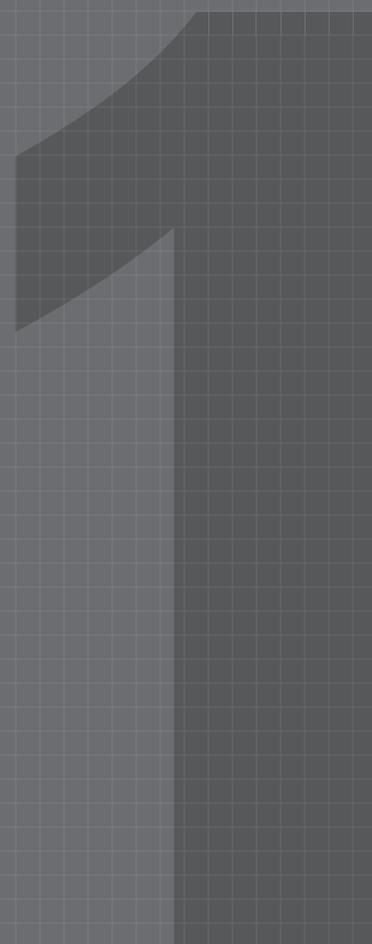


AECON GROUP INC.

# FIRST QUARTER

REPORT 2010

THREE MONTHS ENDED 03/31/10



Dear Fellow Shareholders,

Like most companies in the Canadian construction industry who perform a significant portion of their work outdoors, Aecon's financial results have a seasonal pattern, with the first half of the year historically reflecting lower revenues and profits than the second half of the year. This pattern is most obvious in the first quarter of the year, which typically records a net loss – and the first quarter of 2010 was no exception.

Generally, Aecon's first quarter results were characterized by stronger revenues and somewhat softer earnings than were recorded a year earlier. Revenues in the quarter were \$426 million, an increase of 25 per cent from the same quarter in 2009, with revenue increases in the Industrial and Buildings segments more than offsetting decreases in the Infrastructure and Concessions segments.

Operating losses of \$4.1 million in the first quarter were \$3 million higher than the first quarter of 2009, due largely to a decrease in gross margin, primarily in the Industrial segment. The decline in Industrial results was due in large part to the impact of some large projects in Ontario that contributed high margins in the first quarter of 2009 as they passed contractual and project completion milestones, which were not repeated in this quarter.

Overall, a net loss of \$6.6 million (or \$0.12 loss per share) compares with a net loss of \$0.6 million (or \$0.01 loss per share) in the first quarter of 2009.

Backlog at March 31 was \$2.2 billion, an increase of more than 50 per cent over last year, with backlog favourably impacted by the acquisition of Lockerbie & Hole in the second quarter of 2009.

Halfway through the second quarter of 2010, most of the key trends that shaped Aecon's outlook at the beginning of the year remain in place.

Those segments most exposed to public infrastructure such as roads, transit, hospitals and water infrastructure, continue to see strong markets, healthy backlog and substantial new business opportunities.

Those segments most exposed to commercial building, industrial construction and private development continue to see lower backlog and more uncertain short-term growth prospects.

The ongoing strength of the bidding pipeline in Canada's public infrastructure markets, combined with a general increase in the size and duration of the projects Aecon is winning, provide Aecon with good clarity regarding its outlook for these markets.

In an economic environment where the commercial and industrial construction markets continue to feel the impact of the recent recession, Aecon's visibility and confidence in the public infrastructure markets is important. Combined with Aecon's strong balance sheet and liquidity position, it allows Aecon to pursue an appropriately patient strategy in its industrial business, continuing to make capital investments and bidding new work strategically as that market strengthens over the coming quarters.

While signs of recovery are clearly present in the oilsands with a number of important projects ‘back off the shelf’, including Suncor’s Firebag 3 project where Aecon-Lockerbie is playing an important role, Aecon continues to believe that most of the impact of a strengthening oilsands market will not be felt until 2011 and 2012.

Similarly, the industrial markets in Ontario and Eastern Canada, which were hit hard by the recession, are beginning to show signs of recovery. As such, while Aecon’s 2010 results will likely be driven primarily by public infrastructure construction, 2010 and 2011 should be a period of recovery in private sector investment, likely to be stronger in the latter half of the period.

