, Aecon's revenues reached \$535 million for the third quarter, an increase of 24% from the same period last year, and a third quarter record for Aecon. Net income in the quarter was also a record at \$23.1 million (\$0.45 per diluted share), up from \$19.0 million (\$0.44 per diluted share) in the third quarter of 2007

Aecon's backlog also continues to set records. At \$1.5 billion, backlog at September 30 was \$227 million higher than the record backlog reported at the same time in 2007.

As we move into the final quarter of 2008, the turmoil in world equity and debt markets provides a cautionary context for an otherwise strong outlook. While not discounting the very real concerns in the marketplace that recessionary pressures may reduce demand and negatively impact margins, as of today I can report that most of the trends that have shaped Aecon's very positive results over the past several quarters remain firmly in place:

- Very healthy backlog levels are providing a strong and contractually secure revenue base upon which to build.

- Record levels of government spending on transportation infrastructure are expected to continue, with Ontario recently renewing its call for continued infrastructure investment.
- Similarly, investment in new electrical generation capacity in Ontario is expected to remain strong as the government continues its drive to replace its aging generation capacity.
- While the most optimistic forecasts for oilsands capital investment in Alberta were unrealistic, even today's more conservative projections call for substantial investments which should provide significant opportunity for strong contractors like Aecon.
- Capital spending on social infrastructure (from which Aecon has recently gained three new hospital contracts as well as contracts on a number of university buildings) continues to be strong.

I believe these trends are evidence of the resilience in Aecon's core markets, and I expect they will significantly mitigate the negative impact of current difficulties in the broader economy.

Overall, notwithstanding the current economic and financial environment, I continue to believe that Aecon's record backlog and the relative durability of our core markets bode well for continued strong performance throughout the balance of the year and into 2009.

Thank you for your continued support of Aecon.

(signed)  
John M. Beck  
Chairman and Chief Executive Officer  
October 28, 2008

**Aecon Group Inc.**

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

**September 30, 2008**

## **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”) should be read in conjunction with the Company’s 2008 Interim Consolidated Financial Statements and Notes, which have not been reviewed by the Company’s external auditors, and in conjunction with the Company’s annual MD&A for 2007. This interim MD&A has been prepared as of October 28, 2008. Additional information on Aecon is available through the System for Electronic Document Analysis and Retrieval (“SEDAR”) at [www.sedar.com](http://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, Buildings, Industrial and Concessions. A description of these operating segments is included in the 2007 annual MD&A.

The construction industry in Canada is seasonal in nature for companies like Aecon, who do a significant portion of their work outdoors (particularly road construction and utilities work) and, 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 typically reflecting lower revenues and profits 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.

The MD&A presents certain non-GAAP (Canadian generally accepted accounting principles “GAAP”) financial measures to assist readers in understanding the Company's performance. 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.

## CONSOLIDATED FINANCIAL HIGHLIGHTS

\$ millions	Three Months Ended		Nine Months Ended	
	Sept. 30		Sept. 30	
	2008	2007	2008	2007
<b>Revenues</b>	<b>\$ 534.7</b>	<b>\$ 430.4</b>	<b>\$ 1,274.3</b>	<b>\$ 1,010.4</b>
Gross margin <sup>(1)</sup>	68.7	42.7	138.9	93.9
<b>EBITDA</b> <sup>(2)</sup>	<b>44.4</b>	<b>26.5</b>	<b>81.8</b>	<b>51.9</b>
<b>Operating profit</b> <sup>(3)</sup>	<b>37.3</b>	<b>20.3</b>	<b>62.5</b>	<b>34.6</b>
Interest expense	(1.6)	(3.0)	(5.9)	(8.4)
<b>Earnings before taxes</b> <sup>(4)</sup>	<b>35.7</b>	<b>17.4</b>	<b>56.5</b>	<b>26.2</b>
Income taxes	(12.2)	1.8	(16.4)	-
<b>Net income for the period</b>	<b>23.1</b>	<b>19.0</b>	<b>39.0</b>	<b>25.8</b>
<b>Return on revenue</b> <sup>(5)</sup>	<b>7.0%</b>	<b>4.7%</b>	<b>4.9%</b>	<b>3.4%</b>
<b>Backlog – September 30</b>	<b>\$ 1,499</b>	<b>\$ 1,272</b>		

- (1) Gross margin is calculated as revenues less direct costs and expenses. Marketing, general and administrative expenses, depreciation and amortization, foreign exchange, interest, gains or losses on sale of assets, income taxes, and non-controlling interests are not included in the calculation of gross margin.
- (2) EBITDA represents earnings or loss before interest expense, income taxes, depreciation and amortization, and non-controlling interests.
- (3) Operating profit (loss) represents the profit (loss) from operations, before interest expense, income taxes and non-controlling interests.
- (4) Earnings before taxes represent income before income taxes and non-controlling interests.
- (5) Return on revenue is calculated as operating profit as a percentage of revenues.

Revenues in the third quarter of 2008 were \$535 million, representing an increase of \$104 million, or 24%, over the same quarter last year. Revenues increased in the Infrastructure, Industrial, Concessions and Corporate segments by \$12 million, \$86 million, \$1 million, and \$9 million, respectively, while Buildings revenues decreased by \$4 million. For the first nine months of the year, revenues of \$1,274 million were \$264 million higher than in the corresponding period in 2007, as increases in the Buildings, Industrial, Concessions and Corporate segments offset a decline in the Infrastructure segment. Results for each of the four principal operating segments are discussed separately under Reporting Segments.

Gross margin increased from \$42.7 million or 9.9% of revenues in the third quarter of 2007 to \$68.7 million or 12.8% of revenues in the third quarter of 2008, as gross margin improved in all operating segments except Buildings. Of the \$26.0 million increase in gross margin in the third quarter of 2008, the Infrastructure, Industrial and Concessions segments reported improvements of approximately \$8 million, \$18 million and \$1 million, respectively, while the Buildings segment reported a decrease of \$1 million. The gross margin increases resulted primarily from higher volumes and from the commencement of profit recognition this year on some large projects including the project to construct the new Quito airport. Improved performance in some market segments, particularly in the Western Canada operations of Industrial, also contributed to the gross margin improvement. The decline in gross margin in the Buildings segment resulted primarily from weaker performance in the Quebec operating unit.

For the first nine months of 2008, the gross margin percentage was 10.9% compared to 9.3% for the first nine months of 2007, as all segments registered gross margin improvements. The gross margin increase resulted primarily for reasons similar to those cited above for the 2008 third quarter improvement. The favourable resolution of outstanding commercial issues earlier in the year on some projects also contributed to the improvement.

Marketing, general and administrative expenses (“MG&A”) amounted to \$26.1 million in the third quarter of 2008, which is \$9.2 million higher than the third quarter of 2007. Higher costs associated with higher revenues in a number of segments, the Alarie acquisition in late 2007, increased compensation expense including higher share based compensation expense, expanded boiler product offerings by the Innovative Steam Technologies Inc. (“IST”) operations in Industrial, and higher operating and restructuring costs associated with the Quebec operating unit in Buildings, all contributed to the increase. For the first nine months of 2008, MG&A amounted to \$62.5 million, which is \$15.2 million higher than the same period last year. The increase arose essentially for the same reasons cited above for the third quarter. MG&A as a percentage of revenues increased from 3.9% in third quarter of 2007 to 4.9% in the third quarter of 2008, and increased from 4.7% in the nine months of 2007 to 4.9% in the first nine months of 2008. Despite the increases in MG&A, operating profit as a percentage of revenues increased in both the third quarter and first nine months of 2008 compared to the same periods in 2007.

Depreciation and amortization expense of \$7.1 million in the third quarter of 2008 was \$0.9 million higher than the third quarter in 2007, while depreciation and amortization expense of \$19.3 million for the first nine months of 2008 was \$2.0 million higher than the first nine months of 2007. The increase occurred mainly in the Infrastructure segment and resulted primarily from higher depreciation charges on equipment acquired as part of the 2007 acquisitions of the Alarie and Karson operations, offset partly in the Concessions segment by lower amortization expense on concession rights related to the existing Quito airport because of the impact of changes in foreign exchange rates.

The net gain from the sale of assets in the third quarter of 2008 was \$0.2 million which is the same amount as in the third quarter of 2007. For the first nine months of 2008, there were no net gains in the period compared to a gain of \$3.4 million during the first nine months of last year. The gain in the first nine months of 2007 included a \$3.6 million pre-tax gain from the sale by Aecon of its right to participate in the joint venture that is constructing an extension to the Cross Israel Highway.

Interest expense of \$1.6 million in the third quarter of 2008 was \$1.4 million lower than the same quarter last year, and interest expense of \$5.9 million for the first nine months of 2008 was \$2.4 million lower than the same period last year. The conversion to common shares of all the outstanding convertible debentures, which occurred mostly in the fourth quarter of 2007 and in the first quarter of 2008, was the primary reason for the lower interest costs. The repayment of Aecon’s term loan facility in the second quarter of 2008 also reduced interest costs. Partially offsetting these savings in interest costs was interest on debt borrowed to finance the 2007 acquisition of the Alarie operations.

Interest income of \$1.8 million in the third quarter of 2008 was \$0.4 million higher than the third quarter of 2007, and interest income of \$5.5 million in the first nine months of 2008 was \$2.2 million higher than the same period in 2007. The higher interest income in 2008 was a result of having significantly higher cash balances on hand throughout the first nine months of 2008 as compared to

the same period in 2007. These higher cash balances reflect improved operations in 2008 and 2007, higher advance payments from clients, particularly within joint ventures, and net cash proceeds of \$69.6 million from an equity issue in April 2008.

Earnings before taxes for the quarter ended September 30, 2008 were \$35.7 million, representing a \$18.3 million improvement over the same period in 2007, while for the nine months ended September 30, 2008, earnings before taxes of \$56.5 million were \$30.3 million higher than the corresponding period last year.

Set out in note 4 of the 2008 Interim Consolidated Financial Statements is a reconciliation between the expected income tax recovery/(expense) in 2008 and 2007 based on statutory income tax rates and the actual income tax recovery/(expense) reported for both these interim periods. In the third quarter of 2008, there was an income tax expense of \$12.2 million on pre-tax income of \$35.7 million compared to an income tax recovery of \$1.8 million on pre-tax income of \$17.4 million in the third quarter of 2007. For the first nine months of 2008, there was an income tax expense of \$16.4 million on pre-tax income of \$56.5 million compared to an income tax expense of \$nil on pre-tax income of \$26.2 million in the first nine months of 2007.

Net income for the quarter ended September 30, 2008 was \$23.1 million, representing a \$4.1 million improvement over the same period in 2007, while for the nine months ended September 30, 2008, net income of \$39.0 million was \$13.2 million higher than the corresponding period last year.

Backlog at September 30, 2008 was a record \$1,499 million and was \$227 million higher than the same time last year. New contract awards of \$555 million were booked in the third quarter of 2008, which compared with \$495 million in the third quarter of 2007, while total new contract awards of \$1,539 million were booked in the first nine months, compared to \$1,497 million during the first nine months of 2007. Further details for each of the segments are included in the discussion below under Reporting Segments.

It is important to note that Aecon does not report as backlog the significant and increasing number of contracts and arrangements in hand where the exact quantity of work to be performed is not quantified or guaranteed. Examples include time and material, cost-plus, and some unit priced contracts where the number of units cannot be precisely defined. Other examples include construction management advisory contracts, concession agreements, multi-year operating and maintenance service contracts, general contracts, supplier of choice arrangements and alliance agreements where the client requests services on an as-needed basis. None of the expected revenues from these types of contracts and arrangements are included in backlog. Therefore, Aecon's effective backlog at any given time is greater than what is reported.



## REPORTING SEGMENTS

### INFRASTRUCTURE

#### Financial Highlights

\$ millions	Three Months Ended		Nine Months Ended	
	Sept. 30		Sept. 30	
	2008	2007	2008	2007
Revenues	\$ 237.8	\$ 225.4	\$ 481.1	\$ 482.2
Segment operating profit <sup>(1)</sup>	16.8	12.0	14.7	18.6
Capital charges and allocations of corporate overhead <sup>(2)</sup>	(6.0)	(5.1)	(16.7)	(14.0)
Segment profit (loss) before income taxes	10.8	6.9	(2.1)	4.6
Return on revenue <sup>(3)</sup>	7.1%	5.3%	3.0%	3.9%
Backlog – September 30 <sup>(4)</sup>	\$ 581	\$ 435		

- (1) Segment operating profit (loss) represents the profit or loss from operations, before interest expense, income taxes, non-controlling interests, and corporate allocations of overhead costs and capital charges.
- (2) Corporate allocations represent charges from the Corporate segment to each division for Corporate overhead costs and capital charges related to the cash, working capital and long-term capital invested in each segment.
- (3) Segment return on revenue is calculated as segment operating profit (loss) as a percentage of revenues.
- (4) Included in backlog at September 30, 2008 is \$93 million (2007 – \$102 million) related to the new Quito airport project. Although Aecon’s 50% share of the remaining construction revenues from this project is estimated at \$161 million (2007 - \$177 million), the amount reported as backlog has been reduced by \$68 million (2007 - \$75 million) or 42.3%. This reduction is to reflect the fact that since Aecon has a 42.3% interest in the concession joint venture for which the new airport is being constructed, it cannot report revenue, and therefore does not report backlog, that effectively arises from transacting with itself.

As a result of the roadbuilding and utilities operations performing a significant portion of their work outdoors, first half results of the Infrastructure segment historically exhibit a seasonal pattern whereby lower revenues and profits are generally recorded in the first half of the year, while significantly higher revenues and profits are generally recorded in the second half of the year.

For the quarter ended September 30, 2008, Infrastructure segment revenues of \$238 million were \$12 million, or 6%, higher than in the third quarter of 2007. Revenues from roadbuilding, utilities and heavy civil operations increased quarter-over-quarter by \$3 million, \$2 million and \$7 million, respectively.

In roadbuilding operations, revenue growth occurred in the segment’s Alberta unit, as well as in the Alarie and Karson operations. In the fourth quarter of 2007, Aecon acquired the assets of Leo Alarie & Sons (“Alarie”), an integrated construction and materials company active throughout northern Ontario, and in the first quarter of 2007, acquired the Karson Group of Companies (“Karson”), a major aggregate, asphalt and civil construction company in Eastern Ontario. Partly offsetting these higher revenues were declines in the balance of the Ontario roadbuilding operations where project backlog levels at the start of the quarter were lower quarter-over-quarter in part due to a slow start in

the awarding of projects by the Ministry of Transportation of Ontario of its planned record level of projects for this year and due to a heightened competitive landscape.

The increase in revenues from utilities operations reflects higher volumes in Ontario of hydro and gas pipeline installation work, as well as higher residential installations of satellite dishes by the segment's QX Technology operating unit. Also contributing to the increase was the commencement of utilities operation in the province of Alberta in the third quarter. Partly offsetting these increases was a decline in the volume of airport and highway lighting work performed.

The increase in revenues from heavy civil operations resulted primarily from the expansion of heavy civil operations in Alberta, higher revenues from the construction of the Quito international airport, and increased volumes in the province of Quebec. Partly offsetting these increases were reductions in revenues earned from heavy civil operations in Ontario where a number of large power generation and tunneling projects came into peak production in 2007, which was not repeated in 2008.

For the nine months ended September 30, 2008, revenues in the Infrastructure segment of \$481 million were nearly identical to the \$482 million reported in the same period last year. Revenues from roadbuilding and utilities operations were up \$9 million and \$2 million, respectively, while heavy civil operations were down \$12 million.

The Infrastructure segment operating profit of \$16.8 million in the third quarter of 2008 represents a \$4.9 million, or 41%, increase over the same quarter last year with the largest increase in operating profits occurring in the heavy civil operations. The 2008 third quarter heavy civil results benefited from the recognition of profits on the Quito international airport construction project, which reached 30% completion in the quarter, whereas no profits were recognized on this project in the same period last year. In addition, the operating results in the third quarter of 2007 were negatively impacted by risk reserves taken on some previously completed large projects. While quarter-over-quarter operating profits also increased in utilities operations, lower operating profits were reported by the segment's roadbuilding operations, driven primarily by the change in quarter-over-quarter volumes. Furthermore, operating profits reported by Ontario and Alberta roadbuilding operations were lower because of a few large multi-year contracts not reaching 20% completion, which generally must be achieved before the commencement of profit recognition on large projects.

