

AECON GROUP INC.  
THIRD  
QUARTER  
REPORT 2009

NINE  
MONTHS  
ENDED  
09/30/09

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Dear Fellow Shareholders,

On behalf of Aecon's Board of Directors, we are pleased to report that Aecon has completed another strong quarter, building on the momentum of the last two years.

The third quarter of 2009 was characterized by revenue and EBITDA growth, predictably softer net income than a year ago and continued strong backlog. Revenues in the third quarter reached a record \$707 million, with increases in each of the four operating segments, due primarily to the acquisitions of Lockerbie & Hole and South Rock. EBITDA grew to \$48.5 million in the quarter, from \$44.4 million in the third quarter of 2008, continuing the pattern of 13 increases in the 15 quarters since 2005.

Aecon's backlog continues to grow, reaching a record \$1.9 billion at September 30, a 28 percent increase from a year ago, as growth in the Buildings and Industrial segments offset a small decline in the Infrastructure segment.

As we enter the final quarter of the year, most of the key trends shaping Aecon's outlook through the first three quarters remain in place. These trends include a healthy and growing backlog, a strong balance sheet and a robust bidding pipeline – all of which provide reason for optimism going forward, especially as we look toward 2010 and 2011.

Other key trends continuing to shape Aecon's outlook include record government investment in transportation infrastructure across the country, signals that we'll see significant new investment in the oilsands, capital investment in social infrastructure, a demand for new electrical generation capacity in Ontario and a growing demand for water and wastewater infrastructure.

As a result of these trends, the medium and long-term outlook for Aecon's Infrastructure segment remains strong. While their impact has been mitigated somewhat this year by wet weather throughout much of the country during the peak construction months, and by the relatively slow pace of stimulus programs reaching the construction stage, the full impact of these positive trends should be felt in the Infrastructure segment over the next several quarters and into 2011.

As noted last quarter, the Infrastructure segment is currently facing the strongest bidding pipeline it has seen in many years. Since a substantial portion of this bidding pipeline includes large projects such as major highway extensions, hydroelectric power plants and public transit projects, Aecon's new business and backlog profile in the Infrastructure segment could be somewhat 'lumpy' over the next several quarters (within the context of a general trend upward). There could be large increases in some quarters when one or more of these large projects are awarded and little change or small declines in quarters when no large projects are awarded.

Backlog of \$630 million in the Buildings segment is near record levels, with continued strong revenue and new business volumes, particularly in the Toronto area. While this growth is continued evidence of positive momentum in the Buildings segment, it appears likely that profit contributions from the segment in 2009 may not show much improvement over those recorded last year, with meaningful bottom-line improvement not materializing until 2010.

In the Industrial segment, the acquisition of Lockerbie & Hole in April will, among other things, significantly increase Aecon's market share in Western Canada, providing new and/or improved opportunities in the ongoing maintenance of existing oilsands infrastructure, the growing water and wastewater market, the commercial mechanical market and the power sector in Western Canada.

Notwithstanding the addition of Lockerbie, the Industrial segment, which has been responsible for much of Aecon's growth in profitability over the last two years, has encountered difficult markets in 2009. As signaled in previous outlooks, the economic downturn will result in a significant decline in the operating results of the Industrial segment, with the positive impact of the Lockerbie acquisition partially offset this year by the amortization of the fair value of the acquired backlog and the depreciation on the increase in the fair value of property acquired. Nonetheless, Aecon's strengthened market position in Western Canada bodes well for improved results in the Industrial segment as sector prospects improve, particularly in the oilsands, through 2010 and into 2011.

In the Concessions segment, traffic on the Cross Israel Highway and at the Quito airport continues to increase, and construction is progressing on the Quito Airport project, which is now over 60 percent complete. As we have noted previously, the Constitutional Court of Ecuador has issued a ruling regarding airport charges and services, which could have an impact on Aecon's concession interests in the Quito Airport project. Negotiations involving all parties (including governments, lenders and partners as well as Aecon) are underway with a view to resolving the outstanding issues. While the end result of these negotiations is not yet clear, Aecon has decided to record no profits in the third quarter from its equity participation in the concession.

Overall, notwithstanding the current economic and financial environment, management continues to believe that its strong backlog and the relative durability of its Infrastructure and Buildings markets bode well for continued strong financial performance through 2010 and into 2011.

We thank you for your continued support of Aecon.

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

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

November 4, 2009

**Aecon Group Inc.**

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

**September 30, 2009**

## **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 September 30, 2009 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 the year ended December 31, 2008. This interim MD&A has been prepared as of November 3, 2009. 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 Aecon's 2008 annual MD&A.

On April 1, 2009, Aecon acquired Lockerbie & Hole Inc. ("Lockerbie"). Lockerbie was founded in 1877 and is one of the largest industrial and mechanical construction contractors in Canada. Lockerbie is a multi-disciplined contractor providing mechanical, electrical, instrumentation, pipe fabrication, module assembly, boiler erection, insulation and civil construction services primarily to the oilsands, mining, institutional, municipal and commercial market sectors. Aecon includes the Lockerbie operations within its Industrial reporting segment.

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) 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 (except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
<b>Revenues</b>	\$ 707.1	\$ 534.7	\$ 1,661.2	\$ 1,274.3
Gross margin <sup>(1)</sup>	76.2	68.7	172.2	138.9
<b>EBITDA</b> <sup>(2)</sup>	<b>48.5</b>	<b>44.4</b>	<b>91.6</b>	<b>81.8</b>
<b>Operating profit</b> <sup>(3)</sup>	<b>34.0</b>	<b>37.3</b>	<b>54.0</b>	<b>62.5</b>
Interest expense	(4.3)	(1.6)	(9.0)	(5.9)
<b>Earnings before taxes</b> <sup>(4)</sup>	<b>29.7</b>	<b>35.7</b>	<b>45.0</b>	<b>56.5</b>
Income tax recovery (expense)	(9.6)	(12.2)	(13.9)	(16.4)
<b>Net income for the period</b>	<b>19.6</b>	<b>23.1</b>	<b>28.9</b>	<b>39.0</b>
<b>Earnings per share - diluted</b>	<b>\$ 0.35</b>	<b>\$ 0.45</b>	<b>\$ 0.53</b>	<b>\$ 0.80</b>
<b>Return on revenue</b> <sup>(5)</sup>	<b>4.8%</b>	<b>7.0%</b>	<b>3.3%</b>	<b>4.9%</b>
<b>Backlog – September 30</b>	<b>\$ 1,924</b>	<b>\$ 1,499</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 2009 were \$707 million, representing an increase of \$172 million, or 32%, over the same quarter last year. Revenues increased in the Infrastructure, Buildings, Industrial and Concessions segments by \$103 million, \$12 million, \$44 million and \$15 million, respectively, and decreased in the Corporate segment by \$1 million. For the first nine months of the year, revenues of \$1,661 million were \$387 million higher than in the corresponding period in 2008, as increases were reported in all operating segments. The recent acquisitions of Lockerbie and South Rock combined to contribute \$194 million and \$378 million respectively of quarterly and year-to-date increases. Results for each of the four principal operating segments are discussed separately under Reporting Segments.

Gross margin increased from \$68.7 million or 12.8% of revenues in the third quarter of 2008 to \$76.2 million or 10.8% of revenues in the third quarter of 2009. Of the \$7.5 million increase in gross margin in the third quarter of 2009, the Infrastructure segment reported an improvement of approximately \$14 million, while the Industrial and Concessions segments reported decreases of \$4 million and \$2 million, respectively. Gross margin was unchanged in the Buildings segment. The acquisition of South Rock in the first quarter of 2009 was the largest and primary contributor to the improvement in Infrastructure margins in the third quarter. In the Industrial segment, margin contributions from the Lockerbie operations acquired in the second quarter of 2009 were offset by the impact of reduced contributions in Western Canada and Ontario, where large drops in revenues were matched by significantly lower gross margin. The decline in gross margin in the Concessions

segment resulted primarily from a drop in reported margin from the Quito airport concessionaire operating unit as a result of a provision recorded for the recent political events in Ecuador. See the Quito Airport Project Update section of this MD&A for further details.

For the first nine months of 2009, gross margin was \$172.2 million or 10.4% of revenues compared to \$138.9 million or 10.9% of revenues in the first nine months of 2008. Of the \$33.3 million increase in gross margin in 2009, the Infrastructure, Industrial and Concessions segments reported improvements of approximately \$17 million, \$15 million and \$3 million, respectively, while margin declined in the Buildings segment by \$1 million. Although the gross margin increases in Infrastructure and Industrial were primarily the result of acquisitions as noted above in the 2009 third quarter changes, Infrastructure margin was also negatively affected by margin declines in the segment's civil operating units, whereas the Industrial segment benefited from improved margin in its Ontario operations primarily on a small number of construction projects. Margins in the Buildings segment were negatively impacted by weaker margin performance in the Toronto and Ottawa operating units combined with lower volumes in many other operating units. Concessions margin improvements arose mostly in the operator of the Cross Israel Highway.

Marketing, general and administrative expenses ("MG&A") as a percentage of revenues decreased from 4.9% in the third quarter of 2008 to 4.1% in the third quarter of 2009. In the Infrastructure, Buildings and Concessions segments, MG&A as a percentage of revenues dropped quarter-over-quarter. However, in the Industrial segment, MG&A percentages increased as lower MG&A costs were offset by significant reductions in quarterly revenues in those operating units.

For the nine months ended September 30, 2009, MG&A as a percentage of revenues was 5.1% compared to 4.9% in the first nine months of 2008. Similar to the third quarter, MG&A percentages were up in the Industrial segment as MG&A percentages increased in Western Canada as MG&A costs declined but revenues volumes dropped faster, and in Ontario where the combination of higher bid and incentive costs and a reduction in revenues negatively impacted MG&A percentages. In the Corporate segment, MG&A costs increased because of higher training costs, incentive costs, and defined benefit pension plan expenses.

Foreign exchange losses of \$1.0 million in the third quarter of 2009 were \$0.7 million worse than in 2008, while foreign exchange losses of \$2.7 million for the first nine months of 2009 were \$2.6 million worse than the first nine months of 2008. For both the three and nine-month periods, the majority of the increase in foreign exchange losses occurred in the international operations of the Infrastructure segment. Infrastructure's foreign exchange losses were partly offset by foreign exchange gains in the Industrial segment on foreign exchange hedging products used to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar.

Depreciation and amortization expense of \$14.5 million in the third quarter of 2009 was \$7.4 million higher than in 2008, while depreciation and amortization expense of \$37.5 million for the first nine months of 2009 was \$18.2 million higher than in the first nine months of 2008. The increases occurred mainly in the Infrastructure and Industrial segments and resulted primarily from amortization of intangible assets resulting from the South Rock and Lockerbie acquisitions, as well as from higher depreciation charges on property, plant and equipment. In accounting for the South

Rock and Lockerbie acquisitions, Aecon was required to fair value the backlog revenue acquired on closing. The impact of amortizing this intangible asset as the backlog is worked off resulted in amortization charges for the third quarter and first nine months of 2009 of \$3.9 million and \$7.9 million, respectively. The unamortized balance of this intangible asset as of September 30, 2009 was \$16 million of which \$3 million is expected to be amortized in the fourth quarter of 2009. In addition, during the second quarter of 2009, Industrial recorded a one-time depreciation charge of \$1.6 million resulting from the accelerated write-off of assets, including an office building, in Western Canada. The combination of the integration strategy with the significant decline in activity in the region prompted Industrial to vacate this building and to consolidate its office space in Western Canada.

It is important to note that while restructuring costs related to recent acquisitions are included in the purchase accounting for these transactions, other one-time costs such as those noted above for severances and integration costs were also incurred by Aecon and these costs negatively impacted the operating results for the nine-month period in 2009 by \$2.6 million.

Interest expense of \$4.3 million in the third quarter of 2009 was \$2.8 million higher than in the same period of 2008, and interest expense of \$9.0 million for the first nine months of 2009 was \$3.1 million higher than in the same period last year. The increase in interest expense resulted from an increase in non-recourse project debt primarily related to three Infrastructure Ontario "build-finance" projects currently in progress.

Interest income of \$2.2 million in the third quarter of 2009 was \$0.4 million higher compared to the amount earned in the same quarter last year, and interest income for the first nine months of 2009 of \$6.9 million was \$1.4 million higher than in the same period last year. In the quarter, higher interest income earned on funds on deposit in build finance special purpose vehicles was partially offset by the interest impact of lower cash balances on hand during the quarter. Cash used to fund the acquisition of Lockerbie in the second quarter was a significant contributor to the lower average cash balances during the third quarter. For the first nine months of 2009, higher interest income from foreign denominated long-term loans receivable and higher interest income earned on funds on deposit in build finance special purpose vehicles offset the impact of lower cash balances on hand during the period.

Earnings before taxes for the quarter ended September 30, 2009 were \$29.7 million, representing a \$6.0 million decrease over the same period in 2008, while for the nine months ended September 30, 2009, earnings before taxes of \$45.0 million were \$11.5 million lower than in the corresponding period last year.

Set out in note 5 of the 2009 Interim Consolidated Financial Statements is a reconciliation between the expected income tax recovery/(expense) in 2009 and 2008 based on statutory income tax rates and the actual income tax recovery/(expense) reported for both these periods. In the third quarter of 2009, there was an income tax expense of \$9.6 million on pre-tax income of \$29.7 million compared to an income tax expense of \$12.2 million on pre-tax income of \$35.7 million in the third quarter of 2008. For the first nine months of 2009, there was an income tax expense of \$13.9 million on pre-tax income of \$45.0 million compared to an income tax expense of \$16.4 million on pre-tax income of \$56.5 million in the first nine months of 2008. The lower effective tax rate for the nine-month



period in 2008 was due to the \$3.4 million reversal of tax valuation allowances recorded in prior periods. Without the benefit of this reversal, tax expense in 2008 would have been higher by \$3.4 million, being the amount of the reversal.

Aecon's non-controlling interests in consolidated entities represents the minority owners' share of the income or loss of Aecon's consolidated subsidiaries/joint ventures, primarily the operator of the Cross Israel Highway and the Quito airport concessionaire. The non-controlling interests' share of profits of \$0.4 million for the quarter ended September 30, 2009 (2008-\$0.5 million) and \$2.2 million for the nine months ended September 30, 2009 (2008-\$1.2 million) was primarily due to higher earnings from the operator of the Cross Israel Highway.

Overall, net income for the quarter ended September 30, 2009 of \$19.6 million or \$0.35 per share on a fully diluted basis, compares with net income of \$23.1 million or \$0.45 per share in the third quarter of 2008, while for the nine months ended September 30, 2009, net income was \$28.9 million or \$0.53 per share compared to \$39.0 million or \$0.80 per share in the corresponding period last year.

Backlog at September 30, 2009 of \$1,924 million was \$424 million higher than the amount on hand at the same time in 2008. The current period end backlog was favourably impacted by \$680 million of backlog on hand in the Lockerbie and South Rock operations. New contract awards of \$971 million were booked in the third quarter of 2009, which compares with \$555 million in the third quarter of 2008, while new contract awards of \$1,745 million were booked in the first nine months, compared to \$1,539 million during the first nine months of 2008. 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 cannot be reliably quantified or where a minimum number of units at the contract specified price per unit is not guaranteed. Examples include time and material, and some cost-plus and unit priced contracts where the extent of services to be provided is undefined or where the number of units cannot be estimated with reasonable certainty. Other examples include the value of construction work managed under construction management advisory contracts, concession agreements, multi-year operating and maintenance service contracts, 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.

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

## **Quito Airport Project Update**

On July 29, 2009, the Constitutional Court of Ecuador issued a ruling regarding airport charges and services (the “Airports Ruling”) which may have a significant impact on Aecon’s concession and construction interests in the Quito Airport Project. Pursuant to the Airports Ruling, the Court:

- declared that all regulated charges collected at airports in Ecuador are public in nature (taxes) and declared unconstitutional prior opinions of Ecuador’s Attorney General confirming that revenues from the Existing Quito Airport are private;
- stated that the State Comptroller has oversight over all airport funds, and that public assets continue to be public even if granted to private corporations;
- invalidated the municipal ordinance promulgating regulated charges at the airport and declared unconstitutional any creation, modification or elimination of any airport charges unless done by Ecuador’s Congress; and
- stated that all public and private parties must amend all contracts to align with the new constitutional regime.