Taken together, the strong outlook for public infrastructure construction over the next three years and the improving outlook for industrial construction over the same period, would suggest that the next two years will be a period where Aecon’s financial results will increasingly reflect strength in both the private sector and public sector elements of our business.

Aecon’s Buildings segment is one that straddles both the public infrastructure market and the commercial construction market. Currently, most of Aecon Buildings’ backlog consists of public infrastructure projects such as hospitals and universities, and this is expected to remain the case over the next several quarters as these markets continue to present significant opportunities.

Progress continues to be made in resolving issues surrounding Aecon’s concession interest in the Quito International Airport project. Assuming prompt approval by Ecuadorian authorities, commercial and financial close of the new agreement is expected during the second or early in the third quarter of 2010.

Aecon’s strong balance sheet, financial liquidity and substantial surety capacity, each of which are among the strongest in the Canadian industry, position Aecon well to exploit the many growth opportunities that exist in today’s market.

Overall, we continue to believe that Aecon’s near-record backlog, the strength, depth and durability of the public infrastructure markets, and the expected return to strength of the oilsands and industrial power markets, combine to signal continued strong financial performance throughout 2010 and even more so into 2011 and 2012.

On behalf of Aecon’s Board of Directors, we thank you for your continued support of Aecon.

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

(signed)  
Scott C. Balfour  
President

May 14, 2010

**Aecon Group Inc.**

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

**March 31, 2010**

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

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. ("Aecon" or the "Company") should be read in conjunction with the Company's March 31, 2010 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, 2009. This MD&A has been prepared as of May 4, 2010. 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.

The construction industry in Canada is seasonal in nature for companies like Aecon who perform a significant portion of their work outdoors, particularly road construction and utilities work. As a result, less work is performed in the winter and early spring months than in the summer and fall months. Accordingly, Aecon has historically experienced a seasonal pattern in its operating results, with the first half of the year, and particularly the first quarter, typically generating lower 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.

### **FORWARD-LOOKING INFORMATION**

In various places in Management's Discussion and Analysis, management's expectations regarding future performance of Aecon are discussed. These "forward-looking" statements, including statements about the Company's conversion to IFRS, which are based on currently available competitive, financial and economic data and operating plans, are subject to risks and uncertainties. Following the recent global recession, the sustainability and strength of recovery in the economy and in global financial and credit markets remains uncertain. How this develops over the foreseeable future will impact Canada and Canadian companies like Aecon, in ways that are impossible to predict. There are also other factors which could cause Aecon's results, performance or achievements to vary from those expressed or inferred including, without limitation, the strength or otherwise of construction and infrastructure markets in Canada, the ability to execute significant projects on budget and on schedule, and the failure to achieve targets associated with the construction of the new Quito airport in Ecuador and the operation of the existing Quito airport, as well as political risk in Ecuador. 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.

## Non-GAAP Measures

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.

Throughout this MD&A, the following terms are used, which are not found in the Handbook of the Canadian Institute of Chartered Accountants and do not have a standardized meaning under GAAP:

- **“Gross profit”** represents revenues less direct costs and expenses. Marketing, general and administrative expenses, depreciation and amortization, foreign exchange, interest, gains or losses on the sale of assets, income taxes, and non-controlling interests are not included in the calculation of gross profit.
- **"EBITDA"** represents earnings or loss before net interest expense, income taxes, depreciation and amortization, and non-controlling interests.
- **“Operating profit (loss)”** represents the profit (loss) from operations, before net interest expense, income taxes and non-controlling interests.
- **“Operating margin”** represents operating profit (loss) as a percentage of revenues.
- **“Earnings before taxes”** represents income before income taxes and non-controlling interests.

Aecon believes the above terms, which are commonly used by the investment community for valuation purposes, are useful complementary measures of pre-tax profitability. The most directly comparable measure calculated in accordance with GAAP is Net Income.