In the second quarter of 2008, Aecon commenced profit recognition on the Quito airport project as the deferral of profit recognition on this project was no longer considered appropriate. In addition, in the third quarter of 2008, the construction joint venture finalized a change order with Quiport JV, which increased the value of the construction contract from US\$414 million to US\$441 million, and positively impacted margins for the quarter given that Aecon had previously factored in the costs associated with this change order without the offsetting revenue. Similar to the reporting of backlog relating to the new Quito airport and based on the accounting convention that an enterprise cannot record a profit from selling to itself, construction profits on this project have been reduced by 42.3% to reflect Aecon's interest in the concession joint venture for which the new airport is being constructed.

For the nine months ended September 30, 2008, the Infrastructure segment produced an operating profit of \$14.7 million compared to \$18.6 million in the first nine months of 2007, a decline of \$4.0

million or 21%. Operating profits increased in the heavy civil and utilities operations, and decreased in the roadbuilding operations.

As discussed above, the 2008 heavy civil operating profits benefited from the commencement of profit recognition in 2008 on the Quito airport project and from the period-over-period impact of risk reserves taken in 2007 on a few previously completed large projects. However, these operating profit improvements were mostly offset by lower operating profits from the Ontario heavy civil operations where, as noted above, a number of large power generation and tunneling projects in Ontario came into peak production in 2007 and contributed to higher quarterly operating profits in 2007 compared to 2008. Also, the 2008 period-over-period comparison was also negatively impacted by a \$3.4 million pre-tax gain reported in 2007 on the sale of Aecon's right to participate in the joint venture building an extension to the Cross Israel Highway.

Operating profits from utilities operations improved, reflecting the positive impact on margins from the above noted increases in revenues in the first nine months of 2008. Operating profits in roadbuilding operations declined in part for the same reasons that impacted the third quarter operating results, as well as from the impact of record rainfalls that were evidenced across much of Ontario during 2008. Also, compared to 2007, roadbuilding results for the first nine months of 2008 bore the impact of a full quarter of seasonal losses from Karson, which was acquired in February 2007, and from Alarie operations, which was acquired in December 2007, both of which exhibit seasonal patterns in their operating and financial performance similar to Aecon, thus further increasing the seasonality of Aecon's financial performance in this sector. In addition, roadbuilding operating profits were impacted by more traditional winter conditions in Ontario during the first quarter of 2008, whereas winter weather conditions in Ontario during the same quarter last year were much more moderate.

In the second quarter of 2008, the arbitration panel considering the first of two major claims launched by Aecon and its partner in respect of the Nathpa Jhakri hydro-electric project in India ruled substantially in Aecon's favour. The panel awarded Aecon and its partner in the Continental Foundation Joint Venture ("CFJV") full extension of time as well as related indirect costs and interest resulting from project delays that the panel agreed were beyond CFJV's control and contractual responsibility. In its ruling, the panel also dismissed a counter-claim for liquidated damages filed against CFJV.

Based on the ruling, an agreement was reached in September between CFJV and Satluj Jal Vidyut Nigam Limited ("SJVN"), the government agency responsible for the project, to accept the award of the arbitration panel subject to minor changes. Although SJVN had the right, until October 12, 2008, to appeal the ruling, it did not do so.

Resulting from the agreement, CFJV (in which Aecon is a 45% partner) expects to receive \$11.7 million in claim settlements, of which \$5.7 million was received on October 17<sup>th</sup> with a further \$6 million expected to be received shortly. In addition, a substantial portion of the \$25 million in letters of credit filed by Aecon to cover working capital and performance guarantees will be cancelled.

A second claim for 2.26 billion Indian Rupees (approx \$51.5 million) and a counter-claim for liquidated damages by SJVN, both in respect of an adjacent and concurrent project to the one that was settled, remains with the arbitration panel and is expected to be resolved in early 2009.

Although significant progress has been made in resolving the claims situation in India, a considerable amount of work remains to be done on the second claim and a significant amount of effort is required to clear up all outstanding items resulting from settlement of the first claim. As a result, management believes that it is prudent to defer the recognition of revenues from the first claim until a much firmer and accurate assessment can be made about the overall impact of both claims on Aecon's financial position.

After deducting capital charges and allocations of Corporate overheads which increased by \$1.0 million in the third quarter and by \$2.7 million in the first nine months of 2008, the Infrastructure segment's operating profit before income taxes in the third quarter was \$10.8 million compared to profit of \$6.9 million in 2007, while a loss of \$2.1 million in the first nine months of 2008 compared to a profit of \$4.6 million in 2007. The higher capital charges in 2008 relate primarily to higher investments in working capital and long-term capital employed as a result of the Karson and Alarie acquisitions.

Backlog at September 30, 2008 was \$581 million, which represents a \$146 million increase from the same time in the prior year. The improvement results primarily from higher backlog in the roadbuilding operations. New contract awards totalled \$218 million for the third quarter of 2008 and \$690 million year-to-date, compared to \$124 million and \$497 million, respectively, in the prior year. Alberta and Alarie operations were the largest contributors to the increase in new awards in 2008.

As discussed in the Consolidated Financial Highlights section, Aecon is a party to significant contracts and arrangements based on time and material, cost-plus, unit prices, and supplier of choice and alliance agreements, which do not necessarily show up as backlog. Therefore, the Infrastructure segment's effective backlog at any given time is greater than what is reported.

## **BUILDINGS**

### **Financial Highlights**

\$ millions	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2008	2007	2008	2007
	<b>Revenues</b>	<b>\$ 108.9</b>	\$ 113.0	<b>\$ 326.5</b>
<b>Segment operating profit (loss)</b>	<b>(0.9)</b>	2.4	<b>1.4</b>	1.2
<b>Capital charges and allocations of corporate overhead</b>	<b>(0.1)</b>	(0.3)	<b>(0.5)</b>	(1.1)
<b>Segment profit (loss) before income taxes</b>	<b>(1.0)</b>	2.1	<b>0.9</b>	0.1
<b>Return on revenue</b>	<b>(0.8)%</b>	2.1%	<b>0.4%</b>	0.5%
<b>Backlog – September 30</b>	<b>\$ 618</b>	\$ 446		

Third quarter revenues in the Buildings segment of \$109 million were \$4 million, or 4%, lower than in the same period of 2007. The decrease was due primarily to a \$26 million decrease in the segment's Ottawa operations, where two new projects awarded in the third quarter had not yet ramped up sufficiently to replace the revenues generated by two large projects that were in full production last year and have since been substantially completed. Offsetting most of the decrease in Ottawa was an \$18 million increase in revenues from the Toronto operations where production continued on a number of the large projects in the third quarter. Opening backlog levels in Toronto operations at both the start of the third quarter of 2008 and the start of this year were significantly higher than those reported at the same times last year because of a number of the large project awards received during the past year.

For the nine months ended September 30, 2008, the Buildings segment reported revenues of \$327 million compared to revenues of \$255 million during the same period last year. The \$71 million, or 28%, increase resulted primarily from a \$60 million increase in Toronto operations, a \$30 million increase in Seattle operations, and partly offset for the reasons noted above by a \$44 million decline in Ottawa operations.

Segment operating loss of \$0.9 million in the third quarter of 2008 compares with a profit of \$2.4 million in the same quarter last year. Most of the quarter-over-quarter decline in operating profits occurred in the Montreal operations where profits decreased by \$3.3 million. The decline in Montreal was primarily due to profit writedowns on some projects and severance costs associated with a restructuring of this operation. Ottawa operations also had a decline of \$0.9 million, consistent with the decline in revenues noted above.

For the nine months ended September 30, 2008, the Buildings segment generated an operating profit of \$1.4 million, an improvement of \$0.2 million from the same period in 2007. Toronto operations generated a \$4.4 million improvement in operating results, reflective of the higher volumes noted above and the period-over-period impact of \$0.8 million in restructuring costs incurred in 2007. Ongoing efforts to improve the profitability levels of the Toronto operations have clearly taken hold. In addition, increased revenues led to a \$1.7 million improvement in Seattle operations and strong

market conditions in the Vancouver area assisted Scott Management Limited, in which Aecon has a 49% interest, to record a \$0.9 million increase in its financial contributions to Aecon in 2008. Offsetting these increases was a \$7.3 million year-to-date decline in operating profits from the segment's Montreal operations primarily due to profit writedowns on some projects, and increased operating costs as this unit relocated and restructured its operations in 2008. Management has analyzed the circumstances that caused this disappointing performance and a substantive restructuring is now underway to improve future performance.

After deducting capital charges and allocations of corporate overheads, the Buildings segment operating loss before income taxes for the third quarter of 2008 was \$1.0 million compared to a profit of \$2.1 million in the third quarter of 2007, and operating profit before income taxes for the first nine months of 2008 was \$0.9 million compared to a profit of \$0.1 million for the same period in 2007.

Backlog of \$618 million at the end of the third quarter of 2008 was \$172 million higher than at the same time last year with the largest increase occurring in the segment's Toronto operations. New contract awards totaling \$231 million were recorded in the third quarter, which compares with awards of \$209 million in the same period of 2007, while awards of \$465 million in the first nine months of 2008 compared to \$510 million in the first nine months of 2007.

As discussed in the Consolidated Financial Highlights section, contracts awarded to Aecon based on construction management advisory agreements, supplier of choice and alliance agreements do not necessarily show up as firm backlog. Therefore, the Buildings segment's effective backlog at any given time is greater than what is reported.

## **INDUSTRIAL**

### **Financial Highlights**

<b>\$ millions</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sept. 30</b>		<b>Sept. 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Revenues</b>	<b>\$ 172.1</b>	<b>\$ 85.9</b>	<b>\$ 425.5</b>	<b>\$ 252.6</b>
<b>Segment operating profit</b>	<b>21.2</b>	<b>7.7</b>	<b>45.8</b>	<b>17.7</b>
<b>Capital charges and allocations of corporate overheads</b>	<b>(0.6)</b>	<b>(1.9)</b>	<b>(3.8)</b>	<b>(6.2)</b>
<b>Segment profit before income taxes</b>	<b>20.7</b>	<b>5.9</b>	<b>42.1</b>	<b>11.5</b>
<b>Return on revenue</b>	<b>12.3%</b>	<b>9.0%</b>	<b>10.8%</b>	<b>7.0%</b>
<b>Backlog – September 30</b>	<b>\$ 301</b>	<b>\$ 391</b>		

Revenues in the third quarter of 2008 of \$172 million in the Industrial segment were \$86 million or 100% higher than in the same period in 2007. While all operating units reported higher revenues, the segment's construction operations in Ontario had the largest quarter-over-quarter increase in revenues. In 2008, third quarter revenues from construction operations in Ontario were up \$46 million from the same quarter last year, mostly as a result of increased work in the power, nuclear and gas sectors. Revenues from the segment's Western Canada operations increased \$29 million in the third quarter of 2008 compared to the same quarter last year as increased revenues from module



assembly and pipe fabrication projects offset decreases in revenues from site construction projects. Revenues in the third quarter of 2008 for IST, which sells and licenses the technology for “once through” heat recovery steam generators (“HRSGs”), were up \$7 million over the same quarter last year, reflecting the impact of new orders received in 2007 and 2008. Fabrication revenues were also higher in the third quarter of 2008 and came in \$6 million ahead of the third quarter in 2007 with higher volumes in both Ontario and Eastern Canada.

For the nine months ended September 30, 2008, the Industrial segment reported revenues of \$425 million compared to revenues of \$253 million last year, representing a \$173 million or 68% increase. Similar to the third quarter in 2008, the majority of the revenue increase was from the segment’s construction operations in Ontario and Western Canada which increased by \$118 million and \$36 million, respectively. IST’s revenues for the nine-month period were \$40 million, up from \$25 million for the same period last year.

In the third quarter of 2008, the Industrial segment generated an operating profit of \$21.2 million compared to \$7.7 million in the same period in 2007. Of the \$13.5 million or 175% improvement, Ontario Construction operations were up \$6.4 million and operations in Western Canada were up \$7.0 million. Higher volumes and generally improved margins contributed to most of the operating profit increases.

For the nine months ended September 30, 2008, the Industrial segment generated an operating profit of \$45.8 million compared to \$17.7 million in the same period last year. Of the \$28.2 million or 159% improvement, the majority of the increase occurred in Ontario Construction operations and Western Canada operations where profits increased by \$16.0 million and \$12.4 million, respectively. Similar to the third quarter of 2008, these higher operating profits are mostly a function of the higher volumes in 2008 as well as from the favourable resolution of outstanding commercial issues on some projects. The results for the nine months of 2008 also benefitted from the commencement of profit recognition on a large multi-year contract which reached 20% completion during 2008.

After deducting capital charges and allocations of corporate overheads which decreased by \$1.3 million in the third quarter of 2008, the Industrial segment’s operating profit before income taxes was \$20.7 million compared to \$5.9 million in the third quarter of 2007. Segment operating profit before income taxes for the first nine months of 2008 was \$42.1 million compared to \$11.5 million in the first nine months of 2007.

Backlog at September 30, 2008 of \$301 million was \$89 million lower than at the same time last year with decreases in the Ontario Construction and Western Canada operations offsetting an increase in backlog in IST and Fabrication operations. The decline in backlog in Ontario Construction and Western Canada is largely due to workoff on large projects during the year. Also of note, IST’s backlog at the end of the third quarter was \$61 million. Overall, new contract awards of \$89 million in the third quarter of 2008 were \$58 million lower than in 2007, and new awards of \$343 million for the nine months of 2008 were \$115 million lower than 2007. Most of the decrease in new awards occurred in Western Canada where award levels for the nine months of 2008 are down \$118 million compared to the same period last year when a very large module assembly contract was secured and added to backlog.

As discussed in the Consolidated Financial Highlights section, significant contracts made to Aecon based on time and material, cost-plus, and unit priced contracts, including supplier of choice and alliance agreements do not necessarily show up as firm backlog. Therefore, the Industrial segment's effective backlog at any given time is greater than what is reported.

## CONCESSIONS

### Financial Highlights

\$ millions	Three Months Ended		Nine Months Ended	
	Sept. 30		Sept. 30	
	2008	2007	2008	2007
Revenues	\$ 16.2	\$ 15.0	\$ 46.7	\$ 42.3
Segment operating profit	3.3	1.2	7.1	3.8
Capital charges and allocations of corporate overheads	(2.6)	(1.8)	(7.0)	(6.0)
Segment profit (loss) before income taxes	0.8	(0.7)	0.1	(2.3)
Return on revenue	20.6%	7.7%	15.3%	8.9%

Revenues in the third quarter of 2008 of \$16 million in the Concessions segment were up \$1 million, or 8%, compared to the same period in 2007. The majority of the increase in revenues came from Aecon's proportionate share of the revenues from operating the Cross Israel Highway which is being carried-out on a fee for service basis by a company in which Aecon holds a 30.6% interest. For the first nine months of 2008, Concessions segment revenues were \$47 million, representing a \$4 million or 10% increase over the same period in 2007. Similar to the third quarter of 2008, the majority of the revenue increase came from Aecon's proportionate share of the revenues from operating the Cross Israel Highway.

Aecon's long-term concession investment in the Cross Israel Highway, through its 25% interest in Derech Eretz Highways (1997) Ltd. ("Derech Eretz") is carried at cost and, as a result, income is only recognized to the extent of dividends received (i.e. a profit distribution) or when a portion of this investment is sold. As such, even though the Cross Israel Highway is performing well and is generating strong operating cash flow, Aecon has not reported any revenues and profits from this investment. Average weekday traffic on the highway in September 2008 surpassed 103,000 vehicles, a 10% increase over September 2007, and the project remains on track to deliver an expected 14% after-tax internal rate of return on Aecon's investment.

Segment operating profit of \$3.3 million in the third quarter of 2008 increased by \$2.2 million or 188% from the same period in 2007, with increases from both the Quito airport concessionaire and Aecon's interest in the Operator of the Cross Israel Highway.

For the nine months ended September 30, 2008, segment operating profit of \$7.1 million represented an increase of \$3.3 million or 89% over the same period in 2007, with improvements in operating profits from the Quito airport concessionaire, which includes the results from operating the existing Quito airport while the new airport is being constructed, and higher results from Aecon's interest in the Operator of the Cross Israel Highway. Nearly 3.5 million passengers passed through the existing



Quito airport in the first nine months of 2008, a 4% increase over the same period in 2007. It should be noted that all of the operating profit from operations of the existing Quito airport are required to be invested to finance the development and construction costs of the new airport.

After deducting capital charges and allocations of corporate overheads, the Concessions segment had an operating profit before income taxes for the third quarter of 2008 of \$0.8 million, which compared to an operating loss before income taxes of \$0.7 million in the third quarter of 2007. For the nine months ended September 30, 2008, the Concessions segment had an operating profit before income taxes of \$0.1 million compared to an operating loss before income taxes of \$2.3 million in the first nine months of 2007.