Ecuador’s Federal Government has yet to seek enforcement of the Airports Ruling with respect to the Quito Airport Project. Since the Airport’s Ruling was issued, the parties involved in the Quito Airport Project, including Aecon, its partners in the Quiport JV, the Canadian Commercial Corporation (“CCC”), which is the Canadian federal Crown corporation that holds the direct contract with the Municipality of Quito for the Quito Airport Project, and the Project Lenders (defined below), have been engaged in discussions with the government of Ecuador and the municipality of Quito regarding how best to proceed under the existing contractual framework in the context of the Airports Ruling. All parties have expressed the desire to see the Project continue within the new legal framework under mutually acceptable terms.

In order to permit the parties to engage in talks to resolve the dispute, on September 29, 2009, the Constitutional Court issued a supplemental ruling (“Supplemental Ruling”) clarifying (a) that the Airport’s Ruling could be implemented over an undefined transition period; and (b) that airport charges, while continuing to be public in character, could be collected and administered through all permissible legal-financial structures and allowing all relevant stakeholders (public and private) to participate in such structures. Effectively, the Supplemental Ruling, while not in any way undoing the prior judgment, establishes a transition and negotiation period during which discussions can continue without implementation of the Airport’s Ruling and during which operations and collections can continue in the normal way.

With the Supplemental Ruling in place, all parties are engaged in a negotiation process led by Aecon and its Quiport JV partners along with the project lenders, USA-based Overseas Private Investment Corporation, Export-Import Bank of the USA, the Inter-American Development Bank and Export Development Canada (collectively, the “Project Lenders”). The Project Lenders have exercised certain power of attorney rights they have under the project’s security agreements. As a result, while Aecon and its Quiport JV partners will continue to participate in future negotiations with the

government of Ecuador, the Project Lenders will be entitled to control aspects of the dispute as attorney-in-fact for the concessionaire and to control project funds.

With a transition period in effect and negotiation already under way, the Project Lenders and the Quiport JV are exploring options that would allow interim funding for construction pending a permanent resolution of the dispute.

Negotiations among the parties are aimed at addressing the impact of the Airports Ruling and resolving Ecuador's request for more significant economic participation in the Project as well as several ancillary technical and commercial items. All parties, including the City of Quito and the Project Lenders, with the assistance of the CCC and the Canadian Government, are well engaged and focused on finding such a solution. Nevertheless, while operations continue as normal, the Project Lenders have advised that, until further notice, they will not approve or flow any further funds for the construction of the New Quito Airport until the issues surrounding the Airports Ruling have been resolved.

Owing to the fact that the Airports Ruling is an event of default under the Quiport JV's finance agreements, the project debt, which is and will always remain non-recourse to Aecon, is potentially callable by the Project Lenders at any time. As a result, the project debt has been re-classified as a current liability in the Consolidated Financial Statements, notwithstanding the fact that to date the Project Lenders have not demanded any immediate repayment of this debt and even, if they did, Aecon would not be liable for any repayment obligations.

As noted above, Aecon and its partners, in collaboration with the Project Lenders, are working with Ecuador to achieve a solution that is mutually acceptable to all stakeholders. A new arrangement would require both the implementation of new legal structures and some possible sharing of profits with the Municipality of Quito. Although there can be no assurance that Aecon and its partners will be successful in reaching such a solution, if they are successful then the Company anticipates a reduction in the Quito Airport Project's internal rate of return and construction profitability, though the amount is not yet quantifiable with any precision due to various uncertainties. In the event that an adequate solution is not attained, Aecon's long-term exposure for the Quito Airport Project is nonetheless minimized by the role of the Canadian Government in the project through the CCC, the presence of the Inter-American Development Bank (one of Ecuador's largest sovereign lenders) as Senior Lender, strong contractual protections and political risk insurance, though it may take a significant period of time to recover losses in the latter two cases. The Company believes that its current insurance would cover 90% of any equity and/or contingent equity exposure of the Company in respect of the Quiport JV arising as a result of the Airports Ruling and the Company is not currently aware of any reason why a claim under its policy might be denied.

Because of the lack of clarity at this time as to the likely outcome of the re-negotiation of commercial terms of the project, Aecon is taking an accounting position as it relates to its investment in Quiport JV at September 30, by assuming that the Project Lenders will continue to control all funds from the existing airport during the re-negotiation period but that sufficient cash will continue to be made available by the Project Lenders as required to fully fund the operations of the existing airport including debt and interest payments. While the end result of current negotiations is uncertain and may result in the continuation of the pre-existing contractual and financial

arrangements, given the uncertainties surrounding Quiport JV's ability to access any excess proceeds for any other purpose, Aecon has recorded a provision for all these excess amounts until there is greater certainty as to what portion, if any, of the excess funds will be available for use by the concessionaire. The net result is that no profits have been recorded in the third quarter from Aecon's participation in the Quiport JV.

From a construction perspective, management's expectation is that the new Quito airport will be built as planned, although it is likely that there will be some delay to the previously contemplated new airport opening date. As such, construction activities are expected to continue during the negotiation period, subject to the availability of financing to fund construction activities. As a result, profits from construction operations have and will continue to be recognized in the normal course as earned as long as costs continue to be reliably measurable and there continues to be reasonable assurance of collection by the constructor.

## **REPORTING SEGMENTS**

### **INFRASTRUCTURE**

#### **Financial Highlights**

<b>\$ millions</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Revenues</b>	<b>\$ 340.8</b>	<b>\$ 237.8</b>	<b>\$ 686.2</b>	<b>\$ 481.1</b>
<b>Segment operating profit <sup>(1)</sup></b>	<b>24.9</b>	<b>16.9</b>	<b>14.2</b>	<b>14.7</b>
<b>Capital charges and allocations of corporate overhead <sup>(2)</sup></b>	<b>(8.8)</b>	<b>(6.0)</b>	<b>(24.9)</b>	<b>(16.7)</b>
<b>Segment profit (loss) before income taxes</b>	<b>16.1</b>	<b>10.8</b>	<b>(10.7)</b>	<b>(2.1)</b>
<b>Return on revenue <sup>(3)</sup></b>	<b>7.3%</b>	<b>7.1%</b>	<b>2.1%</b>	<b>3.0%</b>
<b>Backlog – September 30 <sup>(4)</sup></b>	<b>\$ 576</b>	<b>\$ 581</b>		

- (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, 2009 is \$52 million (2008 – \$93 million) related to the new Quito airport project. Although Aecon's 50% share of the remaining construction revenues from this project is estimated at \$89 million (2008 - \$161 million), the amount reported as backlog has been reduced by \$37 million (2008 - \$68 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.

For the quarter ended September 30, 2009, Infrastructure segment revenues of \$341 million were \$103 million, or 43%, higher than the corresponding quarter in 2008. Revenues from civil,

materials, utilities and international operations increased by \$5 million, \$73 million, \$13 million and \$12 million, respectively.

Revenue growth in civil operations occurred in Alberta. The majority of the increase in revenues from materials operations occurred in Alberta where revenues grew by \$67 million following the acquisition of South Rock in the first quarter of 2009 (South Rock is considered part of this segment's "materials" operations). The increase in revenues from utilities operations occurred in Ontario reflecting mostly higher volumes of gas pipeline and communication installation work. The revenue increase in international operations occurred primarily because of higher revenues from construction of the Quito airport project.

For the nine months ended September 30, 2009, revenues in the Infrastructure segment of \$686 million increased by \$205 million, or 43%, over the same period last year. Revenues from civil, materials, utilities and international operations increased by \$11 million, \$123 million, \$40 million and \$33 million, respectively. Increases in civil revenues were the result of higher volumes in Alberta, offset by declines in Ontario heavy civil operations. Revenues from materials operations were up in both Ontario and Alberta with most of the increase arising from the South Rock acquisition. The revenue increase in utilities essentially occurred for the same reasons that caused the revenue increase in the third quarter of 2009. The increase in revenues from international operations occurred primarily because of higher revenues from construction of the Quito airport project.

The Infrastructure segment operating profit of \$24.9 million in the third quarter of 2009 represents an \$8.0 million, or 48%, increase over the same quarter in 2008. Operating profits decreased in the civil operations by \$2 million, and increased in the materials and utilities operations by \$8 million and \$1 million, respectively. Operating profits from international operations were almost unchanged quarter-over-quarter.

The majority of the decline in civil operating profits was the result of lower margins from civil operations in Alberta and from lower volumes of heavy civil work in Ontario. The improvement in operating profits from materials occurred primarily in Alberta as a result of the South Rock acquisition, while the increase in utilities profits occurred in Ontario and Alberta reflecting the higher volumes in the quarter. Despite the higher third quarter revenues from international operations, operating profits from these operations were flat quarter-over-quarter. Previously, 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. This change order positively impacted margins for the third quarter of 2008 given that Aecon had previously factored in the costs associated with this change order without the offsetting revenue. As at September 30, 2009, the Quito airport construction project was approximately 63% complete. An unfavourable increase in net foreign exchange losses in the quarter also negatively impacted operating results in international operations.

For the nine months ended September 30, 2009, the Infrastructure segment operating profit of \$14.2 million compared to an operating profit of \$14.7 million in the nine months of 2008, a decrease of \$0.5 million. The segment results include amortization of intangible assets resulting from the South Rock acquisition of \$4.9 million for the nine-month period. But for this amortization charge,

operating profit would have increased by \$3.4 million over last year. Operating profits increased in the materials and international operations by \$6 million and \$2 million, respectively, and decreased in the civil operations by \$8 million. Operating profits in the utilities operations were nearly unchanged period-over-period.

The majority of the decline in civil operating profits was the result of lower work volumes in Ontario heavy civil operations. The improvement in material operating profits occurred primarily in Alberta where higher margins from the South Rock operating unit offset decreases in Ontario operations. In utilities, higher operating profits in Alberta were offset by lower profits in Ontario where first quarter margins were down year-over-year generally because of the impact of poor winter weather conditions which hindered volumes and productivity. While results from the Quito airport construction project were unchanged period-over-period, international operations in the first nine months of 2009 benefited from recoveries of partner advances on the India project that were previously written off.

In 2008, the arbitration panel considering the first of two major claims launched by Continental Foundation Joint Venture (“CFJV”) (in which Aecon is a 45% partner) in respect of the Nathpa Jhakri hydroelectric project in India ruled substantially in the joint venture’s favour and dismissed a counter-claim for liquidated damages filed against CFJV. Subsequently, CFJV received approximately \$8.4 million in claim settlements, net of expenses. These amounts were applied to reduce the carrying value of the unbilled work-in-progress balance of the joint venture. CFJV also repaid in full a working capital loan of US\$15.7 million. Additionally, \$21 million of a total of \$25 million in letters of credit filed by Aecon to cover working capital and performance guarantees were cancelled as at September 30, 2009.

In July 2009, the arbitration panel considering the second claim launched by CFJV in respect of the India project ruled substantially in the joint venture’s favour and dismissed a counter-claim for liquidated damages filed against CFJV. An appeal of this award by the client to the arbitration panel was rejected by the panel. Following this appeal, CFJV negotiated an interim settlement of the extension of time award amount. This settlement will be presented for ratification by the client’s board of directors shortly.

The ultimate financial impact of these awards is subject to a number of risks and uncertainties including the possibility of further appeal of the second award by the client if not ratified by the client’s board, finalization of award amounts with the client, collection of all amounts outstanding on both the first and second claims, and collection of all other outstanding project-related accounts receivable balances. As such, the exact financial impact of these awards, including the timing of additional receipts and the timing when additional net income will be recognized, is not entirely clear at this time. However, notwithstanding the various risks and uncertainties, management believes that in addition to recovering its net investment in the project of \$7 million, Aecon’s share of cash and after tax profits from the awards will be in the range of \$4 million to \$7 million.

After deducting internally directed capital charges and allocations of Corporate overheads, which increased by \$2.8 million in the third quarter of 2009 and by \$8.1 million in the first nine months of 2009, the Infrastructure segment’s operating profit before income taxes in the third quarter of 2009 was \$16.1 million compared to \$10.8 million in 2008, while a loss of \$10.7 million in the first nine

months of 2009 compared to a loss of \$2.1 million in 2008. The higher capital charges in 2009 relate primarily to higher investments in working capital and long-term capital employed as a result of the South Rock acquisition.

Backlog at September 30, 2009 was \$576 million, which represents a \$5 million decrease over the same time in the prior year. The year-over-year change results primarily from higher backlog in the materials operations as a result of the acquisition of South Rock, offset by lower backlog in civil operations. New contract awards totalled \$329 million for the third quarter of 2009 and \$642 million year-to-date, compared to \$218 million and \$690 million, respectively, in the prior year. The Seymour Capilano Filtration Project in British Columbia and the reconstruction of the Carbonneau Bridge in Quebec were among the largest contributors to new awards in 2009.

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 show up as backlog when the number of units or volume of work cannot be estimated with reasonable certainty. Therefore, the Infrastructure segment's effective backlog at any given time is greater than what is reported.

## **BUILDINGS**

### **Financial Highlights**

<b>\$ millions</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Revenues</b>	<b>\$ 121.0</b>	<b>\$ 108.9</b>	<b>\$ 344.3</b>	<b>\$ 326.5</b>
<b>Segment operating profit (loss)</b>	<b>0.9</b>	<b>(0.9)</b>	<b>0.9</b>	<b>1.4</b>
<b>Capital charges and allocations of corporate overhead</b>	<b>(1.5)</b>	<b>(0.1)</b>	<b>(3.5)</b>	<b>(0.5)</b>
<b>Segment profit (loss) before income taxes</b>	<b>(0.6)</b>	<b>(1.0)</b>	<b>(2.6)</b>	<b>0.9</b>
<b>Return on revenue</b>	<b>0.8%</b>	<b>(0.8)%</b>	<b>0.3%</b>	<b>0.4%</b>
<b>Backlog – September 30</b>	<b>\$ 630</b>	<b>\$ 618</b>		

Third quarter revenues in the Buildings segment of \$121 million were \$12 million, or 11%, higher than in the same period of 2008. The increase resulted primarily from a \$24 million increase in Toronto operations, and partly offset by an \$11 million decline in Seattle operations. The increase in Toronto reflects the impact of several large projects, including three Infrastructure Ontario projects, underway during the quarter. The decline in Seattle revenues was primarily caused by peak production work on a large project in 2008 that is now winding down as the project nears completion.

For the nine months ended September 30, 2009, the Buildings segment reported revenues of \$344 million compared to revenues of \$326 million during the same period last year. The \$18 million, or 6%, increase resulted primarily from a \$63 million increase in Toronto operations, partly offset by a \$34 million decrease in Seattle operations. These changes were caused by factors similar to those that affected the change in third quarter revenues. Montreal operations experienced a \$12 million

reduction in volumes as part of an intentional downsizing and ongoing restructuring initiative in order to return this unit to expected performance levels, whereas volumes in Ottawa were up \$10 million in the period. In addition, a decrease in revenues of \$5 million from Vancouver based Scott Management Limited, in which Aecon has a 49% interest, contributed to the reduction in revenues.

Segment operating profit of \$0.9 million in the third quarter of 2009 compares with a loss of \$0.9 million in the same quarter last year. Most of the \$1.8 million quarter-over-quarter improvement in operating profits occurred in the Montreal operations where losses decreased from \$2.7 million in 2008 to \$0.1 million in 2009. The improvement in Montreal operations was due to the quarter-over-quarter impact of profit write downs taken in 2008 on some projects and severance costs associated with a restructuring of this operation. This increase was offset by net declines of \$0.8 million in operating profits in the balance of the Buildings operations. Despite a \$25 million increase in revenues, operating profits from Toronto decreased by \$0.5 million, as reductions in contract margins realized on some projects offset the expected impact of higher volumes. The decrease in quarter-over-quarter operating profits in the other operating units is consistent with the lower quarterly revenues in those units.

For the nine months ended September 30, 2009, the Buildings segment generated an operating profit of \$0.9 million, representing a decline of \$0.5 million from the same period in 2008. The year-over-year improvement in the Montreal operations of \$3.7 million which occurred for reasons similar to those noted in the third quarter results, was more than offset by declines in the balance of the Buildings operations. Particularly disappointing were operating results from Toronto and Ottawa where operating profits decreased by \$0.7 million and \$0.6 million, respectively, as reductions in contract margins realized on several projects offset the expected impact of significantly higher volumes in 2009. Also impacting operating results in 2009 was the period-over-period decrease in operating profits of Seattle and Scott Management which totaled \$2.9 million following the lower year-to-date revenues in those units.