- **"Backlog"** means the total value of work that has not yet been completed that: (a) is assessed by Aecon as having a high certainty of being performed as a result of the existence of an executed contract or work order specifying job scope, value and timing; or (b) has been awarded to Aecon, as evidenced by an executed binding letter of intent or agreement, describing the general job scope, value and timing of such work, and with the finalization of a formal contract respecting such work being reasonably assured.

Backlog is not a recognized performance measure under GAAP and does not have any standardized meaning prescribed by GAAP. Aecon believes that backlog is a useful complementary measure commonly used by management and the investment community to evaluate the Company's projected activity in future periods. There is no direct comparable measure to backlog in GAAP.

## CONSOLIDATED FINANCIAL HIGHLIGHTS

\$ millions (except per share amounts)	Three Months Ended March 31	
	2010	2009
<b>Revenues</b>	<b>\$ 426.2</b>	<b>\$ 340.9</b>
Gross profit	27.3	32.6
MG&A	(27.6)	(24.2)
Foreign exchange losses	(0.8)	(1.6)
Loss from investments accounted for using the equity method	(2.1)	-
Gain on sale of assets	7.1	-
<b>EBITDA</b>	<b>4.0</b>	<b>6.9</b>
Depreciation and amortization	(8.1)	(8.0)
<b>Operating loss</b>	<b>(4.1)</b>	<b>(1.1)</b>
Interest expense, net	(5.0)	1.3
<b>Earnings (loss) before taxes</b>	<b>(9.1)</b>	<b>0.1</b>
Income tax recovery	3.7	0.3
Non-controlling interests	(1.1)	(1.0)
<b>Net loss for the period</b>	<b>\$ (6.6)</b>	<b>\$ (0.6)</b>
<b>MG&amp;A as a percent of revenues</b>	<b>6.5%</b>	<b>7.1%</b>
<b>Operating margin</b>	<b>(1.0)%</b>	<b>(0.3)%</b>
<b>Loss per share - diluted</b>	<b>\$ (0.12)</b>	<b>\$ (0.01)</b>
<b>Backlog</b>	<b>\$ 2,119</b>	<b>\$ 1,359</b>

Revenues and operating profit (loss) by segment for the first quarter of 2010 and 2009 are set out in the table below:

(\$ millions)	Quarter 1 2010		Quarter 1 2009	
	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)
Infrastructure	\$ 98.4	\$ (10.2)	\$ 111.7	\$ (13.2)
Buildings	139.2	0.8	108.5	(1.0)
Industrial	170.4	6.4	96.5	13.2
Concessions	20.8	5.2	25.3	4.4
Eliminations and other costs <sup>(1)</sup>	(2.5)	(6.3)	(1.1)	(4.6)
<b>Consolidated</b>	<b>\$ 426.3</b>	<b>\$ (4.1)</b>	<b>\$ 340.9</b>	<b>\$ (1.1)</b>

(1) The eliminations and other costs category includes corporate costs and other activities not directly allocable to segments and also includes inter-segment eliminations.

Revenues in the first quarter of 2010 were \$426 million, representing an increase of \$85 million, or 25%, over the same quarter last year. Revenues increased in the Buildings and Industrial segments by \$31 million and \$74 million, respectively, and decreased in the Infrastructure and Concessions segments by \$13 million and \$4 million, respectively. The acquisition of Lockerbie & Hole (“Lockerbie”) in the second quarter of 2009 was a significant contributor to the quarter-over-quarter increase in revenues.

Operating losses of \$4.1 million in the first quarter of 2010 were \$3.0 million higher than the first quarter of 2009. This was largely due to a decline in gross margin, from 9.6% of revenues during the first quarter of last year to 6.4% of revenues in the first quarter of 2010, primarily in the Infrastructure and Industrial segments, which more than offset the higher revenues in the first quarter of 2010. While the seasonal nature of the business requires that even greater caution than normal be used when comparing first quarter results (see disclosure in the Introduction section above), the reduction in margin in the first quarter of 2010 compared to 2009 can generally be attributed to strong performance in the first quarter of 2009 from carry over work in the Industrial segment that was not repeated in the first quarter of 2010. This trend is generally reflective of the softer private sector driven industrial market that has existed over the past few quarters. Also impacting the quarter-over-quarter reduction in margins is the reduced level of construction activity level on the Quito airport project while restructuring efforts continue toward finalization of the concession contract.