Aecon does not include in its reported backlog expected revenues from operations management contracts and concession agreements. As such, while Aecon expects future revenues from its concession assets, no concession backlog is reported at September 30. Therefore, the Concessions segment's effective backlog is greater than what is reported.

For further details on Aecon's investment in the Quito airport concessionaire, refer to note 3 of the 2008 Interim Consolidated Financial Statements.

## **CORPORATE AND OTHER**

### **Financial Highlights**

\$ millions	Three Months Ended		Nine Months Ended	
	Sept. 30		Sept. 30	
	2008	2007	2008	2007
<b>MG&amp;A</b>	<b>(5.0)</b>	(4.4)	<b>(12.4)</b>	(10.0)
<b>Other income (expense) <sup>(1)</sup></b>	<b>-</b>	0.3	<b>0.4</b>	0.7
<b>Interest income</b>	<b>1.8</b>	1.5	<b>5.5</b>	3.3
<b>Segment operating loss</b>	<b>(3.2)</b>	(2.9)	<b>(6.5)</b>	(6.6)
<b>Capital charges and allocations of corporate overheads</b>	<b>9.3</b>	9.0	<b>28.0</b>	27.3
<b>Segment profit before income taxes</b>	<b>6.1</b>	6.1	<b>21.4</b>	20.7

- (1) Other income (expense) in the Corporate and Other segment includes gains and losses on sales of assets, foreign exchange gains and losses, and depreciation and amortization expense.

Corporate segment operating loss in the third quarter of 2008 was higher than in the corresponding period in 2007 by \$0.3 million, whereas for the nine-month period the operating results improved by \$0.1 million over the same period last year. Impacting the operating loss in the third quarter of 2008 was marketing, general and administrative expenses ("MG&A") which were higher than the same quarter in 2007 by \$0.7 million. The quarterly MG&A increase resulted mostly from higher share-based compensation expense related to the granting of stock options awards in the third quarter of 2008. Also impacting the segment operating loss in the third quarter was an unfavourable decrease in foreign exchange gains and losses quarter-over-quarter of \$0.4 million, partly offset by a \$0.3 million increase in interest income in the third quarter.

For the nine months, the segment operating loss was impacted by higher MG&A costs, which increased by \$2.4 million year-over-year, due in large part to an increase in performance-related incentive costs and higher share-based compensation expense. Also impacting the year-over-year increase in MG&A was a one-time payment in 2007 to compensate Aecon for assuming a former shareholder's guarantee obligations related to the Nathpa Jhakri hydro-electric project in India. Segment operating loss was also impacted by an unfavourable decrease in foreign exchange gains and losses year-over-year of \$0.5 million. Offsetting the higher MG&A and foreign exchange costs was an increase in interest income for the nine-month period of \$2.2 million.

Fluctuations in interest income are discussed in the Consolidated Financial Highlights section of the MD&A.

### Quarterly Financial Data

The reader is referred to the Company's 2007 Management Discussion and Analysis for an analysis of the results of the eight quarters that ended December 31, 2007.

Set out below are revenues, net income (loss) and earnings per share for each of the most recent eight quarters (in millions of dollars, except per share amounts).

(Unaudited)	2008			2007				2006
	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4
Revenues	\$ 534.7	\$ 437.7	\$ 302.0	\$ 482.3	\$ 430.4	\$ 338.3	\$ 241.8	\$ 338.0
Net income (loss)	23.1	15.6	0.3	22.5	19.0	9.7	(3.0)	10.6
Earnings (loss) per share:								
Basic	0.46	0.32	0.01	0.56	0.51	0.26	(0.08)	0.29
Diluted	0.45	0.31	0.01	0.50	0.44	0.24	(0.08)	0.28

### FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Aecon holds a 42.3% economic interest in Corporacion Quiport S.A. ("Quiport JV"), an Ecuadorian company, whose main operations consist of managing and operating the existing Quito airport, and the development, construction, operations and maintenance of the new Quito airport under a concession arrangement. Aecon's investment in its joint ventures, including Quiport JV, are accounted for by the proportionate consolidation method, whereby the Consolidated Financial Statements reflect, line by line, Aecon's pro-rata share of each of the assets, liabilities, revenues, expenses and cash flows of Quiport JV. Given the significant effect of Quiport JV and other joint ventures on Aecon's Consolidated Financial Statements, Aecon provides supplemental financial information in note 16 to the 2008 Interim Consolidated Financial Statements as additional information about its accounts, thereby enabling the reader to have a greater understanding of Aecon's underlying assets, earnings base and financial resources.

## Cash and Debt Balances

Cash and cash equivalents at September 30, 2008 were \$221.3 million, which compares with \$134.6 million at December 31, 2007. Of these amounts, \$53.3 million and \$42.7 million, respectively, were on deposit in joint venture bank accounts, which Aecon cannot access directly.

Restricted cash of \$31.1 million at September 30, 2008 (December 31, 2007 - \$34.6 million) represents cash that was deposited as collateral for borrowings and letters of credit issued by Aecon. As such, this cash was not available for general operating purposes. These restricted balances arose primarily from advance payments received on certain joint venture projects where such payments have, in turn, been secured by letters of credit which are, at least in part, collateralized by this restricted cash.

Total debt of \$166.0 million at September 30, 2008 compares to \$187.3 million at December 31, 2007, the composition of which is as follows (\$ millions):

	<u>Sept. 30, 2008</u>	<u>Dec. 31, 2007</u>
Bank indebtedness	\$ 7.5	\$ 7.0
Current portion of long-term debt	15.6	17.5
Long-term debt - non-recourse	96.6	68.6
Long-term debt – recourse	46.3	64.1
Convertible debentures	-	30.1
<b>Total debt</b>	<b>\$ 166.0</b>	<b>\$ 187.3</b>
Debt held directly	77.4	110.6
Debt of joint ventures	88.6	76.7
<b>Total</b>	<b>\$ 166.0</b>	<b>\$ 187.3</b>

Bank indebtedness of \$7.5 million at September 30, 2008 compares to \$7.0 million at the end of December 31, 2007, and represents Aecon's 45% share of funds borrowed by the Nathpa Jhakri hydro-electric project joint venture in India in respect of this now completed project.

At September 30, 2008, the long-term debt component of total debt, including the current portion, totalled \$158.5 million compared to \$180.3 million at December 31, 2007. Included in the December 31, 2007 balance is \$30.1 million of convertible debentures. The \$21.9 million net decrease in long-term debt resulted primarily from the elimination of the convertible debentures as a result of their conversion into common shares in the first quarter of 2008. Other changes in long-term debt included a \$13 million repayment on Aecon's term debt facility, a \$4 million repayment on the note payable issued in connection with the acquisition of Karson in 2007, an increase in non-recourse debt of \$11 million resulting from the proportionate consolidation of Aecon's share of non-recourse borrowings to finance the Quito airport project, and an increase of \$17 million in non-recourse project debt related to the Phase I Rouge Valley Health System ("Rouge Valley Health") and the Toronto Rehabilitation Institute University Centre ("Toronto Rehab") projects.

On April 17, 2008, the Company issued 4,000,000 common shares at \$18.25 per share for gross proceeds of \$73 million. Net proceeds, after deducting agents' fees and expenses of the issue, were approximately \$69.6 million.

Aecon's liquidity position and capital resources continue to strengthen and are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future. Of note, Aecon's cash flow from operations in the twelve months of 2007 was approximately \$99 million higher than in fiscal 2006, and continued to improve in the first nine months of 2008 with cash flow from operations being approximately \$17 million higher than in the first nine months of 2007. This improvement in its liquidity position has, among other benefits, allowed Aecon to broaden and increase its surety capacity. In 2008, Aecon added a co-surety partner to its surety program and in the process has more than doubled its available surety capacity. In addition, in August 2008, Aecon signed a new three-year senior credit facility with a syndicate of lenders. The new \$100 million revolving operating line of credit replaces Aecon's previous facility, which included a \$15 million three-year term loan and a \$50 million three-year revolving operating line. The new facility, which expires June 15, 2011, also extends by one year (until December 15, 2009) the expiry date of a special \$25 million letter of credit facility that enabled Aecon to replace guarantees made by Hochtief AG, formerly a major shareholder of Aecon, in connection with certain financial and performance obligations of the Nathpa Jhakri joint venture in India. Further details relating to Aecon's operating lines are described in note 6 to the September 30, 2008 Interim Consolidated Financial Statements.

In the first quarter of 2008, Aecon announced an increase in its dividend payout level. Annual dividends increased to \$0.20 per share, to be paid in quarterly payments of \$0.05 per share, representing a 43% increase over the \$0.14 per share (\$0.07 semi-annually) dividend rate that was established in late 2007.

Aecon's remaining equity investment of US\$5.8 million in the Quito airport concessionaire is expected to be generated from profits from construction of the new Quito airport. To date, Aecon has invested US\$27.8 million as equity in the concessionaire. Aecon has also deposited US\$3.7 million with Export Development Canada ("EDC") to support letters of credit issued by EDC on the Quito airport project. Also, in accordance with an agreement with EDC, Aecon has US\$2.6 million in a segregated account to secure future equity investment requirements in the Quito airport concessionaire. These EDC deposits are included in restricted cash on the Interim Consolidated Balance Sheet at September 30, 2008.

## Summary of Cash Flows

	<u>Consolidated Cash Flows</u>		<u>Consolidated Cash Flows</u>	
	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>\$ millions</b>				
<b>Cash provided by (used in):</b>				
Operating activities	\$ 51.9	\$ 46.2	\$ 64.9	\$ 47.6
Investing activities	(12.3)	4.9	(36.6)	(35.3)
Financing activities	2.0	(6.6)	55.1	22.5
Increase (decrease) in cash and cash equivalents	41.6	44.5	83.4	34.8
Effects of foreign exchange on cash balances	1.8	(2.6)	3.2	(4.3)
Cash and cash equivalents - beginning of period	177.9	38.7	134.6	50.1
<b>Cash and cash equivalents - end of period</b>	<b>\$ 221.3</b>	<b>\$ 80.5</b>	<b>\$ 221.3</b>	<b>\$ 80.5</b>

### **Operating Activities**

Cash provided by operating activities of \$52 million in the third quarter of 2008 was \$6 million better than the same period last year, while cash provided by operating activities of \$65 million in the first nine months of 2008 was \$17 million better than in the same period last year. The improvements are due to higher cash earnings (an improvement of approximately \$15 million in the third quarter of 2008 and \$32 million in the first nine months of 2008), partially offset by higher investments in working capital.

### **Investing Activities**

For the third quarter of 2008, investing activities resulted in a use of cash of \$12 million, which compares with cash provided of \$5 million in the third quarter of 2007. Of the cash used in the most recent quarter, \$12 million represents Aecon's proportionate share of the cash used by Quiport JV for the construction of the new Quito airport (i.e. increase in concession rights). These cash outlays were, for the most part, financed by non-recourse project debt (see Financing Activities below). In the third quarter of 2008, a reduction in the amount of restricted cash required to be on deposit as collateral for borrowings and letters of credit was a source of cash from investing activities in that quarter. Similar to the most recent quarter, the largest use of cash during the third quarter of 2007 (\$9 million) was also used for construction of the new Quito airport. Offsetting the cash usage in the third quarter of 2007 was a partial redemption of subordinated debt by Derech Eretz, of which Aecon's share was approximately US\$10 million.

For the first nine months of 2008, investing activities resulted in a use of cash of \$37 million, which compares with cash used of \$35 million in the first nine months of 2007. Of the \$37 million, \$34 million represents Aecon's proportionate share of the investment made in 2008 by Quiport JV in the construction of the new Quito airport. During the first nine months of 2007, Aecon used \$14 million

of cash to acquire the operations of Karson, another \$22 million to finance its proportionate share of the cash used by Quiport JV for construction of the new Quito airport, and \$8 million to increase its investments in restricted cash and marketable securities balances primarily held in connection with the Quito project. Partially offsetting these outflows in 2007 was a \$10 million return of capital on Aecon's long-term investment in Derech Eretz as noted above.

### **Financing Activities**

In the third quarter of 2008, cash provided by financing activities amounted to \$2 million, compared to cash used of \$6 million in the same quarter last year. During the third quarter of 2008, there were issuances of long-term debt totalling \$10 million related to non-recourse project financing for the Rouge Valley Health and Toronto Rehab projects, while repayments of long-term debt amounted to \$3 million, for a net change of \$7 million. This increase in cash was partially offset by dividends paid of \$5 million in the quarter. In the third quarter of 2007, cash used for financing activities related to decreased utilization of Aecon's operating line of credit of \$7 million.

For the nine months ended September 30, 2008, cash generated from financing activities amounted to \$55 million, compared to cash provided of \$23 million in the first nine months of 2007. During the first nine months of 2008, the largest source of financing related to Aecon's issuance of common shares for net proceeds of approximately \$69.6 million. During 2008, issuances of long-term debt amounted to \$24 million while repayments totalled \$26 million, for a net change of \$2 million. Of the increase in long-term debt, \$7 million related to Aecon's proportionately consolidated share of additional non-recourse financing for the new Quito airport project and \$17 million related to non-recourse project financing for the Rouge Valley Health and Toronto Rehab projects. Repayments of long-term debt in the nine-month period totalled \$26 million, and included repayment of Aecon's term loan facility of \$13 million, as well as a \$4 million partial repayment on a note payable issued in connection with the acquisition of Karson. Also, during this period, dividends of \$10 million were paid. During the first nine months of 2007, net issuances of long-term debt amounted to \$30 million of which \$9 million relates to Aecon's proportionately consolidated share of additional financing for the new Quito airport project, \$15 million was borrowed in the second quarter of 2007 under Aecon's new term debt facility, of which \$6 million was used to repay existing debt, and debt of \$13 million was incurred in the first quarter of 2007 to finance the acquisition of Karson.

### **NEW ACCOUNTING STANDARDS**

Several new Canadian accounting standards adopted in 2008 and 2007 are described in note 2 to the 2008 Interim Consolidated Financial Statements.

### **International Financial Reporting Standards ("IFRS")**

In February 2008, the Accounting Standards Board confirmed that Canadian public companies will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating this new requirement and is in the process of creating a plan to convert to IFRS. The financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.



## **SUPPLEMENTAL DISCLOSURES**

### **Disclosure Controls and Procedures and Internal Controls Over Financial Reporting**

The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures to ensure that material information with respect to Aecon is made known to them. The Chief Executive Officer and Chief Financial Officer have also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP and to report any material changes in internal controls over financial reporting.

### **Changes in Internal Controls Over Financial Reporting**

There have been no changes in the Company's internal controls over financial reporting during the interim period ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

### **Contractual Obligations**

At December 31, 2007, the Company had commitments totalling \$180 million for equipment and premises under operating leases requiring minimum payments and principal repayment obligations under long-term debt (including the convertible debentures described in note 12 to the 2007 Consolidated Financial Statements). The only material changes since year-end resulted from a \$30 million decrease in the carrying value of convertible debentures as a result of the conversion into common shares of all outstanding convertible debentures in the first quarter of 2008, repayment of the term loan facility (approximately \$13 million), additional project financing for the Quito airport, Rouge Valley Health and Toronto Rehab projects (approximately \$29 million), and a partial repayment on the note payable issued in connection with the acquisition of Karson (approximately \$4 million).

At September 30, 2008, Aecon had contractual obligations to complete projects that were in progress. The revenue value of these contracts was \$1,567 million. This consists of the reported backlog of \$1,499 million plus an additional \$68 million representing Aecon's share of the Quito project revenues not included in reported backlog revenues.

### **Off-Balance Sheet Arrangements**

In connection with its joint venture operations in Quito, India and Israel, Aecon has provided various financial and performance guarantees and letters of credit, which are described in note 7 to the 2008 Interim Consolidated Financial Statements.

There was no material change in the funded status of Aecon's pension plans during the first nine months of 2008. Details relating to Aecon's defined benefit plans are set out in note 20 to the Company's 2007 Consolidated Financial Statements.

From time to time Aecon enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. At September 30, 2008, the Company had net outstanding contracts to sell EURO 0.9 million, sell US\$17.5 million, buy EURO 0.4 million and buy US\$3.1 million (December 31, 2007 - sell EURO 6.7 million, sell US\$24.0 million and buy US\$12.0 million) on which there was a net unrealized exchange loss of \$0.4 million (December 31, 2007 - net gain of \$1.0 million). The net unrealized exchange gain (loss) represents the estimated amount the Company would have received (paid) if it terminated the contracts at the end of the respective periods. Financial instruments are discussed in note 13 to the 2008 Interim Consolidated Financial Statements.