After deducting capital charges and allocations of corporate overheads, the Buildings segment operating loss before income taxes for the third quarter of 2009 was \$0.6 million compared to a loss of \$1.0 million in the third quarter of 2008, and operating loss before income taxes for the first nine months of 2009 was \$2.6 million compared to a profit of \$0.9 million for the same period in 2008.

Backlog of \$630 million at the end of the third quarter of 2009 was \$12 million higher than at the same time last year with increases in the segment's Toronto and Ottawa operations offsetting decreases occurring in Seattle and Montreal. New contract awards totaling \$231 million were recorded in the third quarter of 2009, which compares with awards of \$230 million in the same period of 2008, while awards of \$440 million in the first nine months of 2009 compared to \$465 million in the first nine months of 2008. The majority of the new awards in 2009 occurred in the segment's Toronto and Ottawa operations and included an \$82 million award from Infrastructure Ontario related to the redevelopment of the Lakeridge Health Oshawa hospital project, as well as a \$79 million contract for a new social science building at the University of Ottawa.

As discussed in the Consolidated Financial Highlights section, contracts awarded to Aecon based on supplier of choice and alliance agreements, as well as the value of construction work managed under



construction management advisory agreements, do not 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>September 30</b>		<b>September 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Revenues</b>	<b>\$ 215.6</b>	<b>\$ 172.1</b>	<b>\$ 556.7</b>	<b>\$ 425.5</b>
<b>Segment operating profit</b>	<b>13.1</b>	<b>21.2</b>	<b>43.2</b>	<b>45.8</b>
<b>Capital charges and allocations of corporate overheads</b>	<b>(2.7)</b>	<b>(0.6)</b>	<b>(7.8)</b>	<b>(3.8)</b>
<b>Segment profit before income taxes</b>	<b>10.4</b>	<b>20.7</b>	<b>35.4</b>	<b>42.1</b>
<b>Return on revenue</b>	<b>6.1%</b>	<b>12.3%</b>	<b>7.8%</b>	<b>10.8%</b>
<b>Backlog – September 30</b>	<b>\$ 717</b>	<b>\$ 301</b>		

Revenues in the third quarter of 2009 of \$216 million in the Industrial segment were \$44 million or 25% higher than in the same period in 2008. Approximately \$127 million of the increase in revenues arose in the newly acquired Lockerbie operations. Excluding Lockerbie, third quarter revenues decreased by \$83 million. In Western Canada, revenues declined by \$42 million quarter-over-quarter. Commencing in the third quarter, as part of a post-acquisition initiative to consolidate operations in western Canada into a single entity, all new industrial work in western Canada was bid through the Lockerbie operating unit rather than the previous Industrial Western Canada unit. This shift of new work to Lockerbie, combined with reductions in module assembly and pipe fabrication projects in western Canada as a result of a significant decline in new capital spending in the oilsands and related businesses in the past year, produced lower revenues in the Western Canada unit. In Ontario operations, revenues decreased quarter-over-quarter by \$42 million, mostly as a result of less work in the power, gas and automotive sectors.

For the nine months ended September 30, 2009, the Industrial segment reported revenues of \$557 million compared to revenues of \$425 million in the comparative period last year, representing an \$131 million or 31% increase. As in the third quarter of 2009, the Lockerbie operations represented \$270 million of the increase in revenues. In addition, revenues also increased in Eastern Canada by \$2 million and in Innovative Steam Technologies Inc. ("IST") by \$7 million reflecting the impact of new orders received. Offsetting these higher revenues were decreases in revenues from the segment's Western Canada and Ontario operations of \$97 million and \$54 million, respectively. These decreases occurred for essentially the same reasons as noted above in the third quarter revenue commentary.

In the third quarter of 2009, the Industrial segment generated an operating profit of \$13.1 million compared to \$21.2 million in the same period in 2008. Excluding a \$5 million contribution from Lockerbie, the Industrial operations in Ontario and Western Canada were down \$7 million and \$9 million, respectively, while operations in IST operations were up \$2 million. The large declines in

Ontario and Western Canada operating profits in the quarter resulted from the above noted significant reduction in volumes in the period.

For the nine months ended September 30, 2009, the Industrial segment generated an operating profit of \$43.2 million compared to \$45.8 million in the same period last year. Of the \$3 million or 6% decline, the Lockerbie operations represented an \$8 million (net of a \$3.1 million charge for the amortization of the intangible value of backlog acquired) increase in operating profits. Of the remaining balance, operating profits increased in Ontario, Eastern Canada and IST operations by \$10 million, \$3 million and \$4 million, respectively, partially offset by a decrease in operating results in Western Canada of \$28 million. The higher operating profits in Ontario are a function of higher contract margins mostly on a small number of construction projects and improved results from its fabrication operations. The lower Western Canada operating profits were a result of the above noted significant reduction in volumes in 2009. Results in Eastern Canada improved because of a combination of higher margins and a favourable change in foreign exchange gains and losses period-over-period related to work performed for U.S. clients.

After deducting capital charges and allocations of corporate overheads, the Industrial segment's operating profit before income taxes was \$10.4 million compared to \$20.7 million in the third quarter of 2008. Segment operating profit before income taxes for the first nine months of 2009 was \$35.4 million compared to \$42.1 million in the first nine months of 2008.

Backlog at September 30, 2009 of \$717 million was \$416 million higher than at the same time last year due largely from \$587 million of backlog in the Lockerbie operations, and partially offset by a decline in Ontario. The decline in backlog in Ontario operations of \$150 million is largely due to work off on large projects during the past year that have not been replaced. Overall, new contract awards of \$382 million in the third quarter of 2009 were \$293 million higher than in 2008, and new awards of \$588 million for the nine months of 2009 are \$245 million higher than 2008. Most of the increase in new awards occurred in the Lockerbie operations, whereas a decrease in new awards occurred in Ontario where award levels for the first nine months of 2009 are down \$101 million year-over-year.

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 show up as firm backlog when the number of units or volume of work cannot be estimated with reasonable certainty. 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	
	September 30		September 30	
	2009	2008	2009	2008
<b>Revenues</b>	\$ 31.3	\$ 16.2	\$ 78.7	\$ 46.7
<b>Segment operating profit (loss)</b>	<b>(0.2)</b>	3.3	<b>7.5</b>	7.1
<b>Capital charges and allocations of corporate overheads</b>	<b>(3.6)</b>	(2.6)	<b>(10.5)</b>	(7.0)
<b>Segment profit (loss) before income taxes</b>	<b>(3.8)</b>	0.8	<b>(3.0)</b>	0.1
<b>Return on revenue</b>	<b>(0.7)%</b>	20.6%	<b>9.5%</b>	15.3%

Revenues in the third quarter of 2009 of \$31 million in the Concessions segment were up \$15 million, or 93%, compared to the same period in 2008. The majority of the increase in revenues came from Aecon's interest in the operator of 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 2009, Concessions segment revenues were \$79 million, representing a \$32 million or 69% increase over the same period in 2008. Similar to the third quarter of 2009, the majority of the revenue increase arose in the operator of 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 2009 surpassed 121,000 vehicles, an 18% increase over September 2008. The project remains on track to deliver an expected 14% after-tax internal rate of return on Aecon's investment.

Segment operating loss of \$0.2 million in the third quarter of 2009 compares to a profit of \$3.3 million from the same period in 2008, with the majority of the decrease occurring in the Quito airport concessionaire, which includes the results from operating the existing Quito airport while the new airport is being constructed. As noted in the Quito Airport Project Update section of this MD&A, due to uncertainties arising from recent political events in Ecuador concerning the public nature of airport funds, no profits have been recognized by the Quito airport concessionaire commencing in the third quarter of 2009 pending further clarification of the impacts of the Airports Ruling.

For the nine months ended September 30, 2009, segment operating profit of \$7.5 million represented an increase of \$0.4 million or 5% over the same period in 2008, with improvements in operating profits from Aecon's interest in the operator of the Cross Israel Highway offsetting a decline from the Quito airport concessionaire which for reasons noted above in the preceding paragraph.

Nearly 3.5 million passengers passed through the existing Quito airport in the first nine months of 2009, a 2.7% increase over the same period in 2008. It should be noted that operating profits from the 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 loss before income taxes for the third quarter of 2009 of \$3.8 million, which compared to an operating profit before income taxes of \$0.8 million in the third quarter of 2008. For the nine months ended September 30, 2009, the Concessions segment had an operating loss before income taxes of \$3.0 million compared to an operating profit before income taxes of \$0.1 million in the first nine months of 2008.

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.

## **CORPORATE AND OTHER**

### **Financial Highlights**

<b>\$ millions</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>MG&amp;A</b>	<b>\$ (6.0)</b>	<b>\$ (5.0)</b>	<b>\$ (16.7)</b>	<b>\$ (12.4)</b>
<b>Other income (expense) <sup>(1)</sup></b>	<b>(0.9)</b>	<b>-</b>	<b>(1.9)</b>	<b>0.4</b>
<b>Interest income</b>	<b>2.2</b>	<b>1.8</b>	<b>6.9</b>	<b>5.5</b>
<b>Segment operating loss</b>	<b>(4.7)</b>	<b>(3.2)</b>	<b>(11.7)</b>	<b>(6.5)</b>
<b>Capital charges and allocations of corporate overheads</b>	<b>16.6</b>	<b>9.3</b>	<b>46.7</b>	<b>28.0</b>
<b>Segment profit before income taxes</b>	<b>11.9</b>	<b>6.1</b>	<b>35.0</b>	<b>21.4</b>

- (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 2009 was higher than in 2008 by \$1.5 million, and segment operating loss for the first nine months of 2009 was higher than in 2008 by \$5.2 million. Impacting the operating loss in the third quarter of 2009 was marketing, general and administrative expenses (“MG&A”) which were \$1.0 million higher than in the same quarter in 2008. The increase in MG&A was primarily due to higher training and employee compensation costs including higher salary and performance-related incentive costs; and higher defined benefit pension plan expenses resulting from the amortization into income of past years actuarial losses. Also negatively impacting the segment operating loss in the third quarter of 2009 was a \$0.3 million unfavourable change in foreign exchange gains and losses year-over-year, and higher depreciation charges of \$0.5 million mainly for IT equipment.

For the nine months, the segment operating loss was impacted by higher MG&A costs, which increased by \$4.3 million year-over-year and, similar to the third quarter, due in large part to increases in personnel costs, training costs, incentive costs, and pension charges. Segment operating loss was also impacted by an unfavourable change in foreign exchange gains and losses year-over-year of \$1.5 million. Partially offsetting the higher MG&A and foreign exchange costs was an increase in interest income for the nine-month period of \$1.4 million.

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

### Quarterly Financial Data

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

(Unaudited)	2009			2008				2007
	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4
Revenues	\$ 707.1	613.2	340.9	\$ 602.7	\$ 534.7	\$ 437.7	\$ 302.0	\$ 482.3
Earnings (loss) before income taxes	29.7	15.2	0.1	31.4	35.7	24.3	(3.5)	23.4
Net income (loss)	19.6	9.9	(0.6)	20.4	23.1	15.6	0.3	22.5
Earnings (loss)								
Basic	0.36	0.18	(0.01)	0.41	0.46	0.32	0.01	0.56
Diluted	0.35	0.18	(0.01)	0.40	0.45	0.31	0.01	0.50

### 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. Aecon is also involved in three build finance hospital projects with Infrastructure Ontario. Each of these hospital projects is being financed by non-recourse project financing during the construction period through the use of individual build finance special purpose vehicles (“Build Finance SPVs”).

Given the significant effect of Quiport JV and other joint ventures, as well as the impact of Build Finance SPVs, on Aecon’s Consolidated Financial Statements, Aecon provides supplemental financial information in note 21 to the 2009 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, 2009 were \$298 million, which compares with \$293 million at December 31, 2008. Of these amounts, \$33 million and \$62 million, respectively, were on deposit in joint venture bank accounts, which Aecon cannot access directly. Also included in cash and cash equivalents was \$36 million (December 31, 2008 - \$8 million) of cash held by Build Finance SPVs which was advanced by lenders to finance the construction by Aecon of Infrastructure Ontario hospital projects.

Restricted cash of \$62 million at September 30, 2009 (December 31, 2008 - \$28 million) includes \$14 million of 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. The restricted cash balance at September 30, 2009 also includes \$48 million of cash held in Quiport JV.

Term deposits of \$33 million at September 30, 2009 (December 31, 2008 - \$nil) represents short-term investments held by Build Finance SPVs using cash which was advanced by lenders to finance the construction by Aecon of Infrastructure Ontario hospital projects.

Total debt of \$511 million at September 30, 2009 compares to \$183 million at December 31, 2008, the composition of which is as follows (\$ millions):

	<u>Sept. 30, 2009</u>	<u>Dec. 31, 2008</u>
Bank indebtedness	\$ -	\$ 2.6
Current portion of long-term debt – recourse	15.9	10.9
Current portion of long-term debt – non-recourse <sup>(1)</sup>	203.9	5.5
Long-term debt – recourse	63.4	45.2
Long-term debt – non-recourse	70.0	118.7
Convertible debentures	158.1	-
<b>Total debt</b>	<b>\$ 511.3</b>	<b>\$ 182.8</b>
Debt held directly	237.4	56.0
Debt held by Build Finance SPVs	148.0	30.7
Debt of joint ventures	125.9	96.1
<b>Total</b>	<b>\$ 511.3</b>	<b>\$ 182.8</b>

**Note (1):** The current portion of long-term debt – non-recourse includes Quito airport project debt which has been re-classified as current. See the Quito Airport Project Update section of this MD&A for further details.

There were no bank indebtedness balances at September 30, 2009 compared to \$3 million of bank indebtedness as at December 31, 2008. The December 2008 balance represents Aecon's 45% share

of funds borrowed by the Nathpa Jhakri hydroelectric project joint venture in India which was fully repaid in the first quarter of 2009.

At September 30, 2009, the long-term debt component of total debt, including the current portion, totalled \$511 million compared to \$180 million at December 31, 2008. Of the \$331 million net increase in long-term debt, \$150 million relates to increases in non-recourse project financing and \$158 million arises from increases in convertible debenture balances. Changes in non-recourse long-term debt included an increase of \$32 million resulting from the proportionate consolidation of Aecon's share of non-recourse borrowings to finance the Quito airport project, and an increase of \$117 million in non-recourse project debt related to three Infrastructure Ontario hospital projects by Aecon controlled Build Finance SPVs. Changes in convertible debt arose from the issuance of convertible debentures in the third quarter of 2009. The principal amount of the debentures was \$172.5 million. For accounting purposes, the conversion rights were assigned a value of \$6.9 million, which is included in shareholders' equity, and \$165.6 million (less transaction costs of \$7.6 million) has been assigned to the debt component of the debentures. Other changes in long-term debt included a scheduled \$4 million repayment on the note payable issued in connection with the 2007 acquisition of Karson, and an increase in debt of \$29 million related to the South Rock operations.

On January 15, 2009, Aecon acquired South Rock, an infrastructure construction company in Alberta focusing primarily on the Southern Alberta civil market. Under the share purchase deal, Aecon assumed South Rock's existing debt of approximately \$8 million and, subject to certain post closing adjustments, paid approximately \$33 million net of cash acquired for all the outstanding shares of South Rock.

On April 1, 2009, Aecon acquired, by a plan of arrangement, all of the issued and outstanding common shares of Lockerbie for total consideration of approximately \$213 million. This transaction was financed by Aecon without any additional debt through the payment of \$152.5 million in cash to Lockerbie shareholders and the issuance to Lockerbie shareholders of 5,510,941 common shares of Aecon representing approximately 10% of Aecon's pro forma diluted shares.

The \$165 million of net proceeds generated from the September 2009 convertible debentures financing provide Aecon with a significantly improved liquidity base, notwithstanding the large net cash outlay used to fund the Lockerbie acquisition earlier in 2009. Aecon's liquidity position and capital resources continued to be strong in 2009 and are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future. This continues the positive trend of recent years where cash flow from operations for the years ended December 31, 2008 and 2007 were \$144 million and \$97 million, respectively. In addition to carrying large cash balances, Aecon's liquidity position is further strengthened by its ability to draw on a committed bank operating line of \$100 million which, except for supporting letters of credit amounting to \$37 million, is otherwise undrawn as of September 30, 2009. This credit facility expires on June 15, 2011. Further details relating to Aecon's operating lines are described in note 10 to the 2008 Consolidated Financial Statements.