Although MG&A increased by \$3.4 million in the first quarter of 2010 compared to the first quarter of 2009, mainly as a result of the Lockerbie acquisition in the second quarter of 2009, MG&A as a percentage of revenues improved from 7.1% in the first quarter of 2009 to 6.5% in the first quarter of 2010.

Aecon's investment in construction projects where Aecon exercises significant influence over the project, but does not control the project and the project is not a joint venture, are accounted for using the equity method of accounting. In the first quarter of 2010, losses from investments accounted for using the equity method were \$2.1 million. This loss was incurred in the Infrastructure segment.

The \$7.1 million gain from the sale of assets in the first quarter of 2010 resulted almost entirely from a land sale in the Infrastructure segment.

Interest expense, net of interest income, of \$5.0 million in the first quarter of 2010 was \$6.3 million higher than the same period in 2009. The increase resulted primarily from higher levels of non-recourse project debt related to three Infrastructure Ontario "build-finance" projects that are currently in progress and from interest costs related to the issuance of convertible debentures in the third quarter of 2009.

Overall, there was a net loss for the three months ended March 31, 2010 of \$6.6 million or \$0.12 loss per share on a fully diluted basis, which compares with a net loss of \$0.6 million or \$0.01 loss per share on a fully diluted basis in the first quarter of 2009.

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

Backlog \$ millions	As at March 31	
	2010	2009
Infrastructure	\$ 553	\$ 660
Buildings	687	520
Industrial	879	179
<b>Consolidated</b>	<b>\$ 2,119</b>	<b>\$ 1,359</b>

Backlog at March 31, 2010 was \$2,119 million, representing a \$760 million increase over the amount on hand at the same time in 2009. The quarter-over-quarter comparison of backlog was favourably impacted by the contribution of backlog from Lockerbie, which was acquired during the second quarter of 2009. New contract awards of \$362 million were booked in the first quarter of 2010 compared with \$296 million in the first quarter of 2009. Further details of backlog for each of the segments are included in the discussion below under Reporting Segments.

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

Estimated backlog duration	As at March 31	
	2010	2009
Next 12 months	69%	74%
Next 13-24 months	22%	21%
Beyond	9%	5%
	<b>100%</b>	<b>100%</b>

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 amount of work to be performed cannot be reliably quantified or where a minimum number of units at the contract specified price per unit are 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.

## REPORTING SEGMENTS

### INFRASTRUCTURE

#### Financial Highlights

\$ millions	Three Months Ended	
	March 31	
	2010	2009
Revenues	\$ 98.4	\$ 111.7
EBITDA	\$ (7.3)	\$ (10.3)
Segment operating loss <sup>(1)</sup>	\$ (10.2)	\$ (13.2)
Segment operating margin <sup>(2)</sup>	(10.4)%	(11.8)%
Backlog <sup>(3)</sup>	\$ 553	\$ 660

- (1) Segment operating loss represents the loss from operations, before net interest expense, income taxes, and non-controlling interests.
- (2) Segment operating margin is calculated as segment operating profit (loss) as a percentage of revenues.
- (3) Included in backlog at March 31, 2010 is \$37 million (2009 – \$90 million) related to the Quito airport project. Although Aecon’s 50% share of the remaining construction revenues from this project is estimated at \$64 million (2009 - \$155 million), the amount reported as backlog has been reduced by \$27 million (2009 - \$65 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 Quito 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 March 31, 2010, Infrastructure segment revenues of \$98 million were \$13 million, or 12%, lower than the corresponding quarter in 2009. Most of the revenue decrease resulted from a slowdown in the pace of construction at the new Quito airport, and from civil operations, mostly in Western Canada. Partly offsetting these declines was an increase in revenues from utilities operations as this business has grown in Western Canada compared to the first quarter of 2009. Revenues from materials operations were in line with the prior year.