In connection with a U.S. dollar denominated term loan facility, Aecon entered into an interest rate swap with a financial institution on October 1, 2007 to help manage its exposure to interest rate volatility. By entering into the interest rate swap, the Company agreed to receive interest at a variable rate and pay interest at a fixed rate. Coincident with the repayment of the term loan facility in the second quarter of 2008, this interest rate swap contract was terminated.

### **Related Party Transactions**

During the first nine months of 2008, \$1.1 million of loans receivable from employees were repaid, reducing the balance to nil. Refer to note 12 to the 2008 Interim Consolidated Financial Statements for details of related party transactions and balances.

### **Critical Accounting Estimates**

The reader is referred to the detailed discussion on Critical Accounting estimates as outlined in the notes to the Company's 2007 Consolidated Financial Statements and in the December 31, 2007 MD&A.



## Outstanding Share Data

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

(in thousands of dollars, except share amounts)

	<u>Sept. 30, 2008</u>	<u>Oct. 28, 2008</u>
Number of common shares outstanding (1)	50,899,290	50,899,290
Paid-up capital of common shares outstanding (2)	\$ 262,645	\$ 262,645
Outstanding securities exchangeable or convertible into common shares:		
Number of stock options outstanding	1,993,484	1,993,484
Number of common shares issuable on exercise of stock options	1,993,484	1,993,484
Increase in paid-up capital on exercise of stock options	\$ 22,441	\$ 22,441
Principal amount of convertible debentures outstanding (see note 8 to the 2008 Interim Consolidated Financial Statements)	\$ -	\$ -
Number of common shares issuable on conversion of convertible debentures	-	-
Increase in paid-up capital on conversion of convertible debentures	\$ -	\$ -

- (1) The number of common shares outstanding as per the above table at September 30, 2008 includes 691,366 shares (October 28, 2008 – 691,366 shares) held by the trustee of Aecon’s Long-Term Incentive Plan (“LTIP”).

The number of common shares outstanding at September 30, 2008 for financial statement purposes, after deducting the above LTIP shares, was 50,207,924 shares (October 28, 2008 – 50,207,924 shares) (see note 9 to the 2008 Interim Consolidated Financial Statements).

- (2) As described in note 9 to the 2008 Interim Consolidated Financial Statements, and in accordance with the recommendations of The Canadian Institute of Chartered Accountants, share capital at September 30, 2008 has been reduced by \$7.6 million to reflect shares held by the trustee of the LTIP plan.

## OUTLOOK

As we enter the final quarter of 2008, the instability in world equity and debt markets provides a cautionary context for an otherwise strong outlook. Notwithstanding the very real concerns in the marketplace that recessionary pressures may reduce demand and negatively impact margins, at the time of this disclosure most of the trends that shaped Aecon's strong outlook earlier this year remain in place:

- Backlog, at \$1.5 billion, is 18% higher than the record third quarter backlog reported a year ago, providing a strong and contractually secure revenue base upon which to build.
- The record level of government spending on transportation infrastructure is expected to continue, with Ontario's Premier McGuinty recently renewing his call for continued investment in infrastructure, even in the face of potential deficits.
- Similarly, investment in new electrical generation capacity in Ontario is expected to remain strong, as the Ontario government replaces the declining capacity of its aging generation facilities and fulfills its commitment to 'turn off' its coal plants.
- While the most optimistic forecasts for capital investment in the oilsands were clearly unrealistic, even today's more conservative projections call for substantial investment that should provide significant opportunity for strong contractors like Aecon.
- Capital spending on social infrastructure (from which Aecon has gained three new hospital contracts as well as new contracts on a number of university buildings over the last few quarters) continues to be strong, as governments remain committed to their healthcare and education spending priorities.

We believe that these trends will significantly mitigate the negative impacts of the current difficulties in the debt markets and the growing view that Canada may be entering a period of economic downturn. These positive trends also go a long way to explaining why, despite some dire economic forecasts, Aecon has to date seen no slippage in the schedule of current projects, no delay in projects within its backlog, a continued strong bid / negotiation pipeline, and ongoing backlog growth.

Based on all of the above, the outlook for Aecon's Infrastructure segment remains strong. While the segment has shown little growth so far in 2008, its backlog over the past several months has been at the highest level in years, with segment backlog at September 30, 2008 reaching \$581 million, 34% higher than at the same time last year. In addition, profit recognition on three of the segment's largest projects (a hydro project in northern Ontario, a highway project in southern Ontario and a highway project in Alberta) is expected to begin later this year or early in the new year as the projects will only then reach the 20% complete threshold for profit recognition on large multi-year projects.

Similarly, backlog of \$618 million in the Buildings segment is at its highest level ever, almost 40% higher than a year ago and more than three times the level reported two years ago. This strong backlog growth, and the significant upturn in profitability of the Toronto business unit, are evidence that the turnaround in Buildings has taken hold. With most of the negative impact from the setback

encountered in the segment's Montreal operations earlier this year now behind us, the outlook for Aecon's Buildings segment remains strong.

The Industrial segment has driven much of Aecon's increased profitability over the last two years, with 37% revenue growth in 2007 and 68% revenue growth year-to-date, complemented by even stronger growth in margins. This has produced results in the Industrial segment over the past two quarters that must be considered extraordinary. Nonetheless, Aecon expects strong results from its Industrial segment going forward, generally continuing the upward trend in place prior to 2008.

In the Concessions segment, traffic continues to grow on both the Cross Israel Highway and the Quito International Airport, although a close watch is being held for any potential fallout from the current economic turmoil. On the Cross Israel Highway, the realities of the current market have increased the likelihood that the asset will be held until improved market conditions allow the concession partners to realize full value. In Quito, construction is progressing well and the project continues to proceed on track in a challenging economic and political environment.

Overall, notwithstanding the current economic and financial environment, management continues to believe that its record backlog and the relative durability of its core markets bode well for continued strong financial performance throughout the balance of the year and into 2009.

## **FORWARD-LOOKING INFORMATION**

In various places in Management's Discussion and Analysis and in other sections of this document, management's expectations regarding future performance of Aecon was discussed. These "forward-looking" statements are based on currently available competitive, financial and economic data and operating plans, but are subject to risks and uncertainties. Many factors could cause Aecon's actual results, performance or achievements to vary from those expressed or inferred herein, including without limitation, the ability of the Eastmain Joint Venture to recover the full value of unpriced change orders, and failure to achieve the targets associated with the construction of the new Quito Airport or operation of the existing Quito airport. Risk factors are discussed in greater detail in the section on "Risk Factors" in the Annual Information Form filed on March 31, 2008 and available at [www.sedar.com](http://www.sedar.com). Forward-looking statements include information concerning possible or assumed future results of operations or financial position of Aecon, as well as statements preceded by, followed by, or that include the words "believes," "expects," "anticipates," "estimates", "projects," "intends," "should" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of Aecon and could cause those results to differ materially from those expressed in any forward-looking statements.

# **Aecon Group Inc.**

Consolidated Financial Statements  
(Unaudited)

**September 30, 2008 and 2007**



## **Notice to Reader**

The management of Aecon Group Inc. is responsible for the preparation of the accompanying interim consolidated financial statements. The interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are considered by management to present fairly the consolidated financial position, operating results and cash flows of the Company.

These interim consolidated financial statements have not been reviewed by an auditor. These interim consolidated financial statements are unaudited and include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

(signed) John M. Beck, Chairman and Chief Executive Officer

(signed) Scott C. Balfour, President and Chief Financial Officer

October 28, 2008

**Aecon Group Inc.**  
**Consolidated Balance Sheets**

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(in thousands of dollars) (unaudited)

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 221,270	\$ 134,606
Restricted cash	31,111	34,628
Accounts receivable	248,748	228,438
Holdbacks receivable	79,838	71,523
Deferred contract costs and unbilled revenue	154,412	111,937
Inventories	22,334	15,702
Prepaid expenses	11,848	6,415
	<hr/>	<hr/>
	769,561	603,249
<b>Property, plant and equipment</b>	<b>96,054</b>	<b>97,105</b>
<b>Future income tax assets</b>	<b>21,879</b>	<b>36,140</b>
<b>Concession rights (note 3)</b>	<b>142,149</b>	<b>109,283</b>
<b>Long-term concession investment (note 5)</b>	<b>32,685</b>	<b>32,685</b>
<b>Other assets</b>	<b>36,323</b>	<b>32,190</b>
	<hr/>	<hr/>
	<b>\$ 1,098,651</b>	<b>\$ 910,652</b>

# Aecon Group Inc.

## Consolidated Balance Sheets ...continued

(in thousands of dollars) (unaudited)

	September 30, 2008	December 31, 2007
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ 7,499	\$ 6,986
Accounts payable and accrued liabilities	285,602	266,693
Holdbacks payable	48,137	38,499
Deferred revenue	111,222	68,175
Income taxes payable	1,599	1,191
Future income tax liabilities	40,907	40,907
Current portion of long-term debt (note 6)	15,600	17,533
	<u>510,566</u>	<u>439,984</u>
Non-recourse project debt (note 6)	96,583	68,622
Other long-term debt (note 6)	46,294	64,088
Other liabilities	2,941	3,077
Other income tax liabilities	15,336	14,733
Concession related deferred revenue	68,156	63,692
Convertible debentures (note 8)	-	30,114
	<u>739,876</u>	<u>684,310</u>
Non-controlling interests	<u>1,747</u>	<u>933</u>
Commitments and contingencies (note 7)		
<b>Shareholders' Equity</b>		
Capital stock (note 9)	262,645	162,691
Contributed surplus (note 9)	2,378	1,592
Convertible debentures (note 8)	-	2,101
Retained earnings	93,057	61,525
Accumulated other comprehensive loss (note 9)	(1,052)	(2,500)
	<u>357,028</u>	<u>225,409</u>
	<u>\$ 1,098,651</u>	<u>\$ 910,652</u>

### Approved by the Board of Directors

(signed) "John M. Beck"

John M. Beck, Director

(signed) "Michael A. Butt"

Michael A. Butt, Director



# Aecon Group Inc.

## Consolidated Statements of Income

For the three months ended September 30, 2008 and 2007

(in thousands of dollars, except share and per share amounts) (unaudited)

	<u>2008</u>	<u>2007</u>
<b>Revenues</b>	\$ 534,665	\$ 430,371
<b>Direct costs and expenses</b>	<u>(465,996)</u>	<u>(387,657)</u>
	<u>68,669</u>	42,714
<b>Marketing, general and administrative expenses</b>	(26,060)	(16,861)
<b>Foreign exchange losses</b>	(267)	(1,016)
<b>Gain on sale of assets</b>	195	193
<b>Depreciation and amortization</b>	(7,079)	(6,149)
<b>Interest expense</b>	(1,560)	(2,953)
<b>Interest income</b>	<u>1,828</u>	<u>1,453</u>
	<u>(32,943)</u>	<u>(25,333)</u>
<b>Income before income taxes and non-controlling interests</b>	<u>35,726</u>	<u>17,381</u>
<b>Income tax (expense) recovery</b>		
Current	(837)	2,064
Future	<u>(11,314)</u>	<u>(263)</u>
	<u>(12,151)</u>	<u>1,801</u>
<b>Income before non-controlling interests</b>	<u>23,575</u>	<u>19,182</u>
<b>Non-controlling interests</b>	<u>(495)</u>	<u>(147)</u>
<b>Net income for the period</b>	<u>\$ 23,080</u>	<u>\$ 19,035</u>
<b>Net earnings per share (note 9)</b>		
Basic	\$ 0.46	\$ 0.51
Diluted	\$ 0.45	\$ 0.44
<b>Average number of shares outstanding (note 9)</b>		
Basic	<b>50,157,924</b>	37,120,401
Diluted	<b>51,051,438</b>	47,021,102

# Aecon Group Inc.

## Consolidated Statements of Income

For the nine months ended September 30, 2008 and 2007

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(in thousands of dollars, except share and per share amounts) (unaudited)

	<u>2008</u>	<u>2007</u>
<b>Revenues</b>	\$ 1,274,276	\$ 1,010,427
<b>Direct costs and expenses</b>	<u>(1,135,346)</u>	<u>(916,499)</u>
	138,930	93,928
<b>Marketing, general and administrative expenses</b>	(62,503)	(47,316)
<b>Foreign exchange losses</b>	(158)	(1,577)
<b>Gain on sale of assets</b>	28	3,580
<b>Depreciation and amortization</b>	(19,320)	(17,340)
<b>Interest expense</b>	(5,949)	(8,390)
<b>Interest income</b>	5,487	3,312
	<u>(82,415)</u>	<u>(67,731)</u>
<b>Income before income taxes and non-controlling interests</b>	<u>56,515</u>	<u>26,197</u>
<b>Income tax (expense) recovery (note 4)</b>		
Current	(2,128)	(892)
Future	<u>(14,261)</u>	<u>886</u>
	<u>(16,389)</u>	<u>(6)</u>
<b>Income before non-controlling interests</b>	40,126	26,191
<b>Non-controlling interests</b>	<u>(1,175)</u>	<u>(399)</u>
<b>Net income for the period</b>	<u>\$ 38,951</u>	<u>\$ 25,792</u>
<b>Net earnings per share (note 9)</b>		
Basic	\$ 0.82	\$ 0.70
Diluted	\$ 0.80	\$ 0.66
<b>Average number of shares outstanding (note 9)</b>		
Basic	47,343,406	36,897,608
Diluted	49,420,225	46,699,238

# Aecon Group Inc.

For the three and nine months ended September 30, 2008 and 2007

(in thousands of dollars) (unaudited)

## Consolidated Statements of Comprehensive Income:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
<b>Net income for the period</b>	\$ 23,080	\$ 19,035	\$ 38,951	\$ 25,792
<b>Other comprehensive income (loss), net of tax:</b>				
Currency translation adjustments	2,027	(256)	1,649	(2,162)
Cash flow hedges				
Net change in fair value of derivatives	-	-	(201)	-
<b>Comprehensive income for the period</b>	<b>\$ 25,107</b>	<b>\$ 18,779</b>	<b>\$ 40,399</b>	<b>\$ 23,630</b>

## Consolidated Statements of Retained Earnings:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
<b>Retained earnings - beginning of period</b>	\$ 72,522	\$ 22,921	\$ 61,525	\$ 16,543
Net income for the period	23,080	19,035	38,951	25,792
Change in accounting treatment for financial instruments	-	-	-	(400)
Dividends (note 9)	(2,545)	-	(7,423)	-
Interest received on share purchase loans (note 9)	-	9	4	30
<b>Retained earnings - end of period</b>	<b>\$ 93,057</b>	<b>\$ 41,965</b>	<b>\$ 93,057</b>	<b>\$ 41,965</b>

## Consolidated Statements of Accumulated Other Comprehensive Loss:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
<b>Accumulated other comprehensive loss - beginning of period</b>	\$ (3,079)	\$ (2,296)	\$ (2,500)	\$ (390)
Currency translation adjustments	2,027	(256)	1,649	(2,162)
Cash flow hedges	-	-	(201)	-
<b>Accumulated other comprehensive loss - end of period</b>	<b>\$ (1,052)</b>	<b>\$ (2,552)</b>	<b>\$ (1,052)</b>	<b>\$ (2,552)</b>

# Aecon Group Inc.

## Consolidated Statements of Cash Flows

For the three months ended September 30, 2008 and 2007

(in thousands of dollars) (unaudited)

	2008	2007
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the period	\$ 23,080	\$ 19,035
Items not affecting cash:		
Depreciation and amortization	7,079	6,149
Gain on sale of assets	(195)	(193)
Amortization of commitment fees	(3)	39
Unrealized loss (gain) on foreign exchange	413	(92)
Non-cash interest on other income tax liabilities	201	90
Notional interest representing accretion	(9)	701
Defined benefit pension	(1,630)	(175)
Future income taxes	11,314	263
Stock-based compensation	1,146	114
	<b>41,396</b>	<b>25,931</b>
Change in other balances relating to operations (note 10)	<b>10,520</b>	<b>20,254</b>
	<b>51,916</b>	<b>46,185</b>
<b>Investing activities</b>		
Decrease in restricted cash balances	4,961	674
Decrease in restricted marketable securities and term deposits	-	15
Purchase of property, plant and equipment	(5,156)	(918)
Proceeds on sale of property, plant and equipment	593	3,452
Concession rights (note 3)	(12,143)	(8,506)
Repayment of long-term concession investment (note 5)	-	10,048
Increase in other assets	(633)	(30)
Non-controlling interests	87	145
	<b>(12,291)</b>	<b>4,880</b>
<b>Financing activities</b>		
Decrease in bank indebtedness	-	(7,379)
Issuance of long-term debt	10,341	3,622
Repayments of long-term debt	(3,571)	(2,989)
Issuance of capital stock, net of issuance costs (note 9)	296	157
Dividends paid (note 9)	(5,087)	-
Interest received on share purchase loans (note 9)	-	9
	<b>1,979</b>	<b>(6,580)</b>
<b>Increase in cash and cash equivalents during the period</b>	<b>41,604</b>	<b>44,485</b>
<b>Effects of foreign exchange on cash balances</b>	<b>1,815</b>	<b>(2,623)</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>177,851</b>	<b>38,653</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 221,270</b>	<b>\$ 80,515</b>