Annual dividends of \$0.20 per share continue to be paid in quarterly payments of \$0.05 per share.

Aecon's remaining equity investment of US\$1.9 million in the Quito airport concessionaire is expected to be funded from ongoing profit distributions from construction operations of the new Quito airport. As of September 30, 2009, Aecon's total investment in the Quito airport concessionaire was approximately US\$50 million. Of this amount, US\$31.8 million was invested through cash equity contributions and the balance, US\$18.2 million, through the reinvestment of Aecon's share of the earnings of the existing airport. Aecon has also deposited US\$3.8 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\$3.1 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, 2009.

### Summary of Cash Flows

	Consolidated Cash Flows		Consolidated Cash Flows	
	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
<b>\$ millions</b>				
<b>Cash provided by (used in):</b>				
Operating activities	\$ (11.4)	\$ 51.9	\$ (63.2)	\$ 64.9
Investing activities	(58.7)	(12.3)	(251.7)	(36.6)
Financing activities	178.8	2.0	321.8	55.1
Increase in cash and cash equivalents	108.6	41.6	7.0	83.4
Effects of foreign exchange on cash balances	1.1	1.8	(2.2)	3.2
Cash and cash equivalents - beginning of period	187.9	177.9	292.9	134.6
<b>Cash and cash equivalents - end of period</b>	<b>\$ 297.6</b>	<b>\$ 221.3</b>	<b>\$ 297.6</b>	<b>\$ 221.3</b>

### **Operating Activities**

Cash used by operating activities of \$11 million in the third quarter of 2009 was \$63 million higher than in the same period last year, while cash used by operating activities of \$63 million in the first nine months of 2009 was \$128 million higher than in the same period last year. The increased use of cash is due to higher investments in working capital, mostly representing the cost of construction of certain build-finance projects within the Buildings segment (which have offsetting balances within financing activities below resulting from the non-recourse project financing that has been secured to fund these costs pending payment from the client upon the completion of construction) and in the Infrastructure segment, offset in part by higher cash earnings.

But for the above noted build-finance projects within the Buildings segment, cash used by operating activities excluding build-finance projects in the first nine months of 2009 would have been \$7 million.

### **Investing Activities**

In the third quarter of 2009, investing activities resulted in a use of cash of \$59 million, which compares with cash used of \$12 million in 2008. Of the cash used in 2009, \$51 million represents



increases in “restricted cash” balances, most of which were held in Quiport JV, and \$19 million represents Aecon’s proportionately consolidated share of the cash used by Quiport JV for the construction of the new Quito airport (i.e. increase in concession rights). These Quiport JV related cash outlays were, for the most part, financed by non-recourse project debt (see Financing Activities below). In addition, cash of \$13 million was sourced by Build Finance SPVs as investments in term deposits were converted to cash to fund construction costs. In 2008, Aecon used \$12 million of cash to finance its proportionate share of the cash used by Quiport JV for construction of the new Quito airport.

For the first nine months of 2009, investing activities resulted in a use of cash of \$252 million, which compares with cash used of \$37 million in the first nine months of 2008. Of the cash used in the first nine months of 2009, \$117 million, net of cash acquired, was used to fund the acquisitions of Lockerbie and South Rock, \$64 million represents Aecon’s proportionately consolidated share of the investment made by Quiport JV in the construction of the new Quito airport, \$30 million represents increases in restricted cash balances, and cash of \$33 million was used by Build Finance SPVs to invest in term deposits until such time as these investments are required to fund construction costs. During the first nine months of 2008, Aecon used \$34 million to finance its share of the cash used by Quiport JV for construction of the new Quito airport.

## **Financing Activities**

In the third quarter of 2009, cash provided by financing activities amounted to \$179 million, compared to cash provided of \$2 million in the same quarter last year. The principal source of cash from financing activities was \$165 million in net proceeds from the issuance of convertible debentures in the third quarter. Also during the third quarter of 2009, issuances of long-term debt amounted to \$21 million, while repayments totalled \$5 million, for a net change of \$16 million. Of the increase in long-term debt during the third quarter of 2009, \$14 million related to non-recourse project financing for various Infrastructure Ontario hospital projects. During the third quarter of 2008, there were net repayments of long-term debt amounting to \$7 million. Dividends of \$3 million and \$5 million were paid in the third quarters of 2009 and 2008, respectively.

In the first nine months of 2009, cash provided by financing activities amounted to \$322 million, compared to cash provided of \$55 million in the same period last year. During 2009, in addition to the \$165 million in proceeds from the issuance of convertible debentures noted above, issuances of long-term debt amounted to \$195 million, while repayments totalled \$20 million, for a net change of \$175 million. This compares to net repayments of long-term debt totalling \$2 million the first nine months of 2008. Of the increase in long-term debt in 2009, \$42 million related to Aecon’s proportionately consolidated share of additional non-recourse financing for the new Quito airport project, \$117 million related to non-recourse project financing for various Infrastructure Ontario hospital projects, and \$33 million related to debt incurred in relation to the South Rock operations. Repayments of long-term debt in 2009 included a \$4 million scheduled principal repayment on a note payable issued in connection with the acquisition of Karson and a repayment of \$9 million in term loans in South Rock. Also, \$9 million was used in 2009 to purchase Aecon common shares by the Long-Term Incentive Plan compared to \$4 million in 2008, and dividends of \$8 million and \$10 million were paid in each of the first nine month periods of 2009 and 2008, respectively.

## NEW ACCOUNTING STANDARDS

Several new Canadian accounting standards adopted in 2009 are described in note 2 to the 2009 Interim Consolidated Financial Statements.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

### *Background, project structure and project progress*

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that Canadian public entities will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. The Company will issue consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) for the first quarter ended March 31, 2011, with comparative information.

As detailed on page 12 of Aecon’s 2008 annual report, the Company has set up a project and governance structure for its conversion to IFRS.

The Company’s conversion project will be completed in four phases: diagnostic phase, detailed assessment phase, solution development phase and implementation phase. These phases will often be in process simultaneously as they are applied to individual IFRS. To date, the project is progressing according to plan. The Company has completed the diagnostic phase of the project and is nearing completion on the detailed assessment phase for all standards that affect the transition. The Company has begun the solutions development and the implementation phase on many of the IFRS that could potentially have a significant impact on Aecon’s financial statements.

### *Potential accounting changes as a result of transition to IFRS*

The table below provides a very brief summary of select IFRS that may impact Aecon, their differences from Canadian Generally Accepted Accounting Principles (“GAAP”) and their potential impact to the Company. The table is not comprehensive and does not include all of the differences from GAAP for the standards noted. Also, the table does not include all the standards that may require changes for the transition to IFRS. Some of the standards not presented in the table may have a significant impact on the Company’s consolidated financial statements.

<b>Standards</b>	<b>Difference from GAAP</b>	<b>Potential Impact</b>
Presentation and disclosure	IFRS requires significantly more disclosure than GAAP for certain standards.  In some cases, IFRS also requires different presentation on the balance sheet and income statement.	This will be the most significant impact to the organization. The other differences and impacts noted throughout this table will cause measurement differences, but their impact on overall earnings is not expected to be significant.  The increased disclosure requirements will cause the Company to change current processes and implement new financial reporting processes to ensure the appropriate data is collected for disclosure purposes.

Construction contracts	<p>IFRS provides more explicit guidance than GAAP on revenue recognition for construction contracts.</p> <p>The criteria for combining and separating contracts is different under IFRS than current generally accepted practice.</p> <p>Borrowing costs are to be treated as a contract cost in calculating percentage of completion.</p>	<p>More contracts may have to be combined and accounted for as a single contract under IFRS.</p> <p>Percentage completion calculations on projects with project-specific debt may change as borrowing costs are treated as a contract cost.</p>
Joint arrangements	<p>An IASB exposure draft proposes to eliminate the use of proportionate consolidation method in favour of the equity method for joint ventures, as defined by the exposure draft. Aecon expects the final standard issued for joint arrangements will be in effect for its transition to IFRS.<sup>(1)</sup></p>	<p>Reduction in reported amounts of assets, liabilities, revenues and expenses, but no expected impact on net income.</p>
Property, plant and equipment	<p>Major asset components must be depreciated separately.</p>	<p>Annual depreciation expense may change to reflect accounting for more components.</p>
Impairment of assets	<p>IFRS requires the assessment of asset impairment to be based on discounted future cash-flows. IFRS allows the reversal of impairment losses, other than for goodwill and indefinite life intangible assets.</p>	<p>The potential for asset impairments will increase for assets whose carrying amounts are currently supported by an undiscounted cash-flow basis. However, the requirement to subsequently reverse impairment losses where circumstances have changed may reduce or eliminate a prior impairment recognized.</p>
Lease accounting	<p>With respect to classifying a lease as either finance<sup>(2)</sup> or operating, IFRS does not have quantitative guidelines, such as those that currently exist in GAAP.</p>	<p>There is a potential for more of Aecon's operating leases to be treated as finance leases under IFRS.</p>
Service concession arrangements	<p>IFRS has specific guidance on service concession arrangements. GAAP does not explicitly address these arrangements.</p>	<p>There is the potential for recorded amounts relating to service concession arrangements to change.</p>
Business combinations	<p>IFRS requires that all transaction costs of business combination be expensed and that contingent consideration be recognized on closing rather than only when probable.</p>	<p>Aecon will have to apply these changes to any new business combinations post January 1, 2010 unless it elects to early adopt.</p>
First-time adoption	<p>IFRS contains explicit guidance on first-time adoption of IFRS. The IFRS contains several elections to ease transition and some mandatory exemptions to retrospective application of IFRS.</p>	<p>Aecon will have to choose which available elections it wishes to make and ensure it follows the mandatory exemptions required.</p>

(1) The IASB expects to issue a final standard on Joint Arrangements in the third quarter of 2009, as per the IASB website. The AcSB anticipates that this IFRS will be effective for 2011 as per their document "Which IFRSs are Expected to Apply for Canadian Changeover in 2011?" published in September 2008.

(2) IFRS uses the term "finance lease" to describe what is called a "capital lease" under GAAP.

At this time, the Company can not quantify the impact of IFRS to its financial statements. The Company is close to finalizing preliminary conclusions and accounting policy choices on the standards noted above. Those conclusions and accounting policy choices will be reported on when finalized.

The IASB has several projects slated for completion in 2010 and 2011 that may significantly impact the transition to IFRS and the financial statements of the Company. The Company continues to monitor the IASB's progress on these projects and their impact on the Company's transition to IFRS.

#### *Impact on information systems and technology*

The areas where information systems will be impacted the most are firstly, the need to create the ability for information systems to track IFRS adjustments for the 2010 comparative year, and secondly the need for the creation of several new or modified reports to assist in preparing the increased note disclosures required by IFRS. These report requirements may also require modifications to existing general ledger account structures. At this time, the transition is expected to have minimal impact on other information systems used at the organization.

#### *Impact on reporting and internal controls*

The Company's transaction-level controls will not be affected by the transition to IFRS in any material way. As noted, the transition to IFRS for the Company mainly affects the presentation and disclosure of its financial statements. This may lead to significant presentation and process changes to report more detailed information in the notes of the financial statements, but it is not currently expected not lead to many measurement or fundamental differences in the accounting treatments used by the Company.

Financial reporting controls will change due to the transition to IFRS, but the impact will be minimal. The majority of change surrounds new processes, or modified process, due to the fact that IFRS requires more judgement with respect to various accounting treatments. Processes and controls will be put in place to ensure the company is making the appropriate judgements and following the IFRS accounting policies selected.

Training and education to this point has been limited to those directly involved with the transition to IFRS. The Company will be rolling out the first phase of its training plan for the wider finance group of the organization in the fourth quarter of 2009. This training will focus mainly around the process changes required for 2010 and an overview of the reasons behind the changes from a standards perspective.

## **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.

The Chief Executive Officer and Chief Financial Officer limited the scope of their design of disclosure controls and procedures and their design of internal controls over financial reporting to exclude controls, policies and procedures of South Rock which was acquired by the Company during the first quarter of 2009. Further details related to the acquisition of South Rock are disclosed in note 14 to the 2009 Interim Consolidated Financial Statements.

### **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, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting except for the acquisition of South Rock during the first quarter of 2009 and the acquisition of Lockerbie during the second quarter of 2009. Further details related to the acquisition of South Rock and Lockerbie are disclosed in note 14 to the 2009 Interim Consolidated Financial Statements.

### **Contractual Obligations**

At December 31, 2008, the Company had commitments totaling \$248 million for equipment and premises under operating leases requiring minimum payments and principal repayment obligations under long-term debt. The only material changes since year end resulted from additional non-recourse project financing for the Quito airport and three Infrastructure Ontario hospital projects (approximately \$150 million), the issuance of convertible debentures (face value of \$172.5 million), a partial repayment on the note payable issued in connection with the acquisition of Karson (approximately \$4 million), and additional debt incurred in South Rock (approximately \$29 million).

At September 30, 2009, Aecon had contractual obligations to complete projects that were in progress. The revenue value of these contracts was \$1,961 million. This consists of the reported backlog of \$1,923 million plus an additional \$38 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 9 to the 2009 Interim Consolidated Financial Statements.

There was no material change in the funded status of Aecon's pension plans during the first nine months of 2009. Aecon's defined benefit pension plans (the "Pension Plans") had a combined deficit of \$2.0 million at December 31, 2008 (2007 - \$0.7 million). These deficits include experience and other actuarial gains and losses which, in accordance with Canadian generally accepted accounting principles, are not immediately recognized in the accounts of the Company but are amortized over the average remaining service life of employees. At December 31, 2008, unrecognized liabilities amounted to \$7.2 million (2007 - \$2.8 million). Aecon's pension expense in 2009 is expected to increase by approximately \$0.7 million when the 2008 experience and other actuarial losses begin to be amortized into income. Further details relating to Aecon's defined

benefit plans are set out in note 20 to the 2008 Consolidated Financial Statements and in the 2008 Annual MD&A.

The current actuarial valuation of the Pension Plans for statutory and contribution purposes was completed as at December 31, 2007. Under current pension benefits regulations, the next actuarial valuation of the Pension Plans must be performed with a valuation date of no later than December 31, 2010. No change in contributions will be required before 2011 and any change thereafter will reflect December 31, 2010 market conditions.

It is important to note that the accounting for pension plans involves a number of assumptions, including those that are disclosed in note 20 to the 2008 Consolidated Financial Statements. As a result of the uncertainty associated with these estimates, there is no assurance that the plans will be able to earn the assumed rate of return on plan assets. Furthermore, market driven changes may result in changes to discount rates and other variables which would result in Aecon being required to make contributions to the plans in the future that may differ significantly from current estimates. As a result, there is a significant amount of measurement uncertainty involved in the actuarial valuation process. This measurement uncertainty may lead to potential fluctuations in financial results attributable to the selection of actuarial assumptions and other accounting estimates involved in the determination of pension expense and obligations.

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, 2009, the Company had outstanding contracts to buy and/or sell U.S. dollars or euros on which there was a net unrealized exchange gain of \$0.4 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 period. Financial instruments are discussed in note 16 to the 2009 Interim Consolidated Financial Statements.

### **Related Party Transactions**

As at September 30, 2009, \$0.8 million of the Company's convertible debentures maturing September 30, 2014 were held by officers and directors of the Company or parties related thereto.

### **Critical Accounting Estimates**

The reader is referred to the detailed discussion on Critical Accounting estimates as outlined in the notes to the Company's 2008 Consolidated Financial Statements and in the 2008 Annual 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, 2009</u>	<u>Nov. 3, 2009</u>
Number of common shares outstanding (1)	56,740,232	56,740,232
Paid-up capital of common shares outstanding (2)	\$ 304,915	\$ 304,915
Outstanding securities exchangeable or convertible into common shares:		
Number of stock options outstanding	1,946,817	1,946,817
Number of common shares issuable on exercise of stock options	1,946,817	1,946,817
Increase in paid-up capital on exercise of stock options	\$ 23,344	\$ 23,344
Principal amount of convertible debentures outstanding (see note 10 to the 2009 Interim Consolidated Financial Statements)	\$ 158,054	\$ 158,054
Number of common shares issuable on conversion of convertible debentures	9,078,947	9,078,947
Increase in paid-up capital on conversion of convertible debentures	\$ 158,054	\$ 158,054

- (1) The number of common shares outstanding as per the above table at September 30, 2009 includes 1,642,222 shares (November 3, 2009 – 1,642,222 shares) held by the trustee of Aecon's Long-Term Incentive Plan ("LTIP").