The Infrastructure segment operating loss of \$10.2 million in the first quarter of 2010 represents a \$3 million, or 23%, improvement over 2009. Operating profit increases in the segment’s materials and civil operations were partly offset by decreases in utilities and international operations. The improvement in operating profits from materials resulted primarily from a \$7 million gain from the sale of land in the first quarter of 2010, whereas the majority of the profit improvement from civil operations was the result of stronger margin performance from Ontario construction operations. Partially offsetting these improvements were lower operating profits in international operations as the volume of work performed at the Quito airport project decreased quarter-over-quarter and from lower utilities profits reflecting lower margins from Ontario operations.

Backlog at March 31, 2010 was \$553 million, which represents a \$107 million decrease over the same time last year. The drop in backlog results primarily from lower backlog in international operations, as construction continues on the Quito airport project, and in civil operations which was only partially offset by higher backlog in materials operations. New contract awards totalled

\$106 million in first three months of 2010, compared to \$152 million in the prior year. Most of the decrease in new awards occurred in the civil operations.

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 reported 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>March 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenues</b>	<b>\$ 139.2</b>	<b>\$ 108.5</b>
<b>EBITDA</b>	<b>\$ 1.0</b>	<b>\$ (0.8)</b>
<b>Segment operating profit (loss)</b>	<b>\$ 0.8</b>	<b>\$ (1.0)</b>
<b>Segment operating margin</b>	<b>0.6%</b>	<b>(0.9)%</b>
<b>Backlog</b>	<b>\$ 687</b>	<b>\$ 520</b>

For the quarter ended March 31, 2010, the Buildings segment reported revenues of \$139 million compared to revenues of \$109 million in 2009. The \$30 million, or 28%, increase resulted primarily from an increase in Ontario operations reflecting the impact of several large projects, including three Infrastructure Ontario projects, underway during the period. This increase was partly offset by a revenue decrease in Seattle, which was primarily caused by the completion of a large multi-year project earlier this year, and to a lesser extent in Quebec.

Segment operating profit of \$0.8 million in the first three months of 2010 compares with a loss of \$1.0 million in 2009. Most of the \$1.8 million improvement in operating profit occurred in Quebec operations where operating losses decreased, reflecting the impact of project write downs in the first quarter of 2009. In Ontario, notwithstanding the increase in revenues over the prior year, operating results were down slightly. This decline is reflective of the fact that, while revenues continued to be recorded in 2010 on two large projects that are still in progress, losses have been previously recorded at the full level in prior periods, and as such these projects provide no contribution to margin notwithstanding their ongoing activity. The operating margin in Ontario was also negatively impacted by a large new project where profit recognition has yet to commence where, under Aecon's accounting policy for large multi-year contracts, profit is recognized only when construction reaches a stage of completion that is sufficient to reasonably determine a project's probable results, which is generally 20%.

Backlog of \$687 million at the end of the first quarter of 2010 was \$167 million higher than at the same time in 2009 with increases in the segment's Ontario and Quebec operations. New contract awards totaling \$89 million were recorded in 2010, which compares with awards of \$94 million in

2009. The majority of the new awards in 2010 occurred in the segment's Ontario and Quebec operations.

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 reported 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>March 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenues</b>	<b>\$ 170.4</b>	<b>\$ 96.5</b>
<b>EBITDA</b>	<b>\$ 9.2</b>	<b>\$ 13.9</b>
<b>Segment operating profit</b>	<b>\$ 6.4</b>	<b>\$ 13.2</b>
<b>Segment operating margin</b>	<b>3.8%</b>	<b>13.6%</b>
<b>Backlog</b>	<b>\$ 879</b>	<b>\$ 179</b>

Revenues in the first three months of 2010 of \$170 million in the Industrial segment were \$74 million or 77% higher than in 2009 due to the acquisition of Lockerbie in the second quarter of 2009. Following this acquisition, the segment's heavy industrial operations in Western Canada were consolidated into a single operating unit by combining Aecon and Lockerbie's Western Canada industrial operations. Revenue increases from site construction projects in this newly combined Western Canada operation, along with the newly acquired Lockerbie Mechanical ("Mechanical") unit, contributed the majority of quarter-over-quarter revenue increase in the segment. However, revenues decreased in Ontario as higher revenues from the addition of Lockerbie's Ontario operations were more than offset by declines in fabrication and construction operations, primarily in the power and nuclear sectors. Revenues also decreased in Innovative Steam Technologies Inc. ("IST") reflecting the impact of a decline in new orders received.