Supplementary disclosures (note 10)

# Aecon Group Inc.

## Consolidated Statements of Cash Flows

For the nine months ended September 30, 2008 and 2007

(in thousands of dollars) (unaudited)

	2008	2007
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the period	\$ 38,951	\$ 25,792
Items not affecting cash:		
Depreciation and amortization	19,320	17,340
Gain on sale of assets	(28)	(3,580)
Amortization of commitment fees	76	415
Unrealized loss (gain) on foreign exchange	673	(279)
Non-cash interest on other income tax liabilities	603	270
Notional interest representing accretion	809	1,981
Defined benefit pension	(2,699)	(202)
Future income taxes	14,261	(886)
Stock-based compensation	1,240	340
	<b>73,206</b>	<b>41,191</b>
Change in other balances relating to operations (note 10)	<b>(8,272)</b>	<b>6,383</b>
	<b>64,934</b>	<b>47,574</b>
<b>Investing activities</b>		
Decrease (increase) in restricted cash balances	3,805	(21,423)
Decrease in restricted marketable securities and term deposits	-	13,086
Purchase of property, plant and equipment	(7,422)	(4,139)
Proceeds on sale of property, plant and equipment	953	3,543
Acquisitions	32	(14,386)
Concession rights (note 3)	(33,613)	(22,092)
Repayment of long-term concession investment (note 5)	-	10,048
Increase in other assets	(1,121)	(518)
Non-controlling interests	765	544
	<b>(36,601)</b>	<b>(35,337)</b>
<b>Financing activities</b>		
Decrease in bank indebtedness	-	(6,823)
Issuance of long-term debt	23,874	50,651
Repayments of long-term debt	(25,503)	(20,683)
Issuance of capital stock, net of issuance costs (note 9)	70,730	1,011
Repurchase of capital stock (note 9)	(4,145)	(2,204)
Repayment of share purchase loans (note 9)	552	532
Dividends paid (note 9)	(10,400)	-
Interest received on share purchase loans (note 9)	4	30
	<b>55,112</b>	<b>22,514</b>
<b>Increase in cash and cash equivalents during the period</b>	<b>83,445</b>	<b>34,751</b>
<b>Effects of foreign exchange on cash balances</b>	<b>3,219</b>	<b>(4,345)</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>134,606</b>	<b>50,109</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 221,270</b>	<b>\$ 80,515</b>
<b>Supplementary disclosures (note 10)</b>		

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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(in thousands of dollars, except share and per share amounts) (unaudited)

### 1) Summary of significant accounting policies

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements. They do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and accordingly, the interim financial information should be read in conjunction with the Company’s annual consolidated financial statements. Except for the adoption of the accounting standards discussed in note 2 below, the interim financial information has been prepared using the same accounting policies as set out in note 1 to the consolidated financial statements for the year ended December 31, 2007. In the opinion of management these interim consolidated financial statements include all adjustments, consisting of normal and recurring items that are necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

The construction industry in Canada is seasonal in nature for companies like Aecon, who do a significant portion of their work outdoors (principally road construction and utilities work) and, as a result, less work is performed in the winter and early spring months than in the summer and fall months. Accordingly, the Company experiences a seasonal pattern in its operating results with the first half of the year typically reflecting lower revenues and profits than the second half of the year. Results for the three-month and nine-month periods ended September 30, 2008 are not necessarily indicative of results expected for the full fiscal year or any other future period.

### 2) Change in accounting policies

Effective January 1, 2008, the Company adopted the following new accounting standards that were issued by The Canadian Institute of Chartered Accountants (“CICA”):

#### *Capital Disclosures*

CICA Handbook Section 1535 “Capital Disclosures”: This section establishes criteria for disclosure of: (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements to which it is subject; and (iv) if it has not complied, the consequences of such non-compliance. See note 15 for further details.

#### *Financial Instruments – Disclosures and Presentation*

CICA Handbook Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation”: Section 3862 modifies the disclosure requirements of Section 3861 and requires entities to provide disclosures in their consolidated financial statements that enable users to evaluate the significance of financial instruments on the entity’s consolidated financial position and performance, and the nature and extent of risks arising from financial instruments and non-financial derivatives. Section 3863 “Financial Instruments - Presentation” carries forward unchanged the presentation requirements for financial instruments of Section 3861 “Financial Instruments - Disclosures and Presentation”. See note 13 for further details.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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(in thousands of dollars, except share and per share amounts) (unaudited)

### *Inventory*

CICA Handbook Section 3031 “Inventory,” which replaced Section 3030: The new section specifies the cost formula to be used in the valuation of inventories and defines the treatment of other costs eligible for inclusion in the calculation of inventory values.

There were no significant impacts on the Company’s consolidated financial position or on the results of its operations from adoption of the above new standards.

### **3) Concession rights**

The Company has recorded concession rights as follows:

	<u>2008</u>		<u>2007</u>
Concession rights to operate the Existing Quito Airport, net of accumulated amortization of \$30,754 (December 31, 2007 - \$18,704)	\$ 30,264	\$	38,135
Concession rights to operate the New Quito Airport	111,885		71,148
	<u>\$ 142,149</u>	<u>\$</u>	<u>109,283</u>

#### **(a) Background information**

The Company holds a 42.3% effective economic interest in Corporacion Quiport S.A. (“Quiport JV”), an Ecuadorian company, whose main operations consist of: (a) managing and operating the existing Mariscal Sucre International Airport (the “Existing Quito Airport”) until its operations are transferred to a new airport; and (b) the development, financing, construction, operation and maintenance of the new Quito International Airport (“New Quito Airport”) under a concession arrangement with Corporacion Aeropuerto y Zona Franca del Distrito Metropolitano de Quito (“CORPAQ”). The Company’s 42.3% effective economic interest reflects a 45.5% investment in Quiport JV less the impact of the Company’s share of a 7% carried interest given to one of the other partners for its participation in the project. Under the concession contract with CORPAQ, Quiport JV was awarded a 35-year concession from January 27, 2006. Once the concession period expires, all the facilities will be returned to CORPAQ. Income earned from operating the Existing Quito Airport must be reinvested in the New Quito Airport.

#### **(b) Accounting for operations of the Existing Quito Airport**

As consideration to develop and finance the New Quito Airport, Quiport JV was awarded the right to operate and to benefit from the operations of the Existing Quito Airport while the New Quito Airport is being constructed. In accordance with GAAP, an entity acquiring an “in-kind” asset must measure the asset at fair value as at the date of acquisition. Therefore, in accounting for the right to operate the Existing Quito Airport, Quiport JV fair valued this right and recorded an intangible asset (being the “Concession Rights”) on its consolidated balance sheet. As at the date of financial close in 2006, the Company’s proportionate share of this asset was assigned a value of \$64,000, the then equivalent of US\$57,337

# **Aecon Group Inc.**

## Notes to Consolidated Financial Statements

**September 30, 2008 and 2007**

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(in thousands of dollars, except share and per share amounts) (unaudited)

following a valuation by an independent international accounting firm of the consideration received. Quiport JV amortizes these Concession Rights over the remaining term of the right to operate the Existing Quito Airport, and amortization is based on usage (estimated traffic volumes). The offsetting concession related deferred revenue balance (which is the value of the consideration received by Quiport JV to develop and finance the New Quito Airport) will be amortized to earnings over the term of the New Quito Airport concession period. Consequently, income earned from the operation of the Existing Quito Airport, which is being recognized in the normal fashion, is being reduced by the amount of the annual amortization charge related to the Existing Quito Airport Concession Rights.

### **(c) Accounting for the costs of the New Quito Airport**

At September 30, 2008, \$111,885 (December 31, 2007 - \$71,148) representing the Company's proportionate share of the costs to construct the New Quito Airport has been recorded as Concession Rights to operate the New Quito Airport. Amortization of these Concession Rights will commence after construction of the New Quito Airport is completed. As a result, there is no amortization expense recorded in the current or prior period results.

The Company's investment in the Quito Airport concession is accounted for by the proportionate consolidation method, whereby the consolidated financial statements reflect, line by line, the pro rata share of each of the assets, liabilities, revenues and expenses of the Quito Airport concession. As a result, the consolidated financial statements include the Company's proportionate share of the non-recourse project debt used to finance the construction of the new airport (see note 6).



# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2008 and 2007

(in thousands of dollars, except share and per share amounts) (unaudited)

### 4) Income taxes

The provision for income taxes differs from the result that would be obtained by applying combined Canadian federal and provincial (Ontario) statutory income tax rates to income before income taxes. This difference results from the following:

	Nine months ended September 30	
	2008	2007
Income before income taxes and non-controlling interests	\$ 56,515	\$ 26,197
Statutory income tax rate	33.5%	36.1%
Expected income tax expense	(18,933)	(9,457)
Effect on income tax of:		
Reduction in the valuation allowance	3,403	8,167
Provincial and foreign rate differentials	1,085	2,285
Non-deductible expenses	(1,970)	(352)
Foreign exchange translation losses	(445)	(750)
Other	471	101
	2,544	9,451
Income tax expense	\$ (16,389)	\$ (6)

### 5) Long-term concession investment

The long-term concession investment in the amount of \$32,685 at September 30, 2008 (December 31, 2007 - \$32,685) represents the Company's 25% investment, which is carried at cost, in Derech Eretz Highways (1997) Ltd. ("Derech Eretz"), the company that owns the concessionaire rights to the Cross Israel Highway. Under the terms of the concession contract with the State of Israel and lender agreements, the Company is required to obtain approvals in order to sell all or a portion of this investment. In addition, existing shareholders have a right of first refusal to acquire this investment in the event of a sale and also are entitled to participate on a pro rata basis in the event of a sale to a third party. Pursuant to an agreement with the State of Israel, the Company's interest in Derech Eretz would be diluted to approximately 12% if options granted to the State are exercised.

In July 2007, Derech Eretz redeemed a portion of its subordinated debt of which the Company's share was CAD\$10,048. For accounting purposes, this repayment was treated as a return of capital and, as such, had no impact on the Company's reported earnings. After the partial redemption, the carrying value of this investment at September 30, 2007 is \$32,685 and the Company's ownership interest remains at 25%.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2008 and 2007

(in thousands of dollars, except share and per share amounts) (unaudited)

### 6) Long-term debt

	September 30, 2008	December 31, 2007
<b>Non-recourse project debt</b>		
Quiport JV project financing	(a) \$ 76,269	\$ 64,490
Quiport JV CORPAQ debt	4,842	5,191
Rouge Valley Health System project debt	(b) 16,868	3,213
Toronto Rehabilitation Hospital project debt	(c) 3,446	-
	<b>101,425</b>	<b>72,894</b>
<b>Other long-term debt</b>		
Capital leases and equipment loans	32,107	35,770
Term loan	(d) -	13,402
Note payable	(e) 14,810	18,192
Mortgages	4,699	4,796
Loans from Derech Eretz partners	4,991	3,787
Investment loan	445	1,402
	<b>57,052</b>	<b>77,349</b>
<b>Total long-term debt</b>	<b>158,477</b>	<b>150,243</b>
Less: Amounts due within one year		
- Non-recourse project debt	4,842	4,272
- Other long-term debt	10,758	13,261
	<b>\$ 142,877</b>	<b>\$ 132,710</b>

The following describes the major changes to long-term debt during the nine months ended September 30, 2008:

- (a) The total financing commitment made by the Project Senior Lenders to Quiport JV is US\$376,388. As at September 30, 2008, senior project financing advanced to Quiport JV by the Project Senior Lenders at 100% was US\$163,219 (December 31, 2007 - US\$148,490). Included in the Company's consolidated balance sheets at September 30, 2008, is debt, net of transaction costs, of US\$71,668 (CAD\$76,269) (December 31, 2007 - US\$65,055 or CAD\$64,490) representing the Company's proportionate share of Quiport JV debt. This debt is secured by the assets of Quiport JV and is otherwise without recourse to the Company.

The financing is denominated in U.S. dollars and is provided for a term of fifteen years from June 28, 2006 using a mix of rates of interest, both variable (some of which can be converted into fixed rates) and fixed, as follows:

- U.S. 91-day treasury bill rate plus 4% (53% of the total financing commitment);
  - six-month LIBOR rate plus 4.5% (20% of the total financing commitment);
  - 4.9% plus exposure fee of 26.51% on disbursed amounts (17% of the total financing commitment);
- and

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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- 10.32% (10% of total financing commitment).

No debt repayments are scheduled to be made during the construction period.

- (b) Project financing for the Rouge Valley Health System project at September 30, 2008, was \$16,868 (December 31, 2007 - \$3,213). The total amount available to be borrowed over the construction period is \$57,034 and repayment of the loan is due at the end of the project. Repayment will be entirely funded from a lump sum payment by Infrastructure Ontario upon completion of construction. This debt is secured by the assets of the project and is non-recourse to the Company. Interest on this debt, at an annual rate of 5.3%, is capitalized to the loan balance.
- (c) Project financing for the Toronto Rehabilitation Hospital project at September 30, 2008, was \$3,446 (December 31, 2007 - \$nil). The total amount available to be borrowed over the construction period is \$101,848. Interim repayment of the loan of \$53,177 is scheduled on May 19, 2010, and the final repayment of the loan is due at the end of the project. This debt is secured by the assets of the project and is non-recourse to the Company. Interest on this debt at an annual rate of 5.567% is capitalized to the loan balance.
- (d) On August 13, 2008, the Company signed a new three-year senior credit facility with a syndicate of lenders. The new \$100,000 revolving operating line of credit replaces the Company's previous facility, which included a \$15,000 three-year term loan and a \$50,000 three-year revolving operating line. The new facility, which expires June 15, 2011, also extends by one year (until December 15, 2009) the expiry date of the special \$25,000 Letter of Credit facility used in connection with certain financial and performance obligations of the Nathpa Jhakri joint venture in India. The operating line of credit bears interest at prime plus 1.35% per annum. Standby fees are payable quarterly on the unused operating line balance at 25 basis points per year. During the quarter and nine months ended September 30, 2008, the Company recorded interest expense in relation to these standby fees of \$23 (2007 - \$nil).

In 2007, the full amount of the term loan was borrowed under the previous facility agreement and subsequently converted into a U.S. dollar denominated loan. This three-year U.S. dollar term loan bore interest at LIBOR plus 2.75% with interest payable monthly in arrears on the first day of each month. Commencing October 1, 2007, principal repayments of US\$500 were due quarterly with the remaining balance outstanding due on maturity. During the quarter ended June 30, 2008, the Company repaid the term loan in full and as such the balance outstanding at September 30, 2008 was \$nil (December 31, 2007 - US\$13,520 or CAD\$13,402).

- (e) As partial consideration for the acquisition of The Karson Group in 2007, the Company issued a note payable in the amount of \$21,225 to the vendor. This note payable, which is non-interest bearing and is secured by certain equipment of The Karson Group, was discounted at 8% to arrive at a fair value of \$16,949 at the date of the acquisition. Commencing January 31, 2008, the note was payable in equal annual installments over a five-year period. During the quarter ended September 30, 2008, the Company recorded interest expense representing interest accretion on the note payable of \$281 (2007 - \$339), and \$863 during the nine months ended September 30, 2008 (2007 - \$904).

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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### 7) Guarantees

The Company has outstanding guarantees amounting to \$25,492 (December 31, 2007 - \$24,208) in support of financial and performance related obligations for the Nathpa Jhakri hydro-electric project in India. These guarantees are backed by letters of credit issued by the Company.