The number of common shares outstanding at September 30, 2009 for financial statement purposes, after deducting the above LTIP shares, was 55,098,010 shares (November 3, 2009 – 55,098,010 shares) (see note 12 to the 2009 Interim Consolidated Financial Statements).

- (2) As described in note 12 to the 2009 Interim Consolidated Financial Statements, and in accordance with the recommendations of The Canadian Institute of Chartered Accountants, share capital at September 30, 2009 has been reduced by \$17.0 million to reflect shares held by the trustee of the LTIP plan.

## OUTLOOK

As we enter the final quarter of the year, most of the key trends shaping Aecon's outlook through the first three quarters remain in place. These trends include a healthy and growing backlog, a strong balance sheet and a robust bidding pipeline – all of which provide reason for optimism going forward, especially as we look toward 2010 and 2011.

Other key trends continuing to shape Aecon's outlook include:

- Government investment in transportation infrastructure across the country continues at a record pace, supported and augmented by government stimulus programs.
- The level of new investment in the oilsands continues to be weak, but with positive signals appearing that the next 12-18 months may see significant new investment once again.
- Capital investment in social infrastructure across the country, especially in the healthcare and education areas, continues to be strong.
- Demand for new electrical generation capacity in Ontario remains strong in the medium term, but with the timing of many planned projects somewhat uncertain given the impact of the recession on power consumption trends.
- Growing demand for water and wastewater infrastructure across the country, as decades of under-investment have put many municipalities in an untenable position with aging infrastructure beginning to falter.

As a result of these trends, the medium and long-term outlook for Aecon's Infrastructure segment remains strong. While their impact has been mitigated somewhat this year by wet weather throughout much of the country during the peak construction months, and by the relatively slow pace of stimulus programs reaching the construction stage, the full impact of these positive trends should be felt in the Infrastructure segment over the next several quarters and into 2011.

As noted last quarter, the Infrastructure segment is currently facing the strongest bidding pipeline it has seen in many years. Since a substantial portion of this bidding pipeline includes large projects such as major highway extensions, hydroelectric plants and public transit projects, Aecon's new business and backlog profile in the Infrastructure segment could be somewhat 'lumpy' over the next several quarters (within the context of a general trend upward). There could be large increases in some quarters when one or more of these large projects are awarded and little change or small declines in quarters when no large projects are awarded.

Backlog of \$630 million in the Buildings segment is near record levels, with continued strong revenue and new business volumes, particularly in the Toronto area. While this growth is continued evidence of positive momentum in the Buildings segment, it appears likely that profit contributions from the segment in 2009 may not show much improvement over those recorded last year, with meaningful bottom-line improvement not materializing until 2010.



The acquisition of Lockerbie & Hole in April will, among other things, significantly increase Aecon's market share in Western Canada, providing new and/or improved opportunities in the ongoing maintenance of existing oilsands infrastructure, the growing water/ wastewater market, the commercial mechanical market and the power sector in Western Canada.

Notwithstanding the addition of Lockerbie, the Industrial segment, which has been responsible for much of Aecon's growth in profitability over the last two years, has encountered difficult markets in 2009. As signalled in previous outlooks, the economic downturn will result in a significant decline in the operating results of the Industrial segment, with the positive impact of the Lockerbie acquisition partially offset this year by the amortization of the fair value of the acquired backlog and the depreciation on the increase in the fair value of property acquired. Nonetheless, Aecon's strengthened market position in Western Canada bodes well for improved results in the Industrial segment as sector prospects improve, particularly in the oilsands, through 2010 and into 2011.

In the Concessions segment, traffic on the Cross Israel Highway and at the Quito airport continues to increase, and construction is progressing on the Quito Airport project, which is now over 60% complete. As noted earlier in this MD&A, the Constitutional Court of Ecuador has issued a ruling regarding airport charges and services, which could have an impact on Aecon's concession interests in the Quito Airport project. Negotiations involving all parties (including governments, lenders and partners as well as Aecon) are underway with a view to resolving the outstanding issues. While the end result of these negotiations is not yet clear, Aecon has decided to record no profits in the third quarter from its equity participation in the concession.

Overall, notwithstanding the current economic and financial environment, management continues to believe that its strong backlog and the relative durability of its Infrastructure and Buildings markets bode well for continued strong financial performance through 2010 and into 2011.

## **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 were discussed. These "forward-looking" statements, including statements about the Company's conversion to IFRS, are based on currently available competitive, financial and economic data and operating plans but are subject to risks and uncertainties. Recent events in global financial and credit markets have resulted in abnormally high market volatility and a level of uncertainty not seen in decades. The high level of uncertainty arising from this crisis may continue to impact the global, North American and Canadian economies in unpredictable ways and may impact the results of Aecon in a manner which is currently impossible to ascertain. In addition, factors could cause Aecon's actual results, performance or achievements to vary from those expressed or inferred herein, including without limitation, the successful integration of recent acquisitions, the failure to achieve the targets associated with the construction of the new Quito airport or operation of the existing Quito airport as well as the associated political risk in Ecuador, and the impact of economic conditions in Western Canada. Risk factors are discussed in greater detail in the section on "Risk Factors" in the Annual Information Form filed on March 31, 2009 and were updated in the section on "Risk Factors" in the Final Prospectus filed on September 22, 2009. Both documents are available at [www.sedar.com](http://www.sedar.com). There has been no material change in Risk Factors from those disclosed in the Final Prospectus. 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, 2009 and 2008**

## **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

# Aecon Group Inc.

## Consolidated Balance Sheets

(in thousands of dollars) (unaudited)

	September 30, 2009	December 31, 2008
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	\$ 297,623	\$ 292,873
Restricted cash (note 3)	62,006	28,194
Marketable securities and term deposits (note 3)	33,060	-
Accounts receivable	331,552	259,431
Holdbacks receivable	110,140	92,584
Deferred contract costs and unbilled revenue	265,590	119,170
Inventories	33,508	23,582
Prepaid expenses	11,293	8,158
	<b>1,144,772</b>	<b>823,992</b>
<b>Property, plant and equipment</b> (note 14)	<b>198,741</b>	<b>102,333</b>
<b>Future income tax assets</b>	<b>13,428</b>	<b>20,622</b>
<b>Long-term concession investment</b> (note 6)	<b>32,685</b>	<b>32,685</b>
<b>Concession rights</b> (note 4)	<b>198,207</b>	<b>167,996</b>
<b>Other intangible assets</b> (note 14)	<b>17,397</b>	<b>528</b>
<b>Goodwill</b> (note 14)	<b>51,240</b>	<b>9,804</b>
<b>Other assets</b> (note 7)	<b>22,528</b>	<b>30,904</b>
	<b>\$ 1,678,998</b>	<b>\$ 1,188,864</b>

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 Balance Sheets ...continued

(in thousands of dollars) (unaudited)

	September 30, 2009	December 31, 2008
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 3)	\$ -	\$ 2,631
Accounts payable and accrued liabilities	412,560	319,840
Holdbacks payable	65,713	60,506
Deferred revenue	89,785	91,948
Income taxes payable	4,067	4,015
Future income tax liabilities	55,803	48,512
Current portion of non-recourse project debt (note 8)	203,941	5,542
Current portion of other long-term debt (note 8)	15,967	10,845
	<b>847,836</b>	<b>543,839</b>
<b>Non-recourse project debt</b> (note 8)	<b>70,000</b>	<b>118,665</b>
<b>Other long-term debt</b> (note 8)	<b>63,363</b>	<b>45,160</b>
<b>Other liabilities</b>	<b>3,424</b>	<b>3,375</b>
<b>Other income tax liabilities</b>	<b>16,140</b>	<b>15,537</b>
<b>Concession related deferred revenue</b>	<b>69,840</b>	<b>77,574</b>
<b>Convertible debentures</b> (note 10)	<b>158,054</b>	<b>-</b>
	<b>1,228,657</b>	<b>804,150</b>
<b>Non-controlling interests</b>	<b>3,736</b>	<b>2,449</b>
<b>Commitments and contingencies</b> (notes 9 and 11)		
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 12)	<b>304,915</b>	<b>262,644</b>
<b>Contributed surplus</b> (note 12)	<b>3,629</b>	<b>2,828</b>
<b>Convertible debentures</b> (note 10)	<b>6,887</b>	<b>-</b>
<b>Retained earnings</b>	<b>131,630</b>	<b>110,903</b>
<b>Accumulated other comprehensive income (loss)</b> (note 12)	<b>(456)</b>	<b>5,890</b>
	<b>446,605</b>	<b>382,265</b>
	<b>\$ 1,678,998</b>	<b>\$ 1,188,864</b>

# Aecon Group Inc.

## Consolidated Statements of Income

For the three months ended September 30, 2009 and 2008

(in thousands of dollars) (unaudited)

	<b>2009</b>	<b>2008</b>
<b>Revenues</b>	<b>\$ 707,094</b>	<b>\$ 534,665</b>
<b>Direct costs and expenses</b>	<b>(630,921)</b>	<b>(465,996)</b>
	<b>76,173</b>	<b>68,669</b>
<b>Marketing, general and administrative expenses</b>	<b>(28,937)</b>	<b>(26,060)</b>
<b>Foreign exchange losses</b>	<b>(1,007)</b>	<b>(267)</b>
<b>Gain on sale of assets</b>	<b>41</b>	<b>195</b>
<b>Depreciation and amortization</b>	<b>(14,501)</b>	<b>(7,079)</b>
<b>Interest expense</b>	<b>(4,330)</b>	<b>(1,560)</b>
<b>Interest income</b>	<b>2,238</b>	<b>1,828</b>
	<b>(46,496)</b>	<b>(32,943)</b>
<b>Income before income taxes and non-controlling interests</b>	<b>29,677</b>	<b>35,726</b>
<b>Income tax (expense) recovery</b>		
Current	<b>(16,634)</b>	<b>(837)</b>
Future	<b>7,027</b>	<b>(11,314)</b>
	<b>(9,607)</b>	<b>(12,151)</b>
<b>Income before non-controlling interests</b>	<b>20,070</b>	<b>23,575</b>
<b>Non-controlling interests</b>	<b>(432)</b>	<b>(495)</b>
<b>Net income for the period</b>	<b>\$ 19,638</b>	<b>\$ 23,080</b>
<b>Earnings per share</b> (note 12)		
Basic	<b>\$ 0.36</b>	<b>\$ 0.46</b>
Diluted	<b>\$ 0.35</b>	<b>\$ 0.45</b>
<b>Average number of shares outstanding</b> (note 12)		
Basic	<b>55,045,089</b>	<b>50,157,924</b>
Diluted	<b>56,729,786</b>	<b>51,051,438</b>

# Aecon Group Inc.

## Consolidated Statements of Income

For the nine months ended September 30, 2009 and 2008

(in thousands of dollars) (unaudited)

	<u>2009</u>	<u>2008</u>
<b>Revenues</b>	<b>\$ 1,661,216</b>	<b>\$ 1,274,276</b>
<b>Direct costs and expenses</b>	<b>(1,488,994)</b>	<b>(1,135,346)</b>
	<b>172,222</b>	<b>138,930</b>
<b>Marketing, general and administrative expenses</b>	<b>(84,945)</b>	<b>(62,503)</b>
<b>Foreign exchange losses</b>	<b>(2,725)</b>	<b>(158)</b>
<b>Gain on sale of assets</b>	<b>97</b>	<b>28</b>
<b>Depreciation and amortization</b>	<b>(37,533)</b>	<b>(19,320)</b>
<b>Interest expense</b>	<b>(9,012)</b>	<b>(5,949)</b>
<b>Interest income</b>	<b>6,903</b>	<b>5,487</b>
	<b>(127,215)</b>	<b>(82,415)</b>
<b>Income before income taxes and non-controlling interests</b>	<b>45,007</b>	<b>56,515</b>
<b>Income tax expense (recovery) (note 5)</b>		
Current	<b>(19,174)</b>	<b>(2,128)</b>
Future	<b>5,265</b>	<b>(14,261)</b>
	<b>(13,909)</b>	<b>(16,389)</b>
<b>Income before non-controlling interests</b>	<b>31,098</b>	<b>40,126</b>
<b>Non-controlling interests</b>	<b>(2,157)</b>	<b>(1,175)</b>
<b>Net income for the period</b>	<b>\$ 28,941</b>	<b>\$ 38,951</b>
<b>Earnings per share (note 12)</b>		
Basic	<b>\$ 0.54</b>	<b>\$ 0.82</b>
Diluted	<b>\$ 0.53</b>	<b>\$ 0.80</b>
<b>Average number of shares outstanding (note 12)</b>		
Basic	<b>53,443,813</b>	<b>47,343,406</b>
Diluted	<b>54,898,744</b>	<b>49,420,225</b>



# Aecon Group Inc.

For the three and nine months ended September 30, 2009 and 2008

(in thousands of dollars)

## Consolidated Statements of Comprehensive Income:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
<b>Net income for the period</b>	\$ 19,638	\$ 23,080	\$ 28,941	\$ 38,951
<b>Other comprehensive income (loss), net of tax:</b>				
Currency translation adjustments	(3,064)	2,027	(6,201)	1,649
Mark-to-market adjustments on available-for-sale investments	-	-	(145)	-
Cash flow hedges				
Net change in fair value of derivatives	-	-	-	(201)
<b>Comprehensive income for the period</b>	<b>\$ 16,574</b>	<b>\$ 25,107</b>	<b>\$ 22,595</b>	<b>\$ 40,399</b>

## Consolidated Statements of Retained Earnings:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
<b>Retained earnings - beginning of period</b>	\$ 114,827	\$ 72,522	\$ 110,903	\$ 61,525
Net income for the period	19,638	23,080	28,941	38,951
Dividends (note 12)	(2,835)	(2,545)	(8,214)	(7,423)
Interest received on share purchase loans (note 12)	-	-	-	4
<b>Retained earnings - end of period</b>	<b>\$ 131,630</b>	<b>\$ 93,057</b>	<b>\$ 131,630</b>	<b>\$ 93,057</b>

## Consolidated Statements of Accumulated Other Comprehensive Loss:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
<b>Accumulated other comprehensive income (loss) - beginning of period</b>	\$ 2,608	\$ (3,079)	\$ 5,890	\$ (2,500)
Currency translation adjustments	(3,064)	2,027	(6,201)	1,649
Mark-to-market adjustments on available-for-sale investments	-	-	(145)	-
Cash flow hedges	-	-	-	(201)
<b>Accumulated other comprehensive (loss) - end of period</b>	<b>\$ (456)</b>	<b>\$ (1,052)</b>	<b>\$ (456)</b>	<b>\$ (1,052)</b>

# Aecon Group Inc.

## Consolidated Statements of Cash Flows

For the three months ended September 30, 2009 and 2008

(in thousands of dollars) (unaudited)

	2009		2008
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net income for the period	\$ 19,638	\$	23,080
Items not affecting cash			
Depreciation and amortization	14,501		7,079
Gain on sale of assets	(41)		(195)
Amortization of commitment fees	114		(3)
Unrealized loss on foreign exchange	374		413
Non-cash interest on other income tax liabilities	201		201
Notional interest representing accretion	(916)		(9)
Defined benefit pension	258		(1,630)
Future income taxes	(7,027)		11,314
Stock-based compensation	475		1,146
	27,577		41,396
Change in other balances relating to operations (note 13)	(39,012)		10,520
	(11,435)		51,916
<b>Investing activities</b>			
(Increase) decrease in restricted cash balances	(51,082)		4,961
Decrease in marketable securities and term deposits	13,335		-
Purchase of property, plant and equipment	(1,807)		(5,156)
Proceeds on sale of property, plant and equipment	971		593
Acquisitions (note 14)	(1,651)		-
Investment in concession rights (note 4)	(18,613)		(12,143)
Decrease (increase) in other assets	275		(633)
(Decrease) increase in non-controlling interests	(168)		87
	(58,740)		(12,291)
<b>Financing activities</b>			
Issuance of long-term debt	21,087		10,341
Repayments of long-term debt	(4,740)		(3,571)
Issuance of capital stock, net of issuance costs	385		296
Dividends paid (note 12)	(2,834)		(5,087)
Net proceeds from issuance of convertible debentures (note 10)	164,925		-
	178,823		1,979
<b>Increase in cash and cash equivalents during the period</b>	<b>108,648</b>		<b>41,604</b>
<b>Effects of foreign exchange on cash balances</b>	<b>1,106</b>		<b>1,815</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>187,869</b>		<b>177,851</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 297,623</b>	<b>\$</b>	<b>221,270</b>