In the first quarter of 2010, the Industrial segment generated an operating profit of \$6.4 million compared to \$13.2 million in the same quarter last year. The majority of the \$7 million decline in operating profits occurred in Ontario due to lower profits in construction and fabrication operations. In the first quarter of 2009, construction operating results in Ontario benefited from strong contract margin contributions on a small number of construction projects. This margin performance was not repeated in 2010. Partly offsetting the lower results in Ontario, were improvements in operating results from both Western Canada and Mechanical, mostly as a result of the above noted higher volumes in 2010.

Backlog at March 31, 2010 of \$879 million was \$700 million higher than last year as higher backlog in Western Canada and Mechanical, as a result of the Lockerbie acquisition, exceeded backlog declines in the balance of the segment's operations. Overall, new contract awards of \$150 million in

the first three months of 2010 were \$124 million higher than in the same period in 2009. Most of the increase in new awards occurred in Ontario and Mechanical operations.

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 reported 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**

<b>\$ millions</b>	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenues</b>	<b>\$ 20.8</b>	<b>\$ 25.3</b>
<b>EBITDA</b>	<b>\$ 6.6</b>	<b>\$ 8.5</b>
<b>Segment operating profit</b>	<b>\$ 5.2</b>	<b>\$ 4.4</b>
<b>Segment operating margin</b>	<b>24.8%</b>	<b>17.6%</b>

Revenues in the first quarter of 2010 of \$21 million in the Concessions segment were down \$4 million, or 18%, compared to the same period in 2009. The majority of the decrease in revenues came from Aecon's interest in the operator of the Cross Israel Highway whose operations are being carried out on a fee for service basis by a company in which Aecon holds a 30.6% interest.

Segment operating profit of \$5.2 million in the first quarter of 2010 compares to a profit of \$4.4 million from the same period in 2009, as higher operating profits from the Quito airport concessionaire, which includes the results from operating the existing Quito airport while the new airport is being constructed, offset a decline in operating profits from the operator of the Cross Israel Highway. The improvement in operating results from the Quito airport concession reflects the benefit of lower amortization costs compared to the first quarter of 2009 offset in part by the negative impact on earnings of a strengthening of the Canadian dollar relative to the U.S. dollar.

Nearly 0.6 million passengers departed through the existing Quito airport in the first three months of 2010, a 10% increase over the first quarter of 2009. 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.

Unlike the operator of the Cross Israel Highway, which is discussed above, and whose revenues and operating profits are included in Aecon's reported results, 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 recognized only 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 continues to perform well and is generating strong operating

cash flow, Aecon has not reported any revenues and profits from its concession investment. Average weekday traffic on the highway in March 2010 surpassed 127,000 vehicles, a 25% increase over 2009. The project remains on track to deliver an expected 14% after-tax internal rate of return on Aecon's investment.

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.

### **Quito Airport Project Recent Developments**

Refer to the 2009 Annual MD&A for additional details of previous developments regarding the Quito airport project (the "Project").

In July 2009, as a result of a legal ruling (the "Airports Ruling") issued by the Ecuadorian Constitutional Court (the "Court") with respect to the public nature of revenues collected by the concessionaire, a formal contractual dispute was declared and the Project's financing was suspended. Immediately thereafter, the concessionaire, the Municipality of Quito and the Project's senior lenders engaged in a process of consultation and negotiation in order to secure a new arrangement that would be satisfactory to all stakeholders.

Subsequently, agreement was reached with the Municipality of Quito, including a new commercial arrangement and legal structure acceptable to all parties, including the Ecuadorian State and the Project's senior lenders. The execution and effectiveness of the new agreement, however, are subject to various closing conditions and approvals, the most notable being the endorsement of the new arrangement by the Court, the Comptroller General of Ecuador and the Attorney General of Ecuador. Assuming prompt and favourable rulings by these institutions and quick delivery of the remaining closing conditions, commercial and financial close of the new agreement should occur in the second quarter of 2010. In the meantime, because the Airports Ruling represents an event of default under the relevant finance agreements, the debt related to the Project has been classified as a current liability until such time as the default is cured through implementation of the new agreement.