In connection with the Cross Israel Highway project, the Company has provided two joint and several guarantees, a continuous guarantee, which guarantees the performance of the concessionaire in which the Company has a 25% interest, and a leakage guarantee, which is a guarantee by the operator of the toll highway, in which the Company has a 30.6% interest, to the concessionaire and covers toll capture and collection rates generated from users of the highway during the operating period. These guarantees extend to the end of the concession period, which ends in 2029. The continuous guarantee (at 100%) is in the amount of US\$32,400 (CAD\$34,480) (December 31, 2007 - US\$32,400 or CAD\$32,118) and is renewed annually to its full amount, irrespective of any drawings made thereunder. The Company has issued a letter of credit in the amount of US\$8,100 (CAD\$8,620) (December 31, 2007 - US\$8,100 or CAD\$8,030) to support its share of the continuous guarantee, and its partners have similarly issued letters of credit to support their respective shares. The leakage guarantee (at 100%) came into effect when construction was completed and is renewable annually for the lesser of NIS33,000 plus escalation to date (CAD\$14,922) (December 31, 2007 - NIS33,000 plus escalation or CAD\$11,990) or 6% of the annual toll revenue.

In addition to the above, the Company has provided letters of credit in the amount of NIS2,400 (CAD\$732) (December 31, 2007 - NIS2,400 or CAD\$615) to support a performance bond that was required of the concessionaire in connection with the construction of an extension to the Cross Israel Highway. This letter of credit is secured by cash.

In connection with the Quito airport project, the Company has provided letters of credit of US\$14,325 (CAD\$15,245) (December 31, 2007 - US\$16,800 or CAD\$16,654) in support of its remaining equity obligations and a letter of credit of US\$30,203 (CAD\$32,142) (December 31, 2007 - US\$30,203 or CAD\$29,940) for various project contingencies. These letters of credit are supported by guarantees issued on behalf of the Company to the issuing banks by Export Development Canada ("EDC") and will remain in place until its equity obligations are fulfilled and the conditions giving rise to the contingencies are satisfied or cleared. As a result of EDC issuing these guarantees, the Company was required to place on deposit with EDC the sum of US\$1,500 (CAD\$1,596) (December 31, 2007 - US\$1,500 or CAD\$1,487), which is classified as restricted cash on the consolidated balance sheets. The Company has also issued a corporate guarantee in the amount of US\$3,129 (CAD\$3,330) as security to cover 50% of the Quito construction joint venture credit facility that was set up to facilitate the release of holdback funds on the Quito construction project.

The Company has also issued letters of credit to secure advances received from the Quito construction joint venture in the sum of US\$10,500 (CAD\$11,174) (December 31, 2007 - US\$16,150 or CAD\$16,009). The cash received was used as collateral for the letters of credit.

In addition, the Company and its joint venture partner have provided surety bonds, guaranteed joint and severally, to cover construction and concession related performance obligations of US\$67,055 (CAD\$71,360) (December 31, 2007 - US\$67,055 or CAD\$66,472), an advance payment bond of US\$74,466 (CAD\$79,247) (December 31, 2007 - US\$74,466 or CAD\$73,818) and a retention release bond of US\$20,685 (CAD\$22,013) (December 31, 2007 - US\$20,685 or CAD\$20,505). In each case, the Company's share is supported by

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guarantees issued by EDC. As a result of EDC issuing these guarantees, the Company was required to place on deposit with EDC the sum of US\$2,000 (CAD\$2,128) (December 31, 2007 - US\$2,000 or CAD\$1,983), which is classified as restricted cash on the consolidated balance sheets.

The Company has also issued performance guarantees of \$13,773 (December 31, 2007 - \$7,640) which are supported by guarantees issued to the Company by EDC in respect of certain international contracts for the manufacture and supply of equipment by its subsidiary, Innovative Steam Technologies Inc.

In addition, the Company has also issued, in the normal conduct of operations, letters of credit amounting to \$32,354 (December 31, 2007 - \$14,867) in support of financial and performance related obligations of its North American operations.

In connection with the project financing for the Rouge Valley Health System project, the Company has provided a guarantee of additional financing costs (interest and fees) incurred by a wholly owned project company in the event of delays in the completion of construction. This guarantee is capped at \$5,000. The Company has also provided a guarantee of the obligations of the project company under a \$5,000 contingency loan facility established to finance additional costs associated with delays and working capital requirements due to delayed payments or schedule changes.

In connection with the project financing for the Toronto Rehabilitation Hospital project, the Company has provided a guarantee of additional financing costs (interest and fees) incurred in the event of delays in the completion of construction or due to default under the construction contract or the project agreement. This guarantee is capped at the lesser of \$12,000 and 10% of the guaranteed construction price.

Under the terms of many of the Company's joint venture contracts with project owners, each of the partners is jointly and severally liable for performance under the contracts. At September 30, 2008, the value of uncompleted work for which the Company's joint venture partners are responsible, and which the Company could be responsible for assuming, amounted to approximately \$417,358 (December 31, 2007 - \$311,058), a substantial portion of which is supported by performance bonds. In the event the Company assumed this additional work, it would have the right to receive the partner's share of billings to the project owners pursuant to the joint venture contract.

The Company has, over time, sold portions of its business. Pursuant to the sale agreements, the Company may have had to indemnify the purchaser against liabilities related to events that occurred prior to the sale, such as tax, environmental, litigation, employment matters, or related to representations made by the Company. The Company is unable to estimate the potential liability for these types of indemnification guarantees as the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. However, the maximum guarantee is not to exceed the proceeds from disposal. Historically, the Company has not made any significant indemnification payments under such agreements.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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### 8) Convertible debentures

Convertible subordinated debentures consist of:

	September 30, 2008	December 31, 2007
Debt component:		
Debenture maturing March 17, 2010	\$ -	\$ 30,114
Reported as:		
Long-term liability	\$ -	\$ 30,114
Equity component:		
Debenture maturing March 17, 2010	\$ -	\$ 2,101

In March 2005, the Company issued \$32,500 in unsecured, subordinated convertible debentures maturing March 17, 2010. The debentures bore interest at the rate of 8.25% per annum payable on a semi-annual basis. During the quarter ended March 31, 2008, \$31,675 of these convertible debentures was converted into 4,167,795 common shares. During 2007, \$825 of these debentures was converted into 108,552 common shares.

In November 2004, the Company issued \$30,000 in unsecured, subordinated convertible debentures maturing November 2, 2009. The debentures bore interest at the rate of 8.25% per annum payable on a semi-annual basis. During 2007, \$29,500 of these convertible debentures was converted into 3,933,252 common shares and \$500 was redeemed for cash.

Interest expense on the debentures was composed of the interest calculated on the face value of the debentures, and an annual notional interest representing the accretion of the carrying value of the debentures. Interest recorded was as follows:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Interest expense on face value	\$ -	\$ 1,294	\$ 520	\$ 3,847
Notional interest representing accretion	-	351	148	1,063
	\$ -	\$ 1,645	\$ 668	\$ 4,910

The liability portion of the debentures is as follows:

	September 30, 2008	December 31, 2007
Financial liability component	\$ -	\$ 29,574
Notional interest representing accretion	-	540
	\$ -	\$ 30,114



# Aecon Group Inc.

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### 9) Capital stock

	2008		2007	
	Number of shares	Amount	Number of shares	Amount
Balance – January 1	42,079,119	\$ 162,691	38,069,829	\$ 131,975
Common shares issued on exercise of options	121,000	939	100,000	710
Common shares issued on conversion of debentures (i)	4,167,795	32,362	9,333	75
Repayment of share purchase loans (ii)	-	364	-	532
Balance - March 31	46,367,914	196,356	38,179,162	133,292
Common shares issued less expenses of \$3,361 (iv)	4,000,000	69,639	-	-
Common shares issued on exercise of options	30,000	235	38,850	257
Common shares purchased by the trust of the long-term incentive program (iii)	(239,990)	(4,145)	(238,030)	(2,204)
Repayment of share purchase loans (ii)	-	188	-	-
Balance - June 30	50,157,924	262,273	37,979,982	131,345
Common shares issued on exercise of options	50,000	389	25,000	172
Common shares issued on conversion of debentures (i)	-	-	100,728	768
Additional expenses related to common shares issued in the second quarter (iv)	-	(17)	-	-
Balance - September 30 (ii and iii)	50,207,924	\$ 262,645	38,105,710	\$ 132,285

- (i) During the quarter ended March 31, 2008, convertible debentures with a face value of \$31,675 and a carrying value of \$30,261 were converted into 4,167,795 common shares at a conversion price of \$7.60 per share (see note 8). In addition, share capital was increased by \$2,101 representing the equity portion of the convertible debentures that was previously classified as a separate component of shareholders' equity.

During the quarter ended September 30, 2007, \$765 of convertible debentures were converted into 100,728 common shares at conversion prices ranging from \$7.50 to \$7.60 per share (see note 8).

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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During the quarter ended March 31, 2007, \$70 of convertible debentures maturing November 2009 were converted into 9,333 common shares at a price of \$7.50 per share. In addition, share capital was increased by \$5 representing the equity portion that was previously classified as a separate component of shareholders' equity.

- (ii) In accordance with the recommendations of the CICA on accounting for share purchase loans receivable from employees, such loans, except in certain circumstances are required to be presented as deductions from shareholders' equity. Accordingly, at September 30, 2008, loans totalling \$nil (December 31, 2007 - \$552) are presented as a deduction from capital stock. Interest received on such loans in the three months ended September 30, 2008 of \$nil after income taxes (2007 - \$9) and in the nine months ended September 30, 2008 of \$4 after income taxes (2007 - \$30) is accounted for as a capital transaction in shareholders' equity. During the quarter ended September 30, 2008, \$nil of these loans was repaid (2007 - \$nil), and \$552 was repaid during the nine months ended September 30, 2008 (2007 - \$532).
- (iii) In accordance with the recommendations of CICA Accounting Guideline No. 15 "Consolidation of Variable Interest Entities," share capital and shares outstanding have been reduced to reflect shares purchased by the Trust administering the Company's Long-Term Incentive Plan. As at September 30, 2008, the Trust held 691,366 shares (December 31, 2007 - 451,376 shares) with a cost basis of \$7,615 (December 31, 2007 - \$3,470).
- (iv) On April 17, 2008, the Company issued 4,000,000 common shares at \$18.25. Net proceeds, after deducting agents' fees and expenses of the issue, were \$69,622.

The Company is authorized to issue an unlimited number of common shares.

### Stock option plans

On June 21, 2005, the Company's shareholders approved a new stock option plan (the "2005 Stock Option Plan") to replace the previous 1998 Stock Option Plan. However, the 2005 Stock Option Plan did not affect the rights granted to the holders of options that were previously issued and remain outstanding under the 1998 Stock Option Plan. The aggregate number of common shares that can be issued under the 2005 Stock Option Plan shall not exceed 2,500,000. Similar to the 1998 Stock Option Plan, each option issuance under the 2005 Stock Option Plan specifies the period for which the option thereunder is exercisable (which in no event shall exceed ten years from the date of grant) and shall provide that the option shall expire at the end of such period. The Company's Board of Directors will determine the vesting period on the dates of option grants.



# Aecon Group Inc.

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Details of common shares issued upon the exercise of options as well as details of changes in the balance of options outstanding are detailed below:

	Nine months ended September 30			
	2008		2007	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Balance outstanding - January 1	1,044,484	\$ 6.08	1,200,000	\$ 6.06
Granted	-	-	50,000	6.75
Exercised	(121,000)	5.02	(100,000)	6.11
Balance outstanding - March 31	923,484	6.22	1,150,000	6.09
Exercised	(30,000)	6.25	(38,850)	6.29
Balance outstanding - June 30	893,484	6.22	1,111,150	6.08
Granted	1,150,000	14.95	-	-
Exercised	(50,000)	6.25	(25,000)	6.28
Balance outstanding - September 30	1,993,484	\$ 11.26	1,086,150	\$ 6.08
Options exercisable at end of period	864,317	\$ 9.13	552,817	\$ 5.96

Options currently outstanding have the following exercise prices and expiry dates:

Options granted in	Number of shares	Exercise price	Expiry date
2004	40,000	\$6.30	August 3, 2009
2004	16,667	\$6.20	November 30, 2009
2005	66,667	\$5.51	November 7, 2010
2006	670,150	\$6.25	March 27, 2011
2007	50,000	\$6.75	January 16, 2012
2008	1,150,000	\$14.95	August 5, 2013
	1,993,484		

All option grants, except for options granted in 2006 and 2008, have a term of five years from the date of grant and vest on the anniversary date of the grant at the rate of one-third per annum of the total number of share options granted. The options granted in 2006 and 2008 have a term of five years from the date of grant and vested one-quarter immediately and one-quarter per annum thereafter on the anniversary date of the grant.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

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The Company has adopted fair value accounting for options granted after 2001 to employees and records compensation expense upon the issuance of stock options under its 1998 and 2005 Stock Option Plans. For options granted, the fair value is estimated on the date of grant using the Black-Scholes fair value option pricing model and the following assumptions:

	2008	2007
Dividend yield	1.4%	0%
Expected volatility	32%	29%
Risk free interest rate	3.5%	4%
Weighted average expected life (years)	3.25	3.5

The resulting fair value is charged to compensation expense over the vesting period of the options.

During the three months ended September 30, 2008, compensation expense and contributed surplus were increased by \$1,146 (2007 - \$114) on account of options previously granted, and for the nine months ended September 30, 2008, compensation expense and contributed surplus were increased by \$1,240 (2007 - \$341).

As options are exercised, the corresponding values previously charged to contributed surplus are reclassified to capital stock. In the quarter ended September 30, 2008, contributed surplus was decreased by \$76 (2007 - \$15) and capital stock was increased by the same amount upon the exercise of options under the stock option plans, and for the nine months ended September 30, 2008, contributed surplus was decreased by \$454 (December 31, 2007 - \$191) and capital stock was increased by the same amount. Cash proceeds arising from the exercise of these options are credited to capital stock.

### Long-Term Incentive Plan

In 2005, the Company adopted a Long-Term Incentive Plan ("LTIP") to provide a financial incentive for its senior executives to devote their efforts to the long-term success of the Company's business. The LTIP provides that shares of the Company shall be purchased by the trustee and held in trust for the future benefit of the participants until such time as awards made to participants under the LTIP have vested and, as a result, the participants become eligible to have such shares transferred to them.

Awards to participants are based on the financial results of the Company and are made in the form of Deferred Share Units ("DSUs") or in the form of restricted shares. Awards made in the form of DSUs will vest only upon the retirement or termination of the participant. Awards made in the form of restricted shares will vest annually over three years. Compensation charges related to the LTIP are expensed over the estimated vesting period of the awards. Awards made to individuals who are eligible to retire are assumed for accounting purposes to vest immediately. During the three months ended September 30, 2008, the Company recorded LTIP compensation charges of \$710 (2007 - \$475) and \$1,963 (2007 - \$1,375) during the nine months ended September 30, 2008.

The LTIP Trust (the "Trust") currently holds 691,366 shares at September 30, 2008 (December 31, 2007 - 451,376 shares).

# Aecon Group Inc.

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The Company has determined that it holds a variable interest in the residual equity of the Trust upon dissolution of the Trust and, as such, the Trust meets the criteria of a variable interest entity that requires consolidation by the Company in accordance with CICA Accounting Guideline No. 15 "Consolidation of Variable Interest Entities." Accordingly, at September 30, 2008, share capital was reduced by \$7,615 (December 31, 2007 - \$3,470) and accrued liabilities increased by the same amount.

### Earnings per share

Details of the calculations of earnings per share are set out below. For purposes of calculating basic earnings per share, the number of common shares has been reduced by nil (September 30, 2007 – 941,166) on account of share purchase loans receivable from employees. For purposes of calculating diluted earnings per share, these shares have been treated as options.