Supplementary disclosures (note 13)

# Aecon Group Inc.

## Consolidated Statements of Cash Flows

For the nine months ended September 30, 2009 and 2008

(in thousands of dollars)

	2009	2008
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the period	\$ 28,941	\$ 38,951
Items not affecting cash		
Depreciation and amortization	37,533	19,320
Gain on sale of assets	(97)	(28)
Amortization of commitment fees	324	76
Unrealized loss on foreign exchange	953	673
Non-cash interest on other income tax liabilities	603	603
Notional interest representing accretion	(1,736)	809
Defined benefit pension	814	(2,699)
Future income taxes	(5,265)	14,261
Stock-based compensation	1,334	1,240
	<b>63,404</b>	<b>73,206</b>
Change in other balances relating to operations (note 13)	<b>(126,558)</b>	<b>(8,272)</b>
	<b>(63,154)</b>	<b>64,934</b>
<b>Investing activities</b>		
(Increase) decrease in restricted cash balances	(30,114)	3,805
Increase in marketable securities and term deposits	(33,060)	-
Purchase of property, plant and equipment	(10,199)	(7,422)
Proceeds on sale of property, plant and equipment	1,511	953
Acquisitions (note 14)	(116,517)	32
Investment in concession rights (note 4)	(64,095)	(33,613)
Increase in other assets	(628)	(1,121)
Increase in non-controlling interests	1,414	765
	<b>(251,688)</b>	<b>(36,601)</b>
<b>Financing activities</b>		
Decrease in bank indebtedness	(2,687)	-
Issuance of long-term debt	195,252	23,874
Repayments of long-term debt	(20,396)	(25,503)
Issuance of capital stock, net of issuance costs	2,080	70,730
Repurchase of capital stock (note 12)	(9,425)	(4,145)
Repayment of share purchase loans (note 12)	-	552
Dividends paid (note 12)	(7,924)	(10,400)
Interest received on share purchase loans (note 12)	-	4
Net proceeds from issuance of convertible debentures (note 10)	164,925	-
	<b>321,825</b>	<b>55,112</b>
<b>Increase in cash and cash equivalents during the period</b>	<b>6,983</b>	<b>83,445</b>
<b>Effects of foreign exchange on cash balances</b>	<b>(2,233)</b>	<b>3,219</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>292,873</b>	<b>134,606</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 297,623</b>	<b>\$ 221,270</b>

Supplementary disclosures (note 13)

# **Aecon Group Inc.**

## **Notes to Consolidated Financial Statements September 30, 2009 and 2008**

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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, 2008. 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, 2009 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, 2009, the Company adopted the following new accounting standards that were issued by The Canadian Institute of Chartered Accountants (“CICA”).

The CICA issued Handbook Section 3064, “Goodwill and Intangible Assets,” which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. Section 1000, “Financial Statement Concepts,” was also amended to provide consistency with this new standard. The new and amended standards are effective on January 1, 2009 for the Company.

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.

The CICA has also issued Handbook Section 1582 “Business Combinations”, Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-Controlling Interests”. These sections replace Section 1581 “Business Combinations” and Section 1600 “Consolidated Financial Statements”. Under Section 1582, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of exchange. Furthermore, virtually all acquisition costs, which are currently capitalized as part of the purchase price, will be expensed. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value for each period until settled. Changes in fair value are to be included in earnings. Currently, only contingent liabilities that are resolved and payable are included in the cost to acquire a business. In addition, negative goodwill is to be recognized immediately in earnings, unlike the current requirement to deduct it from assets in the purchase price allocation. Sections 1601 and 1602 revise and enhance the standards for the preparation of consolidated financial statements subsequent to a business

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

September 30, 2009 and 2008

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

combination. All three sections come into effect for financial periods beginning January 1, 2011 with prospective application.

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that Canadian public entities will have to adopt International Financial Reporting Standards (“IFRS”) effective for fiscal years beginning on or after January 1, 2011 (the “changeover date”). The Company will issue consolidated financial statements in accordance with IFRS commencing in the first quarter ended March 31, 2011, with comparative information. The impact of the adoption of IFRS on the consolidated financial statements of the Company is expected to be significant and, as such, the Company has begun to develop its convergence plan in order to transition its financial statement reporting, presentation and disclosure to IFRS in time to meet the January 1, 2011 deadline. The Company continues the process of evaluating the potential impact of IFRS on its consolidated financial statements. The process will be ongoing as new standards and recommendations are issued by the International Accounting Standards Board and AcSB. It is not the Company’s intention to early adopt IFRS.

### 3) Cash and cash equivalents, restricted cash, marketable securities and term deposits, and bank indebtedness

- (a) Cash and cash equivalents at September 30, 2009 were \$297,623, which compares with \$292,873 at December 31, 2008. Of these amounts, \$32,908 and \$62,003, respectively, were on deposit in joint venture and affiliate bank accounts, which the Company cannot access directly. Also included in cash and cash equivalents was \$36,244 (December 31, 2008 - \$8,034) of cash held by build finance special purpose vehicles (“Build Finance SPVs”) (see note 21) which was advanced by lenders to finance the construction by the Company of three Infrastructure Ontario hospital projects.
- (b) As a result of a recent political event in Ecuador (see note 11), \$47,751 of cash in Quiport JV is included in restricted cash at September 30, 2009.
- (c) Marketable securities and term deposits at September 30, 2009 of \$33,060 (December 31, 2008 - \$nil) consisted of highly liquid interest bearing securities with maturities up to one year, and were all held by Build Finance SPVs.
- (d) Bank indebtedness as at September 30, 2009 was \$nil. As at December 31, 2008, bank indebtedness of \$2,631 represented the Company’s proportionate share of amounts borrowed in connection with the Nathpa Jhakri hydroelectric project in India. This bank indebtedness was fully repaid in the first quarter of 2009.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2009 and 2008

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

### 4) Concession rights

The Company has recorded concession rights as follows:

	September 30, 2009	December 31, 2008
Concession rights to operate the Existing Quito Airport, net of accumulated amortization of \$45,378 (December 31, 2008 - \$39,251)	\$ 16,013	\$ 30,585
Concession rights to operate the New Quito Airport	182,194	137,411
	<u>\$ 198,207</u>	<u>\$ 167,996</u>

See note 11 for a Quito Airport Project Update.

### 5) 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	
	2009	2008
Income before income taxes and non-controlling interests	\$ 45,007	\$ 56,515
Statutory income tax rate	33%	33.5%
Expected income tax expense	<u>(14,852)</u>	<u>(18,933)</u>
Effect on income tax of:		
Reduction in the valuation allowance	-	3,403
Provincial and foreign rate differentials	1,925	1,085
Non-deductible expenses	(388)	(1,970)
Foreign exchange translation losses	(456)	(445)
Other	(138)	471
	<u>943</u>	<u>2,544</u>
Income tax expense	<u>\$ (13,909)</u>	<u>\$ (16,389)</u>

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2009 and 2008

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

### 6) Long-term concession investment

The long-term concession investment in the amount of \$32,685 at September 30, 2009 (December 31, 2008 - \$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.

### 7) Other assets

	<u>September 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Long-term receivables	\$ 9,472	\$ 8,903
Share investments	(a) -	7,972
Income tax deposit	5,414	5,414
Pension assets	4,439	5,253
Commitment fees	755	883
Other	2,448	2,479
	<u>\$ 22,528</u>	<u>\$ 30,904</u>

(a) Investments in common shares of Lockerbie & Hole Inc. previously owned by the Company have been included in the purchase accounting for this acquisition (see note 14).

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2009 and 2008

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

### 8) Long-term debt

	September 30, 2009	December 31, 2008
<b>Non-recourse project debt</b>		
Quiport JV project financing	(a) \$ 120,162	\$ 87,931
Quiport JV CORPAQ debt	4,967	5,542
Rouge Valley Health System project debt	(b) 41,638	24,723
Toronto Rehabilitation Hospital project debt	(c) 36,400	6,011
Lakeridge Health Oshawa Hospital project debt	(d) 70,000	-
Capilano JV project debt	774	-
	<b>273,941</b>	<b>124,207</b>
<b>Other long-term debt</b>		
Capital leases and equipment loans	(e) 50,402	28,807
Notes payable	17,523	15,091
Mortgages	5,903	6,226
Loans from Derech Eretz partners	5,298	5,462
Investment loan	204	419
	<b>79,330</b>	<b>56,005</b>
<b>Total long-term debt</b>	<b>353,271</b>	<b>180,212</b>
Less: Amounts due within one year		
- Non-recourse project debt	203,941	5,542
- Other long-term debt	15,967	10,845
	<b>\$ 133,363</b>	<b>\$ 163,825</b>

The following describes the major changes to long-term debt during the nine months ended September 30, 2009:

- (a) The total financing commitment made by the Project Senior Lenders to Quiport JV is US\$376,388. As at September 30, 2009, senior project financing advanced to Quiport JV by the Project Senior Lenders at 100% was US\$248,284 (December 31, 2008 - US\$164,593). Included in the Company's consolidated balance sheets at September 30, 2009, is debt, net of transaction costs, of US\$110,069 (CA\$120,162) (December 31, 2008 - US\$72,193 or CA\$87,931) 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 US 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:

- US 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);



# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2009 and 2008

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

- 4.9% plus exposure fee of 26.51% on disbursed amounts (17% of the total financing commitment); and
- 10.32% (10% of total financing commitment).

No debt repayments are scheduled to be made during the construction period and all interest costs are capitalized during construction.

As a result of a recent political event in Ecuador and a related event of default under the project finance agreements as described in note 11, the Quiport JV project debt has been re-classified as a current liability.

- (b) Project financing for the Rouge Valley Health System project at September 30, 2009, was \$41,638 (December 31, 2008 - \$24,723). 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 in 2010. 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, 2009, was \$36,400 (December 31, 2008 - \$6,011). The total amount available to be borrowed over the construction period is \$101,848. An interim repayment of \$53,177 on the loan is scheduled for May 19, 2010, with final repayment due at the end of the project in 2011. Repayments will be entirely funded from two lump sum payments by Infrastructure Ontario. 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) Project financing for the Lakeridge Health Oshawa Hospital project at September 30, 2009, was \$70,000 (December 31, 2008 - \$nil), and represents an advance of the full amount expected to be required to construct the project. Full repayment of the debt is scheduled at the end of the project in 2011. 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 5.744% is paid on a monthly basis.
- (e) On April 30, 2009, the Company, under an equipment loan agreement, borrowed \$24,000 which was used, in part, to replace loans assumed as part of the acquisition of South Rock Ltd. and bears interest at a fixed rate of 6.79%. The term loan will be repaid over a period of three years with monthly payments of \$418 and a balloon payment of \$13,200 at the end of the three-year term. At September 30, 2009, the balance outstanding on the term loan, net of transaction costs, was \$22,575.

## 9) Guarantees

The Company has outstanding guarantees amounting to \$3,990 (December 31, 2008 - \$11,968) in support of financial and performance related obligations for the Nathpa Jhakri hydroelectric 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

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2009 and 2008

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

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 in 2029. The continuous guarantees (at 100%) in the total amount of US\$41,600 (CA\$44,541) (December 31, 2008 - US\$32,400 or CA\$39,463) are renewed annually to their full amount, irrespective of any drawings made thereunder. The Company has issued letters of credit in the amount of US\$10,400 (CA\$11,135) (December 31, 2008 - US\$8,100 or CA\$9,866) to support its share of the continuous guarantee, and its partners have similarly issued letters of credit to support their respective share. 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 (CA\$14,259) (December 31, 2008 - NIS33,000 plus escalation or CA\$15,601) 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 (CA\$682) (December 31, 2008 - NIS2,400 or CA\$778) 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. Furthermore, the operator of the Cross Israel Highway project, in which the Company has a 30.6% interest, has provided letters of credit to the concessionaire in support of performance obligations related to the operations of the highway and to secure advances from the concessionaire. These letters of credit totaling NIS27,351 (CA\$7,776) (December 31, 2008 - NIS27,351 or CA\$8,862) are issued utilizing the credit facilities of the operator and are partially secured by cash.

In connection with the Quito Airport project, the Company has provided letters of credit of US\$8,515 (CA\$9,116) (December 31, 2008 - US\$14,325 or CA\$17,448) in support of its remaining equity obligations and a letter of credit of US\$29,393 (CA\$31,471) (December 31, 2008 - US\$29,393 or CA\$35,801) 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 (CA\$1,606) (December 31, 2008 - US\$1,500 or CA\$1,827), 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 (CA\$3,350) (December 31, 2008 - US\$3,129 or CA\$3,811) as security to cover 50% of a credit facility set up to assist in the partial release of holdback funds to the Quito construction joint venture with its partner issuing a corporate guarantee as security to support the 50% balance share.

In addition, the Company and its joint venture partner have provided surety bonds, guaranteed jointly and severally, to cover construction and concession related performance obligations of US\$67,055 (CA\$71,796) (December 31, 2008 - US\$67,055 or CA\$81,673), an advance payment bond of US\$74,466 (CA\$79,731) (December 31, 2008 - US\$74,466 or CA\$90,700) and a retention release bond of US\$20,685 (CA\$22,147) (December 31, 2008 - US\$20,685 or CA\$25,194). In each case, the Company's share is supported by 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 (CA\$2,141) (December 31, 2008 - US\$2,000 or CA\$2,436), which is classified as restricted cash on the consolidated balance sheets.

The Company has also issued performance guarantees of \$11,295 (December 31, 2008 - \$10,898), 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.

# **Aecon Group Inc.**

## **Notes to Consolidated Financial Statements**

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In addition, the Company has also issued, in the normal conduct of operations, letters of credit amounting to \$43,525 (December 31, 2008 - \$37,210) 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 (December 31, 2008 - \$5,000). The Company has also provided a guarantee of the obligations of the project company under a \$5,000 (December 31, 2008 - \$5,000) contingency loan facility established exclusively to finance additional costs, if any, 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 currently capped at \$11,225 (December 31, 2008 - \$11,225).

In connection with the project financing for the Lakeridge Health Oshawa Hospital project, the Company has provided a limited cost overrun guarantee in the event of cost overruns in excess of the guaranteed maximum price. This guarantee is currently capped at \$8,500.

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, 2009, 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 \$339,191 (December 31, 2008 - \$418,004), 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.

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### 10) Convertible debentures

Convertible subordinated debentures consist of:

	September 30, 2009	December 31, 2008
Debt component reported as long-term liability:		
Debenture maturing September 30, 2014	\$ 158,054	\$ -
Equity component:		
Debenture maturing September 30, 2014	\$ 6,887	\$ -

On September 29, 2009, the Company issued \$172,500 in unsecured, subordinated convertible debentures maturing September 30, 2014. The debentures bear interest at a rate of 7.0% per annum payable on a semi-annual basis. At the holder's option, the convertible debentures may be converted into common shares of the Company at any time up to the maturity date at a conversion price of \$19.00 for each common share, subject to adjustment in certain circumstances. The convertible debentures will not be redeemable before September 30, 2012. From September 30, 2012 through the maturity date, the Company may, at its option, redeem the convertible debentures, in whole or in part, at par plus accrued and unpaid interest provided that the weighted average closing price of the common shares on the Toronto Stock Exchange during a specified period prior to redemption is not less than 125% of the conversion price. At September 30, 2009, the face value of these convertible debentures, which remains outstanding, is \$172,500.

Subject to specified conditions, the Company has the right to repay the outstanding principal amount of the convertible debentures, on maturity or redemption, through the issuance of common shares of the Company. The Company also has the option to satisfy its obligation to pay interest through the issuance and sale of additional common shares of the Company. Additionally, the Company will have the option, subject to the prior agreement of the holders, to settle its obligations on conversion by way of a cash payment of equal value.