Because of the postponement of construction financing during the period in which the new commercial agreement was being negotiated, Project construction is not expected to be completed until October, 2011, which is approximately one year later than the contractual completion date. As at March 31, 2010, the Quito airport construction project was approximately 71% complete.

## Quarterly Financial Data

Set out below are revenues, EBITDA, 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)

	2010	2009				2008		
	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2
<b>Revenues</b>	\$ 426.2	\$ 599.8	707.1	613.2	340.9	\$ 602.7	\$ 534.7	\$ 437.7
<b>EBITDA</b>	4.0	40.1	46.3	31.4	6.9	40.3	42.5	31.1
<b>Earnings (loss) before income taxes</b>	(9.1)	25.1	29.7	15.2	0.1	31.4	35.7	24.3
<b>Net income (loss)</b>	(6.6)	15.4	19.6	9.9	(0.6)	20.4	23.1	15.6
<b>Earnings (loss) per share:</b>								
<b>Basic</b>	(0.12)	0.28	0.36	0.18	(0.01)	0.41	0.46	0.32
<b>Diluted</b>	(0.12)	0.26	0.35	0.18	(0.01)	0.40	0.45	0.31

## **FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

Aecon's investments in its joint ventures, including the Quito airport concessionaire ("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 debt during the construction period through the use of individual build finance special purpose vehicles ("Build Finance SPVs").

### **Cash and Debt Balances**

Cash balances at March 31, 2010 and December 31, 2009 are as follows:

(\$ millions)		March 31, 2010			
		Balances excluding Joint ventures and Build Finance SPVs	Joint ventures	Build Finance SPVs	Consolidated Total
Cash and cash equivalents	(1)	\$ 219	\$ 27	\$ 39	\$ 284
Restricted cash	(2)	8	50	-	57
Term deposits	(3)	-	-	20	20
		December 31, 2009			
		Balances excluding Joint ventures and Build Finance SPVs	Joint ventures	Build Finance SPVs	Consolidated Total
Cash and cash equivalents	(1)	\$ 261	\$ 31	\$ 48	\$ 341
Restricted cash	(2)	8	46	-	54
Term deposits	(3)	-	-	20	20

- (1) Cash and cash equivalents includes cash on deposit in joint venture bank accounts (other than cash in Quiport JV as noted in (2) below) which Aecon cannot access directly, as well as cash held by Build Finance SPVs, which was advanced by lenders to finance the construction of three Infrastructure Ontario hospital projects.
- (2) Restricted cash includes cash that was deposited as collateral for borrowings and letters of credit issued by Aecon and cash held in Quiport JV.
- (3) Term deposits 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. These funds are being invested in term deposits until such time as the cash is required to fund construction costs.

Total debt of \$540 million at March 31, 2010 compares to \$526 million at December 31, 2009, the composition of which is as follows:

(\$ millions)	<u>Mar. 31, 2010</u>		<u>Dec. 31, 2009</u>	
Current portion of long-term debt – recourse	\$	21.4	\$	16.5
Current portion of long-term debt – non-recourse <sup>(1)</sup>		225.3		217.5
Long-term debt – recourse		57.4		63.0
Long-term debt – non-recourse		76.7		70.0
Convertible debentures		159.3		158.6
<b>Total debt</b>	<b>\$</b>	<b>540.1</b>	<b>\$</b>	<b>525.6</b>
Debt held directly		238.1		238.1
Debt held by Build Finance SPVs		185.2		166.6
Debt of joint ventures		116.8		120.9
<b>Total debt</b>	<b>\$</b>	<b>540.1</b>	<b>\$</b>	<b>525.6</b>

- (1) The current portion of long-term debt – non-recourse includes Quito airport project debt which has been classified as current following the Constitutional Court of Ecuador’s Airports Ruling in the third quarter of 2009. See the discussion in the Concessions segment section of this MD&A for additional Quito airport project recent developments.