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
<b>Net income for the period</b>	\$ 23,080	\$ 19,035	\$ 38,951	\$ 25,792
Interest on convertible debentures, net of taxes	-	1,645	444	4,910
<b>Diluted net earnings</b>	<b>\$ 23,080</b>	<b>\$ 20,680</b>	<b>\$ 39,395</b>	<b>\$ 30,702</b>
<b>Average number of common shares outstanding</b>	<b>50,157,924</b>	37,120,401	<b>47,343,406</b>	36,897,608
<b>Effect of dilutive securities <sup>(i)</sup></b>				
Options	477,247	1,505,251	519,084	1,406,180
Convertible debentures	-	8,166,254	1,141,468	8,166,254
Shares held in a trust account in respect of the Long-Term Incentive Plan	416,267	229,196	416,267	229,196
<b>Average number of diluted common shares outstanding</b>	<b>51,051,438</b>	47,021,102	<b>49,420,225</b>	46,699,238
<b>Basic earnings per share</b>	<b>\$ 0.46</b>	\$ 0.51	<b>\$ 0.82</b>	\$ 0.70
<b>Diluted earnings per share</b>	<b>\$ 0.45</b>	\$ 0.44	<b>\$ 0.80</b>	\$ 0.66

- (i) When the impact of dilutive securities would be to increase the earnings per share or decrease the loss per share, they are excluded for purposes of the calculation of diluted earnings per share.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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### Contributed surplus

Changes in contributed surplus for the three and nine months ended September 30 are as follows:

	<u>2008</u>	<u>2007</u>
Balance - January 1	\$ 1,592	\$ 1,329
Increase (decrease) in contributed surplus resulting from:		
Granting of stock options	47	113
Exercise of stock options	(332)	(99)
Balance - March 31	<u>1,307</u>	<u>1,343</u>
Granting of stock options	47	114
Exercise of stock options	(46)	(14)
Balance - June 30	<u>1,308</u>	<u>1,443</u>
Granting of stock options	1,146	114
Exercise of stock options	(76)	(15)
Balance - September 30	<u>\$ 2,378</u>	<u>\$ 1,542</u>

### Dividends

At December 31, 2007, the Company recorded dividends declared of \$2,977, which were paid on January 2, 2008. In the first quarter of 2008, the Company's Board of Directors approved an increase in annual dividends to \$0.20 per share, to be paid in four quarterly payments of \$0.05 per share. For the nine months ended September 30, 2008, the Company declared dividends of \$7,423 of which \$2,336 was paid in April 2008, \$2,542 was paid in July 2008, and \$2,545 was paid in September 2008.

### Accumulated other comprehensive loss

Components of accumulated other comprehensive loss included:

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Currency translation adjustments, net of tax	\$ (1,052)	\$ (2,701)
Cash flow hedges, net of tax	-	201
Accumulated other comprehensive loss	<u>\$ (1,052)</u>	<u>\$ (2,500)</u>

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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### 10) Cash flow information

Change in other balances relating to operations:

	Three months to September 30		Nine months to September 30	
	2008	2007	2008	2007
(Increase) decrease in:				
Accounts receivable	\$ (42,399)	\$ (33,051)	\$ (18,797)	\$ (48,453)
Holdbacks receivable	(13,528)	(4,069)	(7,950)	(7,808)
Deferred contract costs and unbilled revenue	(25,123)	11,755	(40,862)	7,888
Inventories	(969)	(948)	(6,632)	(3,383)
Prepaid expenses	(2,796)	1,066	(5,227)	111
Increase (decrease) in:				
Accounts payable and accrued liabilities	65,260	44,705	18,605	43,126
Holdbacks payable	8,370	486	9,393	1,588
Deferred revenue	21,361	2,934	42,884	15,429
Income taxes payable	344	(2,624)	314	(2,115)
	<u>\$ 10,520</u>	<u>\$ 20,254</u>	<u>\$ (8,272)</u>	<u>\$ 6,383</u>

Other supplementary information:

	Three months to September 30		Nine months to September 30	
	2008	2007	2008	2007
Cash interest paid	\$ 834	\$ 2,257	\$ 4,908	\$ 6,097
Cash income taxes paid	\$ 201	\$ 13	\$ 436	\$ 870

Excluded from the consolidated statements of cash flows are the following transactions that did not require a use of cash:

Property, plant and equipment acquired and financed by means of capital leases during the three months ended September 30, 2008 amounted to \$nil (2007 - \$550) and \$1,564 (2007 - \$1,103) for the nine months ended September 30, 2008.

During the quarter ended March 31, 2008, convertible debentures with a face value of \$31,675 and a carrying value of \$30,261 were converted into 4,167,795 common shares at a conversion price of \$7.60 per share (see notes 8 and 9). In addition, share capital was increased by \$2,101 representing the equity portion of the convertible debentures that was previously classified as a separate component of shareholders' equity.

During the quarter ended September 30, 2007, \$765 of convertible debentures was converted into 100,728 common shares, and during the nine months ended September 30, 2007, \$835 of convertible debentures was converted into 110,061 common shares (see notes 8 and 9).

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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### 11) Employee benefit plans

Employee future benefit expenses for the three and nine months ended September 30 are as follows:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Defined benefit plan expense:				
Company sponsored pension plans	\$ 257	\$ 250	\$ 797	\$ 1,066
Defined contribution plan expense:				
Company sponsored pension plans	627	592	1,879	1,589
Multi-employer pension plans	8,753	6,423	23,655	18,437
Total employee future benefit expenses	<u>\$ 9,637</u>	<u>\$ 7,265</u>	<u>\$ 26,331</u>	<u>\$ 21,092</u>

### 12) Related party transactions and balances

Related party transactions are recorded at their exchange amounts, which is the consideration agreed to by the parties. In addition to related party transactions described elsewhere in the notes to these consolidated financial statements, during the three months ended September 30, 2008, the Company paid professional fees in the amount of \$11 (2007 - \$10), and \$22 (2007 - \$34) during the nine months ended September 30, 2008 to a consulting company in which a director of the Company is an owner.

### 13) Financial instruments

#### Fair Values

Cash and cash equivalents, marketable securities, accounts receivable, and accounts payable and accrued liabilities approximate their fair values on a discounted cash flow basis because of the short-term nature of these instruments. The Company considers all highly liquid interest earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. In general, investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. All cash equivalents and short-term investments are classified as available-for-sale and are recorded at market value; unrealized gains and losses (excluding other-than-temporary impairments) are reflected in other comprehensive income.

Other financial instruments held or issued by the Company include holdbacks receivable, non-interest bearing project advances payable or holdbacks payable, which are amounts directly related to construction contracts. These amounts, by their nature, do not bear interest and consideration for the time value of money is thus negotiated into the price of the contracts. The Company does not have plans to sell these financial instruments to third parties and will realize or settle them in the normal course of business. No quoted market price exists

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## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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for these instruments because they are not traded in an active and liquid market. Accordingly, the fair values of holdbacks receivable, non-interest bearing project advances payable or holdbacks payable, which are due within one year, are considered to approximate their carrying values. For those financial instruments that are due beyond one year, the Company has fair valued them to reflect the time value of money and the credit risk or the borrowing risk associated with these financial instruments.

The Company's long-term investment in Derech Eretz, the company that owns the concessionaire rights to the Cross Israel Highway is carried at cost. There is not a liquid or quoted market value for the Company's investment in Derech Eretz, and as a result fair value information has not been disclosed in the consolidated financial statements. The investment in Derech Eretz is considered to be impaired when a decline in fair value is judged to be other than temporary. The Company employs a systematic methodology on a periodic basis that considers available quantitative and qualitative evidence in evaluating potential impairment of its investments. If the cost of an investment exceeds its fair value, the Company evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and the Company's intent and ability to hold the investment. The Company also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded and a new cost basis in the investment is established.

Long-term notes receivable included in other assets have been discounted at interest rates that result in the carrying value approximating their fair value.

The carrying values of long-term debt approximate their fair value on a discounted cash flow basis because the majority of these obligations bear interest at market rates.

From time to time, the Company enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar, but does not hold or issue such financial instruments for trading purposes. At September 30, 2008, the Company had net outstanding contracts to sell EURO 853, sell US\$17,462, buy EURO 351, and buy US\$3,050 (December 31, 2007 - sell EURO 6,652, sell US\$23,970, and buy US\$11,978) on which there was a net unrealized exchange loss of \$387 (December 31, 2007 - net gain of \$951). The net unrealized exchange gain (loss) represents the estimated amount the Company would have received (paid) if it terminated the contracts at the end of the respective periods. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For a derivative instrument designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and is subsequently recognized in earnings when the hedged exposure affects earnings. The ineffective portion of the gain or loss is recognized in earnings. For options designated either as fair value or cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings. Gains and losses from changes in fair values of derivatives that are not designated as hedges for accounting purposes are recognized in earnings. While the Company considers the above contracts to be economic hedges, none of the above contracts were designated as accounting hedges, and as such the unrealized gains (losses) were recognized in net income in the period.



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The Company may use foreign currency debt to hedge its exposure to foreign currency volatility in connection with investments in certain foreign operations. The realized and unrealized fair value of these hedges are included in shareholders' equity in the foreign currency translation component of accumulated other comprehensive income and offset translation adjustments on the underlying net assets of foreign operations, which are also recorded in accumulated other comprehensive income. If the debt is no longer considered effective in offsetting changes in the value of the hedged item, or if management determines that designation of the debt as a hedge instrument is no longer appropriate, the fair value of these hedges are included in the consolidated statements of income in foreign exchange gains (losses). At September 30, 2008, the Company does not have any designated hedges of its foreign operations. Previously, the Company had designated its U.S. dollar dominated term loan in the amount of US\$13,520 at December 31, 2007 as a hedge of its net investment in certain foreign operations. At December 31, 2007, the unrealized gain resulting from fair valuing this investment of \$989, net of taxes, had been included in currency translation adjustments within accumulated other comprehensive loss in shareholders' equity. With the repayment of the term loan during the second quarter of 2008 (see note 6), the gain resulting from fair valuing this instrument at the date of repayment was \$461, net of taxes.

The Company enters into cash flow hedges to reduce its exposure to variability in certain expected future cash flows. In connection with the U.S. dollar denominated term loan facility noted above, the Company entered into an interest rate swap with a financial institution on October 1, 2007 to help manage its exposure to interest rate volatility. By entering into the interest rate swap, the Company converted the floating rate on its U.S. dollar term loan, which was based on LIBOR plus 2.75%, to a fixed rate of 7.42%. The unrealized gain, net of taxes, of \$201 that resulted from fair valuing this contract as of December 31, 2007, was reported in the cash flow hedges component of accumulated other comprehensive income in shareholders' equity. With the repayment of the term loan during the second quarter of 2008, the cumulative unrealized loss resulting from fair valuing this contract of \$274, net of taxes, was realized and is included in the consolidated statement of income.

### **Credit Risk**

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, short-term deposits and marketable securities, accounts receivable, deferred contract costs and unbilled revenue, foreign exchange hedges, and interest rate swap agreements.

Credit risk associated with cash and short-term deposits is minimized by ensuring that these financial assets are placed with financial institutions with high credit ratings.

With respect to accounts receivable, deferred contract costs and unbilled revenue, concentration of credit risk is limited by the Company's diversified customer base and its dispersion across different business and geographic areas. Allowances are provided for potential losses that have been incurred at the balance sheet date; however, these allowances are not significant.

The credit risk associated with foreign exchange contracts and interest rate swap agreements arises from the possibility that the counterparty to one of these contracts fails to perform according to the terms of the contract. Counterparties to the Company's foreign exchange contracts and interest rate swap agreements are major Canadian financial institutions.



# Aecon Group Inc.

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### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed circumstances. Cash flow projections are prepared and reviewed quarterly by the Board of Directors to ensure a sufficient continuity of funding. Long-term debt maturities are spread over a range of dates thereby ensuring that the Company is not exposed to excessive refinancing risk in any one year.

The Company's cash and cash equivalents, short-term investments and restricted cash are invested in highly liquid interest bearing investments.

The following are the contractual maturities of the Company's long-term debt including capital lease obligations at September 30, 2008:

	<u>Next 12 months</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Beyond 5 years</u>	<u>Total</u>
Non-recourse project debt	\$ 4,842	\$ 16,868	\$ 7,973	\$ 13,014	\$ 11,664	\$ 47,064	\$ 101,425
Capital leases and equipment loans	6,375	5,411	5,277	4,825	4,935	5,284	32,107
Other long-term debt	4,383	4,839	8,658	2,075	-	4,990	24,945
	<u>\$ 15,600</u>	<u>\$ 27,118</u>	<u>\$ 21,908</u>	<u>\$ 19,914</u>	<u>\$ 16,599</u>	<u>\$ 57,338</u>	<u>\$ 158,477</u>

### Interest Rate Risk

The Company is exposed to interest rate risk on its short-term deposits and its long-term debt to the extent that its investments or credit facilities are based on floating rates of interest. At September 30, 2008, the interest rate profile of the Company's long-term debt was as follows:

	<u>At September 30, 2008</u>
Debt held by joint ventures	\$ 81,111
Fixed rate instruments	77,276
Variable rate instruments	90
<b>Total long-term debt</b>	<u><b>\$ 158,477</b></u>

Long-term debt held by joint ventures relates to project financing for the Quito airport project (see note 6), and because interest is capitalized while the new airport is being constructed, changes in interest rates would not have impacted net earnings or comprehensive income in the current period.

Fixed rate long-term debt instruments would not have been impacted in the current period by changes in interest rates.

For the nine months ended September 30, 2008, an increase of 1% in interest rates applied to the Company's variable rate long-term debt would not have any significant impact on net earnings or comprehensive income.

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Cash and cash equivalents, restricted cash and short-term deposits have limited interest rate risk due to their short-term nature.

### Currency Risk

The Company operates internationally and is exposed to risk from changes in foreign currency rates. The Company is mainly exposed to fluctuations in the U.S. dollar, Israel New Shekel, Indian Rupee and Euro.

The Company's currency exposure to U.S. dollars arises primarily from its investments in the Quito airport concessionaire and from its U.S. operating unit within the Buildings segment. As these two investments are treated as self-sustaining foreign operations for accounting purposes, the impact of changes in currency rates for these operations does not impact net earnings but would instead be reported as currency translation adjustments in other comprehensive income. The Company also has currency exposure to U.S. dollars arising from its investment in the Quito construction joint venture. For this investment, the Company's sensitivity to a 10% strengthening of the U.S. dollar against the Canadian dollar on net earnings and comprehensive income at September 30, 2008 would have been an increase of approximately \$10.

The Company's exposure to Israel New Shekels arises primarily from its cost accounted for investment in Derech Eretz, while the Company's exposure to Indian Rupees relates to its net investment in the Nathpa Jhakri hydro-electric project in India. Because the Derech Eretz investment is accounted for at cost, changes in currency rates would not impact net earnings or comprehensive income unless an impairment in value arises as discussed above. For the net investment in the Nathpa Jhakri hydro-electric project in India, the Company's sensitivity to a 10% strengthening of the Indian Rupee against the Canadian dollar on net earnings and comprehensive income at September 30, 2008 would have been an increase of approximately \$1,000.

The Company's currency exposure on foreign currency debt that is used to hedge its exposure to foreign currency volatility in connection with investments in certain foreign operations is discussed above in the fair value section of this financial instruments note.

For currency exposures other than those discussed elsewhere in this note, the following table details the Company's sensitivity to a 10% strengthening of the U.S. dollar, Israel New Shekel and Euro on net earnings and comprehensive income against the Canadian dollar. The sensitivity analysis includes foreign currency denominated monetary items but excludes all investments in joint ventures, self-sustaining foreign operations, hedges and Derech Eretz, and adjusts their translation at period-end for a 10% change in foreign currency rates.

	<b>U.S. dollar impact</b>	<b>Shekel impact</b>	<b>Euro impact</b>
Net earnings	\$ 900	\$ 100	\$ 100
Comprehensive income	\$ 900	\$ 100	\$ 100

For a 10% weakening of the U.S. dollar, Israel New Shekel and Euro against the Canadian dollar, there would be an equal and opposite impact on net earnings and comprehensive income.

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### 14) Segmented information and business concentration

The Company operates in four principal segments within the construction and infrastructure development industry: Infrastructure, Buildings, Industrial and Concessions. However, with the achievement of financial close of a concession agreement to own and operate the existing and new airports in Quito, Ecuador, concession ownership and operations became a significant portion of the Company's overall operations. Consequently, the Quito concession operations as described above are reported as part of the Concessions segment, and the Quito construction operations, which include construction of the new Quito airport, are included in the Infrastructure segment. The Corporate and Other category in the summary below includes corporate costs and other activities not directly allocable to segments and also includes inter-segment eliminations.

#### *Infrastructure*

This segment includes all aspects of the construction of both public and private infrastructure, including roads and highways, as well as toll highways, dams, tunnels, bridges, airports, marine facilities, transit systems and hydro-electric power projects, primarily in Canada, and on a selected basis, internationally. This segment includes the mining, manufacture, and supply of asphalt and aggregate products, and the construction and/or installation of utility distribution systems for natural gas, telecommunications and electrical networks, as well as water and sewer mains, traffic signals and highway lighting. The design and construction of the new Quito airport project is included in the Infrastructure segment.

#### *Buildings*

The Buildings segment specializes in the construction and renovation of commercial, institutional and multi-family residential buildings, including hospitals, office buildings, industrial buildings, airport terminals, entertainment facilities, schools, embassies, retail complexes, and high rise condominium buildings among others. Work in this segment is concentrated primarily in Canada and the northwestern United States. Services include general contracting, fee for service construction management, design build services, building renovation, tenant fit up and facilities management.