In determining the amount of the debt and equity components of the convertible debentures, the carrying amount of the financial liability is first determined by discounting the stream of future payments of interest and principal at the rate of interest prevailing at the date of issue for instruments of similar term and risk. The equity component equals the amount determined by deducting from the carrying amount of the compound instrument the amount of the debt component. For accounting purposes, the debt component was assigned a value of \$165,613 (less transaction costs of \$7,575) and the conversion rights were assigned a value of \$6,887.

Interest expense on the debentures is composed of the interest calculated on the face value of the debentures, which amounted to \$172,500 at September 30, 2009, and an annual notional interest representing the accretion of the carrying value of the debentures. For the three months ended September 30, 2009, interest expense and notional interest recorded were \$66 and \$16, respectively.

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### **11) Contingencies – Quito Airport Project Update**

On July 29, 2009, the Constitutional Court of Ecuador issued a ruling regarding airport charges and services (the “Airports Ruling”) which may have a significant impact on Aecon’s concession and construction interests in the Quito Airport Project. Pursuant to the Airports Ruling, the Court declared that all regulated charges collected at airports in Ecuador are public in nature (taxes); declared unconstitutional prior opinions of Ecuador’s Attorney General confirming that revenues from the Existing Quito Airport are private; and stated that the State Comptroller has oversight over all airport funds, and that public assets continue to be public even if granted to private corporations.

Ecuador’s Federal Government has yet to seek enforcement of the Airports Ruling with respect to the Quito Airport Project. Since the Airport’s Ruling was issued, the parties involved in the Quito Airport Project, including Aecon, its partners in the Quiport JV, the Canadian Commercial Corporation (“CCC”), which is the Canadian federal Crown corporation that holds the direct contract with the Municipality of Quito for the Quito Airport Project, and the Project Lenders, have been engaged in discussions with the government of Ecuador and the municipality of Quito regarding how best to proceed under the existing contractual framework in the context of the Airports Ruling. All parties have expressed the desire to see the Project continue within the new legal framework under mutually acceptable terms. The Project Lenders have exercised certain power of attorney rights they have under the project’s security agreements. As a result, while Aecon and its Quiport JV partners will continue to participate in future negotiations with the government of Ecuador, the Project Lenders will be entitled to control aspects of the dispute as attorney-in-fact for the concessionaire and to control project funds.

Negotiations among the parties are aimed at addressing the impact of the Airports Ruling and resolving Ecuador’s request for more significant economic participation in the Project as well as several ancillary technical and commercial items. All parties, including the City of Quito and the Project Lenders, with the assistance of the CCC and the Canadian Government, are well engaged and focused on finding such a solution. Nevertheless, while operations continue as normal, the Project Lenders have advised that, until further notice, they will not approve or flow any further funds for the construction of the New Quito Airport until the issues surrounding the Airports Ruling have been resolved.

Owing to the fact that the Airports Ruling is an event of default under the Quiport JV’s finance agreements, the project debt, which is and will always remain non-recourse to Aecon, is potentially callable by the Project Lenders at any time. As a result, the project debt has been re-classified as a current liability in the Consolidated Financial Statements, notwithstanding the fact that to date the Project Lenders have not demanded any immediate repayment of this debt and, even if they did, Aecon would not be liable for any repayment obligations.

As noted above, Aecon and its partners, in collaboration with the Project Lenders, are working with Ecuador to achieve a solution that is mutually acceptable to all stakeholders. A new arrangement would require both the implementation of new legal structures and some possible sharing of profits with the Municipality of Quito. Although there can be no assurance that Aecon and its partners will be successful in reaching such a solution, if they are successful then the Company anticipates a reduction in the Quito Airport Project’s internal rate of return and construction profitability, though the amount is not yet quantifiable with any precision due to various uncertainties. In the event that an adequate solution is not attained, Aecon’s long-term exposure for the Quito Airport Project is nonetheless minimized by the role of the Canadian Government in the project through the

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CCC, the presence of the Inter-American Development Bank (one of Ecuador's largest sovereign lenders) as Senior Lender, strong contractual protections and political risk insurance, though it may take a significant period of time to recover losses in the latter two cases. The Company believes that its current insurance would cover 90% of any equity and/or contingent equity exposure of the Company in respect of the Quiport JV arising as a result of the Airports Ruling and the Company is not currently aware of any reason why a claim under its policy might be denied.

A provision has been recorded in the Company's reported results for the three-month period ended September 30, 2009, such that no profits have been recorded in the third quarter for Aecon's participation in the Quiport JV. This provision is a preliminary estimate of the financial impact that may result from a possible sharing of profits with the Municipality of Quito until there is greater certainty as to what portion, if any, of the excess funds will be available for use by the concessionaire.

From a construction perspective, management's expectation is that the new Quito airport will be built as planned, although it is likely that there will be some delay to the previously contemplated new airport opening date. As such, construction activities are expected to continue during the negotiation period, subject to the availability of financing to fund construction activities. As a result, profits from construction operations have and will continue to be recognized in the normal course as earned as long as costs continue to be reliably measurable and there continues to be reasonable assurance of collection by the constructor.

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### 12) Capital stock

	2009		2008	
	Number of shares	Amount	Number of shares	Amount
Balance – January 1	50,207,924	\$ 262,644	42,079,119	\$ 162,691
Common shares issued on exercise of options	-	-	121,000	939
Common shares issued on conversion of debentures (i)	-	-	4,167,795	32,362
Repayment of share purchase loans	-	-	-	364
Balance - March 31	50,207,924	262,644	46,367,914	196,356
Common shares issued less expenses of \$3,361 (ii)	-	-	4,000,000	69,639
Common shares issued as part consideration for the Lockerbie & Hole Inc. acquisition (see note 14)	5,510,941	49,083	-	-
Common shares issued on exercise of options	268,334	2,126	30,000	235
Common shares purchased by the trust of the long-term incentive program (iii)	(950,856)	(9,425)	(239,990)	(4,145)
Repayment of share purchase loans	-	-	-	188
Balance - June 30	55,036,343	304,428	50,157,924	262,273
Common shares issued on exercise of options	61,667	487	50,000	389
Additional expenses related to common shares issued in the second quarter (ii)	-	-	-	(17)
Balance - September 30 (iii)	55,098,010	\$ 304,915	50,207,924	\$ 262,645

- (i) During the quarter ended March 31, 2008, convertible debentures with a face value \$31,675 and carrying values of \$30,261 were converted into 4,167,795 common shares at a conversion price of \$7.60 per share. 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.
- (ii) 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.

# **Aecon Group Inc.**

## Notes to Consolidated Financial Statements

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- (iii) In accordance with the recommendations of the 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 administrating the Company’s Long-Term Incentive Plan. As at September 30, 2009, the Trust held 1,642,222 shares (December 31, 2008 – 691,366 shares) with a cost basis of \$17,040 (December 31, 2008 - \$7,615).

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, this new 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.



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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			
	2009		2008	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Balance outstanding – January 1	1,993,484	\$ 11.26	1,044,484	\$ 6.08
Granted	50,000	9.12	-	-
Exercised	-	-	(121,000)	5.02
Cancelled	(54,166)	12.43	-	-
Balance outstanding – March 31	1,989,318	11.17	923,484	6.22
Granted	400,000	10.87	-	-
Exercised	(268,334)	6.32	(30,000)	6.25
Cancelled	(112,500)	10.20	-	-
Balance outstanding – June 30	2,008,484	11.81	893,484	6.22
Granted	-	-	1,150,000	14.95
Exercised	(61,667)	6.25	(50,000)	6.25
Balance outstanding – September 30	1,946,817	\$ 11.99	1,993,484	\$ 11.26
Options exercisable at end of period	1,096,817	\$ 10.80	864,317	\$ 9.13

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

Options granted in	Number of shares	Exercise price	Expiry date
2005	66,667	\$5.51	November 7, 2010
2006	430,150	\$6.25	March 27, 2011
2008	1,100,000	\$14.95	August 5, 2013
2009	50,000	\$9.12	March 4, 2014
2009	300,000	\$11.29	May 14, 2014
	<u>1,946,817</u>		

All option grants 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, or vested one-quarter immediately and one-quarter per annum thereafter on the anniversary date of the grant.

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## Notes to Consolidated Financial Statements September 30, 2009 and 2008

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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:

	<u>2009</u>	<u>2008</u>
Dividend yield	1.77% - 2.19%	1.4%
Expected volatility	54%	32%
Risk free interest rate	1.19%- 1.65%	3.5%
Weighted average expected life (years)	3.25	3.25

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

During the three months ending September 30, 2009, compensation expense and contributed surplus were increased by \$475 (2008 - \$1,146) on account of options granted, and for the nine months ended September 30, 2009, compensation expense and contributed surplus were increased by \$1,334 (2008 - \$1,240).

As options are exercised, the corresponding values previously charged to contributed surplus are reclassified to capital stock. In the quarter ending September 30, 2009, contributed surplus was decreased by \$102 (2008 - \$76) 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, 2009, contributed surplus was decreased by \$533 (2008 - \$454) 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, 2009, the Company recorded LTIP compensation charges of \$1,050 (2008 - \$710), and \$3,150 (2008 - \$1,963) during the nine months ended September 30, 2009.

The LTIP Trust (the "Trust") currently holds 1,642,222 shares at September 30, 2009 (December 31, 2008 - 691,366 shares).

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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, 2009, share capital was reduced by \$17,040 (December 31, 2008 - \$7,615) and accrued liabilities increased by the same amount.

### Earnings (loss) 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, 2008 - \$nil) 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	
	2009	2008	2009	2008
<b>Net income for the period</b>	\$ 19,638	\$ 23,080	\$ 28,941	\$ 38,951
Interest on convertible debentures, net of taxes	55	-	55	444
<b>Diluted net earnings</b>	<b>\$ 19,693</b>	<b>\$ 23,080</b>	<b>\$ 28,996</b>	<b>\$ 39,395</b>
<b>Average number of common shares outstanding</b>	<b>55,045,089</b>	50,157,924	<b>53,443,813</b>	47,343,406
<b>Effect of dilutive securities</b> <sup>(i)</sup>				
Options	228,262	477,247	220,851	519,084
Convertible debentures	335,375	-	113,020	1,141,468
Shares held in a trust account in respect of long-term incentive plan	1,121,060	416,267	1,121,060	416,267
<b>Average number of diluted common shares outstanding</b>	<b>56,729,786</b>	51,051,438	<b>54,898,744</b>	49,420,225
<b>Basic earnings per share</b>	<b>\$ 0.36</b>	\$ 0.46	<b>\$ 0.54</b>	\$ 0.82
<b>Diluted earnings per share</b>	<b>\$ 0.35</b>	\$ 0.45	<b>\$ 0.53</b>	\$ 0.80

(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.

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## Notes to Consolidated Financial Statements September 30, 2009 and 2008

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### Contributed surplus

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

	<u>2009</u>	<u>2008</u>
Balance - January 1	\$ 2,828	\$ 1,592
Increase (decrease) in contributed surplus resulting from:		
Granting of stock options	265	47
Exercise of stock options	-	(332)
Balance - March 31	<u>3,093</u>	<u>1,307</u>
Granting of stock options	594	47
Exercise of stock options	(431)	(46)
Balance - June 30	<u>3,256</u>	1,308
Granting of stock options	475	1,146
Exercise of stock options	(102)	(76)
Balance - September 30	<u>\$ 3,629</u>	<u>\$ 2,378</u>

### Dividends

Annual dividends in the amount of \$0.20 per share are paid in four quarterly payments of \$0.05 per share. For the nine months ended September 30, 2009, the Company declared dividends of \$8,214 (2008 - \$7,423), of which 5,379 (2008 - \$7,423) was paid during the nine months period, and \$2,835 (2008 - \$nil) was paid after September 30.

### Accumulated other comprehensive income

Components of accumulated other comprehensive income included:

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Currency translation adjustments, net of tax	\$ (456)	\$ 5,745
Mark-to-market adjustments on available-for-sale investments	-	145
Accumulated other comprehensive income (loss)	<u>\$ (456)</u>	<u>\$ 5,890</u>

# Aecon Group Inc.

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### 13) Cash flow information

Change in other balances relating to operations:

	Three months to September 30		Nine months to September 30	
	2009	2008	2009	2008
(Increase) decrease in:				
Accounts receivable	\$ (4,964)	\$ (42,399)	\$ 71,165	\$ (18,797)
Holdbacks receivable	(13,627)	(13,528)	10,475	(7,950)
Deferred contract costs and unbilled revenue	(68,171)	(25,123)	(142,549)	(40,862)
Inventories	2,847	(969)	(5,229)	(6,632)
Prepaid expenses	(2,912)	(2,796)	(1,914)	(5,227)
Increase (decrease) in:				
Accounts payable and accrued liabilities	39,956	65,260	(36,297)	18,605
Holdbacks payable	6,838	8,370	(781)	9,393
Deferred revenue	(5,459)	21,361	(22,618)	42,884
Income taxes payable	6,480	344	1,190	314
	<u>\$ (39,012)</u>	<u>\$ 10,520</u>	<u>\$ (126,558)</u>	<u>\$ (8,272)</u>

Other supplementary information:

	Three months to September 30		Nine months to September 30	
	2009	2008	2009	2008
Cash interest paid	\$ 2,546	\$ 834	\$ 6,301	\$ 4,908
Cash income taxes paid	\$ 10,524	\$ 201	\$ 17,401	\$ 436

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, 2009 amounted to \$1,415 (2008 - \$nil) and \$1,548 (2008 - \$1,564) for the nine months ended September 30, 2009.

In connection with the acquisition of Lockerbie & Hole Inc., common shares with a value of \$49,083 were issued during the quarter ended June 30, 2009 (see note 14).

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 12). 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.

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### 14) Acquisitions

On April 1, 2009, the Company acquired, by a plan of arrangement, all of the issued and outstanding common shares of Lockerbie & Hole Inc. ("Lockerbie") for total consideration of \$212,533. This transaction was financed by the Company without any additional debt through the payment of \$152,517 in cash to Lockerbie shareholders and the issuance to Lockerbie shareholders of 5,510,941 common shares of the Company. Transaction costs for the deal are estimated at approximately \$3,106. See note 17 for a description of this operation.

On January 15, 2009, the Company acquired South Rock Ltd., an infrastructure construction company in Alberta focusing primarily on the southern Alberta civil market. The acquisition was financed by the payment of \$36,651 in cash, and the assumption of existing debt of \$7,702.

These acquisitions were accounted for using the purchase method and the results of operations are included from the date of the acquisition. The allocation of the purchase price for the acquisition of the above investments has not been finalized pending final determination of the fair values of assets acquired and liabilities assumed.

The following is a summary of the above acquisitions:

	<u>Lockerbie</u>	<u>South Rock</u>
Net assets acquired		
Cash	\$ 72,301	\$ 3,619
Restricted cash	-	8,333
Other current assets	166,989	19,023
Property, plant and equipment	54,949	48,610
Amortizable intangible assets	18,647	6,250
Other assets	-	43
Goodwill	31,732	9,781
Current portion of long-term debt	(968)	(7,111)
Other current liabilities	(121,070)	(40,103)
Long-term debt	(500)	(591)
Other liabilities	(9,547)	(11,040)
	<u>\$ 212,533</u>	<u>\$ 36,814</u>
Consideration		
Cash consideration paid	\$ 152,517	\$ 36,651
Issuance of shares to Lockerbie shareholders	49,083	-
Investment in Lockerbie shares previously owned	7,827	-
Transaction costs	3,106	163
	<u>\$ 212,533</u>	<u>\$ 36,814</u>

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### 15) 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	
	2009	2008	2009	2008
Defined benefit plan expense:				
Company sponsored pension plans	\$ 449	\$ 257	\$ 1,347	\$ 797
Defined contribution plan expense:				
Company sponsored pension plans	660	627	2,192	1,879
Multi-employer pension plans	11,675	8,753	29,768	23,655
Total employee future benefit expenses	<u>\$ 12,784</u>	<u>\$ 9,637</u>	<u>\$ 33,307</u>	<u>\$ 26,331</u>

### 16) Financial instruments

#### Fair values

Cash and cash equivalents, marketable securities, term deposits, 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 fair 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 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

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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, 2009, the Company had net outstanding contracts to sell euro 1,373, sell US\$6,292, and buy US\$766 (December 31, 2008 - sell euro 3,310, sell US\$16,016, buy euro 70, and buy US\$696) on which there was a net unrealized exchange gain of \$403 (December 31, 2008 - net loss of \$1,920). 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.

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 is included in the



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consolidated statements of income in foreign exchange gains (losses). At September 30, 2009, the Company does not have any designated hedges of its foreign operations.

### 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 revenues, and foreign exchange hedges.

Credit risk associated with cash and short-term deposits is minimized by ensuring 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 consolidated balance sheet date; however, these allowances are not significant.

The credit risk associated with foreign exchange contracts 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 are major Canadian financial institutions.

Under the terms of many of the Company's joint venture contracts, each of the partners is jointly and severally liable for performance under the contracts. The counterparty risk associated with the Company's joint venture partners is discussed in note 9.

### 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.

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The following are the contractual maturities of the Company's long-term debt including capital lease obligations at September 30, 2009:

	Next 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Beyond 5 years	Total
Non-recourse project debt	\$ 203,941	\$ 70,000	\$ -	\$ -	\$ -	\$ -	\$ 273,941
Capital leases and equipment loans	10,369	10,514	20,420	5,091	3,956	1,393	51,743
Other long-term debt	5,598	9,658	4,033	3,000	-	5,298	27,587
	<b>\$ 219,908</b>	<b>\$ 90,172</b>	<b>\$ 24,453</b>	<b>\$ 8,091</b>	<b>\$ 3,956</b>	<b>\$ 6,691</b>	<b>\$ 353,271</b>
Convertible debentures	\$ -	\$ -	\$ -	\$ -	\$ 172,500	\$ -	\$ 172,500

### 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, 2009, the interest rate profile of the Company's long-term debt was as follows:

	At September 30, 2009
Fixed rate instruments held by joint ventures	\$ 68,045
Variable rate instruments held by joint ventures	57,083
Fixed rate instruments	222,143
Variable rate instruments	6,000
<b>Total long-term debt</b>	<b>\$ 353,271</b>
<b>Fixed rate convertible debentures</b>	<b>\$ 158,054</b>

Long-term debt held by joint ventures relates to project financing for the Quito Airport project (see note 8), 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.

Changes in interest rates related to fixed rate long-term debt instruments and convertible debentures would not have impacted net earnings or comprehensive income in the current period.

For the nine months ended September 30, 2009, 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.

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

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### 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 US dollar, Israel new shekel, Indian rupee and euro.

The Company's currency exposure to US dollars arises primarily from its investments in the Quito Airport concessionaire and from its US 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 is instead reported as currency translation adjustments in other comprehensive income. For these two investments, the Company's sensitivity to a 10% strengthening of the US dollar against the Canadian dollar at September 30, 2009, would have been an increase in comprehensive income of approximately \$6,200. The Company also has currency exposure to US dollars arising from its investment in the Quito construction joint venture. For this investment, the Company's sensitivity to a 10% strengthening of the US dollar against the Canadian dollar on net earnings and comprehensive income at September 30, 2009 would have been a decrease of approximately \$600.

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 hydroelectric 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 impairment in value arises as discussed above. For the net investment in the Nathpa Jhakri hydroelectric 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, 2009 would have been an increase of approximately \$700.

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 US 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>US dollar impact</b>	<b>Shekel impact</b>	<b>Euro impact</b>
Net earnings	\$ 800	\$ 200	\$ -
Comprehensive income	\$ 800	\$ 200	\$ -

For a 10% weakening of the US dollar, Israel new shekel and euro against the Canadian dollar, there would be an equal and opposite impact on net earnings and comprehensive income.

## 17) Segmented information and business concentration

The Company operates in four principal segments within the construction and infrastructure development industry: Infrastructure, Buildings, Industrial and Concessions. The Corporate and Other category in the

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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 hydroelectric 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, educational facilities, 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 segment 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.

On April 1, 2009, the Company acquired Lockerbie. Lockerbie was founded in 1898 and is one of the largest industrial and mechanical construction contractors in Canada. Lockerbie is a multi-disciplined contractor providing mechanical, electrical, instrumentation, pipe fabrication, module assembly, boiler erection, insulation and civil construction services primarily to the oilsands, mining, institutional, municipal and commercial market sectors. The Company includes the Lockerbie operations within its Industrial reporting segment.

### *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 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 Highway and the Quito Airport project concession companies. This segment includes the operations of the

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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:

<b>As at September 30 and the three months then ended</b>	<b>2009</b>					
	<b>Infrastructure</b>	<b>Buildings</b>	<b>Industrial</b>	<b>Concessions</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenues	\$ 340,828	\$ 120,976	\$ 215,603	\$ 31,322	\$ (1,635)	\$ 707,094
EBITDA (i)	\$ 31,963	\$ 1,113	\$ 15,429	\$ 4,050	\$ (4,047)	\$ 48,508
Depreciation and amortization	(7,030)	(194)	(2,339)	(4,280)	(658)	(14,501)
Segment operating profit (loss) (i)	24,933	919	13,090	(230)	(4,705)	34,007
Capital charges and allocations of Corporate overheads	(8,841)	(1,510)	(2,653)	(3,602)	16,606	-
Segment profit (loss) before income taxes	\$ 16,092	\$ (591)	\$ 10,437	\$ (3,832)	\$ 11,901	34,007
Interest expense, income taxes and non-controlling interests						(14,369)
Net income						\$ 19,638
Total assets	\$ 529,853	\$ 287,224	\$ 350,020	\$ 316,084	\$ 195,817	\$ 1,678,998
Intangible assets and goodwill	\$ 15,302	\$ 1,783	\$ 51,395	\$ 198,364	\$ -	\$ 266,844
Capital expenditures	\$ 301	\$ 619	\$ 471	\$ -	\$ 416	\$ 1,807
Cash flows from (used in) operating activities (i)	\$ 32,543	\$ 1,113	\$ 15,101	\$ 3,590	\$ (24,770)	\$ 27,577

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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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## Notes to Consolidated Financial Statements September 30, 2009 and 2008

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As at September 30 and the nine months then ended

2009

	<b>Infrastructure</b>	<b>Buildings</b>	<b>Industrial</b>	<b>Concessions</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenues	\$ 686,170	\$ 344,318	\$ 556,690	\$ 78,744	\$ (4,706)	\$ 1,661,216
EBITDA (i)	\$ 29,058	\$ 1,421	\$ 51,965	\$ 19,639	\$ (10,531)	\$ 91,552
Depreciation and amortization	(14,899)	(542)	(8,755)	(12,148)	(1,189)	(37,533)
Segment operating profit (loss) (i)	14,159	879	43,210	7,491	(11,720)	54,019
Capital charges and allocations of Corporate overheads	(24,873)	(3,487)	(7,844)	(10,511)	46,715	-
Segment profit (loss) before income taxes	\$ (10,714)	\$ (2,608)	\$ 35,366	\$ (3,020)	\$ 34,995	54,019
Interest expense, income taxes and non-controlling interests						(25,078)
Net income						\$ 28,941
Capital expenditures	\$ 5,642	\$ 697	\$ 2,450	\$ -	\$ 1,410	\$ 10,199
Cash flows from (used in) operating activities (i)	\$ 30,662	\$ 1,421	\$ 51,644	\$ 16,881	\$ (37,204)	\$ 63,404

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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

- (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 flows from (used in) operating activities is before the change in other balances related to operations. EBITDA, operating profit (loss), and cash flows 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.



# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2009 and 2008

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### 18) 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 including liquidity and working capital, 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 consolidated balance sheet. While the cumulative impact of unsatisfactory operating results during the 2003 - 2004 periods negatively impacted liquidity and drove up the Company's debt to equity 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 were the primary drivers in bringing the debt to equity percentage down to 15.3% as at December 31, 2008. Additional loans incurred and the issuance of convertible debentures in 2009 as discussed in notes 8 and 10, respectively, drove the debt to equity percentage up to 53.2% as at September 30, 2009. While the Company believes that this debt to equity percentage is acceptable, 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, 2009, except as disclosed in note 11 regarding the Quito Airport Project, 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.

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### **19) Related party transactions**

As at September 30, 2009, \$800 of the Company's convertible debentures maturing September 30, 2014 were held by officers and directors of the Company or parties related thereto.

### **20) Comparative figures**

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

### **21) Joint ventures and Build Finance Special Purpose Vehicles ("Build Finance SPVs") – 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. The Company is also involved in three build finance hospital projects with Infrastructure Ontario. Each of these hospital projects is being financed by non-recourse project financing during the construction period through the use of individual Build Finance SPVs. Given the significant effect of joint ventures and Build Finance SPVs 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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### Consolidating Balance Sheet

	Unaudited As at September 30, 2009				As at December 31, 2008	
	Consolidated Balance Sheet excluding joint ventures and Build Finance SPVs	Joint ventures	Build Finance SPVs	Consolidated Balance Sheet	Consolidated Balance Sheet excluding joint ventures and Build Finance SPVs	
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 228,471	\$ 32,908	\$ 36,244	\$ 297,623	\$ 222,836	
Restricted cash	8,108	53,898	-	62,006	20,448	
Marketable securities & term deposits	-	-	33,060	33,060	-	
Accounts receivable	260,227	71,325	-	331,552	205,821	
Holdbacks receivable	96,457	13,683	-	110,140	79,035	
Deferred contract costs and unbilled revenue	154,311	14,462	96,817	265,590	82,028	
Inventories	32,971	537	-	33,508	23,582	
Prepaid expenses	8,816	1,636	841	11,293	4,051	
	789,361	188,449	166,962	1,144,772	637,801	
<b>Property, plant and equipment</b>	196,779	1,962	-	198,741	100,613	
<b>Future income tax assets</b>	5,650	7,147	631	13,428	14,420	
<b>Long-term concession investment</b>	32,685	-	-	32,685	32,685	
<b>Concession rights</b>	-	198,207	-	198,207	-	
<b>Other intangible assets</b>	17,397	-	-	17,397	528	
<b>Goodwill</b>	51,240	-	-	51,240	9,804	
<b>Other assets</b>	21,965	-	563	22,528	30,265	
	\$ 1,115,077	\$ 395,765	\$ 168,156	\$ 1,678,998	\$ 826,116	
<b>Liabilities</b>						
<b>Current liabilities</b>						
Accounts payable and accrued liabilities	\$ 319,453	\$ 80,301	\$ 12,806	\$ 412,560	\$ 268,005	
Holdbacks payable	51,543	4,880	9,290	65,713	53,750	
Deferred revenue	79,474	10,311	-	89,785	78,419	
Income taxes payable	2,057	1,793	217	4,067	662	
Future income tax liabilities	37,352	18,428	23	55,803	37,218	
Current portion of non-recourse project debt	-	125,903	78,038	203,941	-	
Current portion of other long-term debt	15,967	-	-	15,967	10,845	
	505,846	241,616	100,374	847,836	448,899	
<b>Non-recourse project debt</b>	-	-	70,000	70,000	-	
<b>Other long-term debt</b>	63,363	-	-	63,363	45,160	
<b>Other liabilities</b>	3,424	-	-	3,424	3,375	
<b>Other income tax liabilities</b>	16,140	-	-	16,140	15,537	
<b>Concession related deferred revenue</b>	2,991	66,849	-	69,840	2,991	
<b>Convertible debentures</b>	158,054	-	-	158,054	-	
	749,818	308,465	170,374	1,228,657	515,962	
<b>Non-controlling interests</b>	3,736	-	-	3,736	2,449	
<b>Shareholders' Equity</b>	361,523	87,300	(2,218)	446,605	307,705	
	\$ 1,115,077	\$ 395,765	\$ 168,156	\$ 1,678,998	\$ 826,116	

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2009 and 2008

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

### Consolidating Statement of Income For the nine months ended September 30, 2009 and 2008

	Unaudited			2008
	2009		Consolidated Statement of Income	
	Consolidated Statement of Income excluding joint ventures	Joint ventures		Consolidated Statement of Income
Revenues	\$ 1,408,084	\$ 253,132	\$ 1,661,216	\$ 1,123,496
Direct costs and expenses	(1,289,052)	(199,942)	(1,488,994)	(1,036,855)
	119,032	53,190	172,222	86,641
Marketing, general and administrative expenses	(80,733)	(4,212)	(84,945)	(40,330)
Foreign exchange gains (losses)	(563)	(2,162)	(2,725)	523
Gain on sale of capital assets and investments	97	-	97	28
Depreciation and amortization	(25,338)	(12,195)	(37,533)	(9,080)
Interest expense	(7,810)	(1,202)	(9,012)	(5,594)
Interest income	6,903	-	6,903	5,487
	(107,444)	(19,771)	(127,215)	(48,966)
Income before income taxes and non-controlling interests	11,588	33,419	45,007	37,675
Income tax expense	(10,479)	(3,430)	(13,909)	(13,688)
Income before non-controlling interests	1,109	29,989	31,098	23,987
Non-controlling interests	(2,157)	-	(2,157)	(1,175)
Net income (loss) for the period	\$ (1,048)	\$ 29,989	\$ 28,941	\$ 22,812

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

### September 30, 2009 and 2008

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

#### Consolidating Statement of Cash Flows

##### For the nine months ended September 30, 2009 and 2008

	2009		Unaudited		2008	
	Consolidated Statement of Cash Flows excluding joint ventures	Joint ventures	Consolidated Statement of Cash Flows	Joint ventures	Consolidated Statement of Cash Flows excluding joint ventures	Joint ventures
<b>Cash provided by (used in):</b>						
<b>Operating activities</b>						
Net income (loss) for the period	\$ (1,048)	\$ 29,989	\$ 28,941	\$ -	\$ 22,812	\$ -
Items not affecting cash:						
Depreciation and amortization	25,338	12,195	37,533	-	9,080	-
Gain on sale of capital assets and investments	(97)	-	(97)	-	(28)	-
Amortization of commitment fees	324	-	324	-	76	-
Unrealized loss on foreign exchange	(830)	1,783	953	-	1,158	-
Non-cash interest on other income tax liabilities	603	-	603	-	603	-
Notional interest representing accretion	(1,736)	-	(1,736)	-	809	-
Defined benefit pension	814	-	814	-	(2,699)	-
Future income taxes	(6,648)	1,383	(5,265)	-	7,358	-
Stock-based compensation	1,334	-	1,334	-	1,240	-
	18,054	45,350	63,404	-	40,409	-
Change in other balances relating to operations	(137,234)	10,676	(126,558)	-	(1,581)	-
	(119,180)	56,026	(63,154)	-	38,828	-
<b>Investing activities</b>						
Decrease (increase) in restricted cash balances	20,673	(50,787)	(30,114)	-	2,706	-
Increase in marketable securities and term deposits	(33,060)	-	(33,060)	-	-	-
Purchase of property, plant and equipment	(9,880)	(319)	(10,199)	-	(7,311)	-
Proceeds on sale of property, plant, and equipment	1,511	-	1,511	-	953	-
Acquisitions	(116,517)	-	(116,517)	-	32	-
Investments in concession rights	-	(64,095)	(64,095)	-	-	-
Increase in other assets	(531)	(97)	(628)	-	(1,121)	-
Increase in non-controlling interests	1,414	-	1,414	-	765	-
	(136,390)	(115,298)	(251,688)	-	(3,976)	-
<b>Financing activities</b>						
Decrease in bank indebtedness	-	(2,687)	(2,687)	-	-	-
Issuance of long-term debt	151,909	43,343	195,252	-	17,101	-
Repayments of long-term debt	(19,487)	(909)	(20,396)	-	(25,503)	-
Issuance of capital stock, net of issuance costs	2,080	-	2,080	-	70,730	-
Repurchase of capital stock	(9,425)	-	(9,425)	-	(4,145)	-
Repayment of share purchase loans	-	-	-	-	552	-
Dividends paid	(7,924)	-	(7,924)	-	(10,400)	-
Interest received on share purchase loans	-	-	-	-	4	-
Net proceeds from issuance of convertible debenture	164,925	-	164,925	-	-	-
Increase (decrease) in investment in joint ventures	7,915	(7,915)	-	-	(7,546)	-
	289,993	31,832	321,825	-	40,793	-
<b>Increase in cash and cash equivalents during the period</b>	34,423	(27,440)	6,983	-	75,645	-
<b>Effects of foreign exchange on cash balances</b>	(578)	(1,655)	(2,233)	-	382	-
<b>Cash and cash equivalents - beginning of period</b>	230,870	62,003	292,873	-	91,948	-
<b>Cash and cash equivalents - end of period</b>	\$ 264,715	\$ 32,908	\$ 297,623	\$ -	\$ 167,975	\$ -

# ***Aecon***

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