#### *Industrial*

The Industrial segment encompasses all of the Company's industrial construction and manufacturing activities including in-plant construction and module assembly in the energy, manufacturing, petrochemical, steel and automotive sectors. Activities in this sector include the construction of alternative, fossil fuel and cogeneration power plants, in-plant construction at nuclear power plants, the fabrication and module assembly of small diameter specialty pipe, and the design and manufacture of "once-through" heat recovery steam generators ("HRSGs") for industrial and power plant applications. Although activities in this segment are concentrated primarily in Canada, the Company, through its subsidiary, Innovative Steam Technologies Inc., sells HRSGs throughout the world.

#### *Concessions*

This segment includes the development, financing and operation of infrastructure projects by way of build-operate-transfer, build-own-operate-transfer and other public-private partnership contract structures. This

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## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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segment focuses primarily on the operation, management, maintenance and enhancement of investments held by the Company in infrastructure concessions, which currently comprise investments in the Cross Israel Toll Highway and the Quito Airport project concession companies. This segment includes the operations of the Highway 104 toll plaza in Atlantic Canada. This segment also has a development function whereby it monitors and, where appropriate, brings together the unique capabilities and strengths of the Company and its strategic partners for the development of domestic and international public-private partnership concession projects in which the Company may play a role as an investor, constructor and/or operator.

### Information by reportable segments is as follows:

As at September 30 and the three months then ended 2008

	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total
Revenues	\$ 237,786	\$ 108,865	\$ 172,080	\$ 16,221	\$ (287)	\$ 534,665
EBITDA (i)	\$ 18,998	\$ (603)	\$ 21,921	\$ 7,154	\$ (3,105)	\$ 44,365
Depreciation and amortization	(2,149)	(306)	(674)	(3,815)	(135)	(7,079)
Segment operating profit (loss) (i)	16,849	(909)	21,247	3,339	(3,240)	37,286
Capital charges and allocations of Corporate overheads (ii)	(6,048)	(111)	(583)	(2,554)	9,296	-
Segment profit (loss) before income taxes	\$ 10,801	\$ (1,020)	\$ 20,664	\$ 785	\$ 6,056	37,286
Interest expense, income taxes and non-controlling interests						(14,206)
Net income						\$ 23,080
Total assets	\$ 412,832	\$ 142,330	\$ 135,713	\$ 220,957	\$ 186,819	\$ 1,098,651
Intangible assets and goodwill	\$ 5,767	\$ 2,934	\$ 3,750	\$ 142,309	\$ -	\$ 154,760
Capital expenditures	\$ 2,190	\$ 1,378	\$ 579	\$ -	\$ 1,009	\$ 5,156
Cash flow from (used in) operating activities (i)	\$ 18,947	\$ (603)	\$ 21,635	\$ 7,322	\$ (5,905)	\$ 41,396

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As at September 30 and for the three months then ended

2007

	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total
Revenues	\$ 225,394	\$ 112,957	\$ 85,902	\$ 15,014	\$ (8,896)	\$ 430,371
EBITDA (i)	\$ 13,427	\$ 2,495	\$ 8,271	\$ 5,046	\$ (2,756)	\$ 26,483
Depreciation and amortization	(1,434)	(103)	(543)	(3,888)	(181)	(6,149)
Segment operating profit (loss) (i)	11,993	2,392	7,728	1,158	(2,937)	20,334
Capital charges and allocations of Corporate overheads (ii)	(5,066)	(267)	(1,857)	(1,840)	9,030	-
Segment profit (loss) before income taxes	\$ 6,927	\$ 2,125	\$ 5,871	\$ (682)	\$ 6,093	20,334
Interest expense, income taxes and non-controlling interests						(1,299)
Net income						\$ 19,035
Total assets	\$ 346,674	\$ 90,697	\$ 132,887	\$ 186,356	\$ 63,711	\$ 820,325
Intangible assets and goodwill	\$ 2,743	\$ 2,960	\$ 3,750	\$ 113,356	\$ -	\$ 122,809
Capital expenditures	\$ 227	\$ 156	\$ 445	\$ -	\$ 90	\$ 918
Cash flow from (used in) operating activities (i)	\$ 13,570	\$ 2,495	\$ 8,261	\$ 5,046	\$ (3,441)	\$ 25,931

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As at September 30 and the nine months then ended

2008

	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total
Revenues	\$ 481,133	\$ 326,495	\$ 425,469	\$ 46,683	\$ (5,504)	\$ 1,274,276
EBITDA (i)	\$ 20,933	\$ 1,914	\$ 47,780	\$ 17,314	\$ (6,157)	\$ 81,784
Depreciation and amortization	(6,274)	(510)	(1,956)	(10,189)	(391)	(19,320)
Segment operating profit (loss) (i)	14,659	1,404	45,824	7,125	(6,548)	62,464
Capital charges and allocations of Corporate overheads (ii)	(16,735)	(485)	(3,757)	(6,987)	27,964	-
Segment profit (loss) before income taxes	\$ (2,076)	\$ 919	\$ 42,067	\$ 138	\$ 21,416	62,464
Interest expense, income taxes and non-controlling interests						(23,513)
Net income						\$ 38,951
Capital expenditures	\$ 2,861	\$ 1,670	\$ 1,556	\$ -	\$ 1,335	\$ 7,422
Cash flow from (used in) operating activities (i)	\$ 19,477	\$ 1,976	\$ 47,873	\$ 18,260	\$ (14,380)	\$ 73,206

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## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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As at September 30 and for the nine months then ended

2007

	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total
Revenues	\$ 482,241	\$ 255,341	\$ 252,613	\$ 42,344	\$ (22,112)	\$ 1,010,427
EBITDA (i)	\$ 22,405	\$ 1,466	\$ 19,279	\$ 14,842	\$ (6,065)	\$ 51,927
Depreciation and amortization	(3,780)	(310)	(1,612)	(11,072)	(566)	(17,340)
Segment operating profit (loss) (i)	18,625	1,156	17,667	3,770	(6,631)	34,587
Capital charges and allocations of Corporate overheads (ii)	(13,999)	(1,103)	(6,189)	(6,020)	27,311	-
Segment profit (loss) before income taxes	\$ 4,626	\$ 53	\$ 11,478	\$ (2,250)	\$ 20,680	\$ 34,587
Interest expense, income taxes and non-controlling interests						(8,795)
Net income						\$ 25,792
Capital expenditures	\$ 1,653	\$ 406	\$ 1,740	\$ -	\$ 340	\$ 4,139
Cash flow from (used in) operating activities (i)	\$ 19,421	\$ 1,463	\$ 19,280	\$ 14,842	\$ (13,815)	\$ 41,191

- (i) EBITDA represents earnings or loss before interest expense, income taxes, depreciation and amortization, and non-controlling interests. Segment operating profit (loss) represents net income (loss) before interest expense, income taxes, and non-controlling interests. Cash flow from (used in) operating activities is before the change in other balances related to operations. EBITDA, operating profit (loss), and cash flow from (used in) operating activities are not measures that have any standardized meaning prescribed by Canadian GAAP and are considered non-GAAP measures. Therefore, these measures may not be comparable to similar measures presented by other companies. These measures have been described and presented in the manner in which the chief operating decision maker makes operating decisions and assesses performance.
- (ii) Commencing in 2007, management prospectively began measuring divisional performance based on segment operating profit or loss after capital charges and corporate allocations (i.e. segment profit (loss) before income taxes). Corporate allocations represent charges from the Corporate segment to each division for indirect Corporate marketing, general and administrative costs and capital charges relate to the cash, working capital, and long-term debt capital invested in each segment.

# Aecon Group Inc.

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### 15) Capital disclosure

For capital management purposes, the Company defines capital as the aggregate of its shareholders' equity and total debt, excluding non-recourse debt. Debt includes bank indebtedness, loans from a related party, the current and non-current portions of long-term debt (excluding non-recourse debt), and the current and non-current long-term debt components of convertible debentures.

The Company's principal objectives in managing capital are:

- to ensure that it will continue to operate as a going concern;
- to be flexible in order to take advantage of contract and growth opportunities that are expected to provide satisfactory returns to shareholders;
- to maintain a strong capital base so as to maintain client, investor, creditor and market confidence;
- to provide an adequate rate of return to its shareholders; and
- to comply with financial covenants required under its various borrowing facilities.

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

Although the Company monitors capital on a number of bases, total debt (excluding non-recourse debt) as a percentage of shareholders' equity (debt to equity percentage) is considered to be the most important metric in measuring the true strength and flexibility of its balance sheet. While the cumulative impact of unsatisfactory operating results during the 2003 - 2004 periods drove up this percentage, reaching a high of 112% at the end of 2005, this percentage had dropped to 51% at the end of 2007. This significant improvement was achieved through a return to profitability in 2006, the issuance of common shares in 2006 and the conversion of convertible debt to equity in 2007. The further conversion of all of the Company's remaining convertible debt to equity in the first quarter of 2008, the issuance of 4,000,000 common shares, and the repayment of the long-term debt in the second quarter of 2008 (as discussed in notes 6(d) and 9) were the primary drivers in bringing the debt to equity percentage down to 18.1% as at September 30, 2008. While the Company believes that this debt to equity percentage is conservative, because of the cyclical nature of its business and market expectations concerning prudent capitalization, the Company will continue its current efforts to maintain a conservative capital position.

At September 30, 2008, the Company complied with all of its financial debt covenants. Although remaining compliant with its debt covenants is an important consideration in managing the Company's capital structure, the Company's current strong operating performance and its conservative debt to equity percentage have significantly lessened the restrictive impact of debt covenants in capital management decisions.



# **Aecon Group Inc.**

Notes to Consolidated Financial Statements

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## **16) Joint ventures – additional information**

In accordance with the recommendations of the CICA, the Company's investments in joint ventures are accounted for by the proportionate consolidation method, whereby the consolidated financial statements reflect, line by line, the pro rata share of each of the assets, liabilities, revenues and expenses of the joint ventures. Given the significant effect of joint ventures on the Company's consolidated financial statements, the Company provides the following supplemental worksheets as additional information about its accounts, thereby enabling the reader to have a greater understanding of the Company's underlying assets, earnings base and financial resources.

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## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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### Consolidating Balance Sheet

	September 30, 2008			December 31, 2007	
	Consolidated Balance Sheet excluding joint ventures	Joint ventures	Consolidated Balance Sheet	Consolidated Balance Sheet excluding joint ventures (Note a)	
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 167,975	\$ 53,295	\$ 221,270	\$ 91,948	
Restricted cash	19,672	11,439	31,111	22,379	
Accounts receivable	206,535	42,213	248,748	195,502	
Holdbacks receivable	64,613	15,225	79,838	58,583	
Deferred contract costs and unbilled revenue	137,273	17,139	154,412	96,984	
Inventories	22,334	-	22,334	15,702	
Prepaid expenses	6,161	5,687	11,848	3,557	
	624,563	144,998	769,561	484,655	
<b>Property, plant and equipment</b>	94,165	1,889	96,054	94,462	
<b>Future income tax assets</b>	16,317	5,562	21,879	31,088	
<b>Concession rights</b>	-	142,149	142,149	-	
<b>Long-term concession investment</b>	32,685	-	32,685	32,685	
<b>Other assets</b>	36,323	-	36,323	32,190	
	\$ 804,053	\$ 294,598	\$ 1,098,651	\$ 675,080	
<b>Liabilities</b>					
<b>Current liabilities</b>					
Bank indebtedness	\$ -	\$ 7,499	\$ 7,499	\$ -	
Accounts payable and accrued liabilities	244,516	41,086	285,602	236,957	
Holdbacks payable	45,423	2,714	48,137	35,084	
Deferred revenue	99,096	12,126	111,222	57,319	
Income taxes payable (recoverable)	185	1,414	1,599	(4,411)	
Future income tax liabilities	27,789	13,118	40,907	35,202	
Current portion of long-term debt	10,758	4,842	15,600	13,261	
	427,767	82,799	510,566	373,412	
<b>Non-recourse project debt</b>	20,314	76,269	96,583	3,213	
<b>Other long-term debt</b>	46,294	-	46,294	64,088	
<b>Other liabilities</b>	2,941	-	2,941	3,077	
<b>Other income tax liabilities</b>	15,336	-	15,336	14,733	
<b>Concession related deferred revenue</b>	2,991	65,165	68,156	2,991	
<b>Convertible debentures</b>	-	-	-	30,114	
	515,643	224,233	739,876	491,628	
<b>Non-controlling interests</b>	1,747	-	1,747	933	
<b>Shareholders' Equity</b>	286,663	70,365	357,028	182,519	
	\$ 804,053	\$ 294,598	\$ 1,098,651	\$ 675,080	

(Note a) For additional consolidating worksheets related to the 2007 comparative information, refer to note 27 in the December 31, 2007 consolidated financial statements.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2008 and 2007

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(in thousands of dollars, except share and per share amounts) (unaudited)

### Consolidating Statement of Income

	For the nine months ended September 30, 2008		
	Consolidated Statement of Operations excluding joint ventures	Joint ventures	Consolidated Statement of Operations
Revenues	\$ 1,123,496	\$ 150,780	\$ 1,274,276
Direct costs and expenses	(1,036,855)	(98,491)	(1,135,346)
	86,641	52,289	138,930
Marketing, general and administrative expenses	(40,330)	(22,173)	(62,503)
Foreign exchange gains (losses)	523	(681)	(158)
Gain on sale of assets	28	-	28
Depreciation and amortization	(9,080)	(10,240)	(19,320)
Interest expense	(5,594)	(355)	(5,949)
Interest income	5,487	-	5,487
	(48,966)	(33,449)	(82,415)
Income before income taxes and non-controlling interests	37,675	18,840	56,515
Income tax expense	(13,688)	(2,701)	(16,389)
Income before non-controlling interests	23,987	16,139	40,126
Non-controlling interests	(1,175)	-	(1,175)
Net income for the period	\$ 22,812	\$ 16,139	\$ 38,951

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

### September 30, 2008 and 2007

(in thousands of dollars, except share and per share amounts) (unaudited)

#### Consolidating Statement of Cash Flows

	For the nine months ended September 30, 2008		
	Consolidated Statement of Cash Flows excluding		Consolidated
	Joint ventures	Joint ventures	Statement of Cash Flows
<b>Cash provided by (used in):</b>			
<b>Operating activities</b>			
Net income for the period	\$ 22,812	\$ 16,139	\$ 38,951
Items not affecting cash -			
Depreciation and amortization	9,080	10,240	19,320
Gain on sale of assets	(28)	-	(28)
Amortization of commitment fees	76	-	76
Unrealized loss (gain) on foreign exchange	1,158	(485)	673
Non-cash interest on other income tax liabilities	603	-	603
Notional interest representing accretion	809	-	809
Defined benefit pension	(2,699)	-	(2,699)
Future income taxes	7,358	6,903	14,261
Stock-based compensation	1,240	-	1,240
	40,409	32,797	73,206
Change in other balances relating to operations	(1,581)	(6,691)	(8,272)
	38,828	26,106	64,934
<b>Investing activities</b>			
Decrease in restricted cash	2,706	1,099	3,805
Purchase of property, plant and equipment	(7,311)	(111)	(7,422)
Proceeds on sale of property, plant, and equipment	953	-	953
Acquisitions	32	-	32
Concession rights	-	(33,613)	(33,613)
Increase in other assets	(1,121)	-	(1,121)
Non-controlling interests	765	-	765
	(3,976)	(32,625)	(36,601)
<b>Financing activities</b>			
Issuance of long-term debt	17,101	6,773	23,874
Repayments of long-term debt	(25,503)	-	(25,503)
Issuance of capital stock, net of issuance costs	70,730	-	70,730
Repurchase of capital stock	(4,145)	-	(4,145)
Repayment of share purchase loans	552	-	552
Dividends paid	(10,400)	-	(10,400)
Interest received on share purchase loans	4	-	4
Increase (decrease) in investment in joint ventures	(7,546)	7,546	-
	40,793	14,319	55,112
<b>Increase in cash and cash equivalents during the period</b>	<b>75,645</b>	<b>7,800</b>	<b>83,445</b>
<b>Effects of foreign exchange on cash balances</b>	<b>382</b>	<b>2,837</b>	<b>3,219</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>91,948</b>	<b>42,658</b>	<b>134,606</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 167,975</b>	<b>\$ 53,295</b>	<b>\$ 221,270</b>



# BUILDING THINGS THAT MATTER

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