At March 31, 2010 total debt outstanding amounted to \$540 million compared to \$526 million at December 31, 2009. The \$15 million increase in non-recourse debt (current and long-term) results from an increase of \$19 million in non-recourse project debt related to three Infrastructure Ontario hospital projects and a decrease of \$4 million in Aecon’s proportionate share of non-recourse debt related to the Quito airport project.

Aecon’s liquidity position and capital resources continued to be strong in the first quarter of 2010 and are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future. In addition to a significant cash balance, 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 \$55 million, was otherwise undrawn as of March 31, 2010. This credit facility expires on June 15, 2011. At March 31, 2010, Aecon was in compliance with the financial debt covenants related to this credit facility. Further details relating to Aecon’s operating lines are described in note 12 to the 2009 Consolidated Financial Statements.

An annual dividend of \$0.20 per share was paid in 2009 consisting of quarterly payments of \$0.05 per share. Quarterly payments of \$0.05 per share continue to be paid in 2010.

At March 31, 2010, Aecon’s remaining equity to be invested in the Quito airport concessionaire was US\$2 million along with the on-going reinvestment of Aecon’s share of the earnings of the existing airport. An additional estimated US\$10 million is required to be invested under the terms of the preliminary agreement reached regarding the Airports Ruling. As of March 31, 2010, Aecon’s total investment in the Quito airport concessionaire was approximately US\$60 million. Of this amount, US\$34 million was invested through cash equity contributions and the balance, US\$26 million,

through the reinvestment of Aecon's share of the earnings of the existing airport. Aecon has also deposited US\$4 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 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 Consolidated Balance Sheet at March 31, 2010.

### **Summary of Cash Flows**

	<b>Consolidated Cash Flows</b>	
	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2010</b>	<b>2009</b>
<b>\$ millions</b>		
<b>Cash provided by (used in):</b>		
Operating activities	\$ (42.8)	\$ 6.9
Investing activities	(16.9)	(54.6)
Financing activities	3.4	126.9
Increase (decrease) in cash and cash equivalents	(56.3)	79.2
Effects of foreign exchange on cash balances	(0.2)	1.5
Cash and cash equivalents - beginning of period	340.9	292.9
<b>Cash and cash equivalents - end of period</b>	<b>\$ 284.4</b>	<b>\$ 373.5</b>

### **Operating Activities**

Cash used by operating activities of \$43 million in the first quarter of 2010 compares with cash provided by operating activities of \$7 million in the same quarter last year. Of the \$50 million increase in cash usage, \$39 million relates to higher investments in working capital of which \$30 million is attributable to the increase in working capital within build-finance projects where the customer is billed only when the project is complete. Aecon's investment in the working capital of build-finance projects is financed through non-recourse debt (see the discussion under Financing Activities below). Lower earnings in the first quarter of 2010 also contributed to the increase in cash usage quarter-over-quarter.

### **Investing Activities**

In the first quarter of 2010, investing activities resulted in a use of cash of \$17 million, which compares with cash used of \$55 million in the first quarter of 2009. Of the cash used in 2010, \$15 million represents Aecon's proportionate share of the investment made by Quiport JV in 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, \$5 million of cash used represents increases in restricted cash balances, most of which were held in Quiport JV. Sales of property, plant and equipment, net of capital expenditures, provided \$5 million of cash in the first quarter of 2010. During the first quarter of 2009, \$31 million of cash was used to fund the acquisition of South Rock and \$21 million of cash was used to finance its share of the cash used by Quiport JV for construction of the Quito airport.

## **Financing Activities**

In the first quarter of 2010, cash provided by financing activities amounted to \$3 million, compared to cash provided of \$127 million in the same quarter last year. During the first quarter of 2010, long-term debt issued amounted to \$22 million, \$19 million of which relates to non-recourse project financing for Build Finance SPVs related to various Infrastructure Ontario hospital projects, while repayments totalled \$8 million, for a net change of \$14 million. This compares to net borrowings of long-term debt totalling \$102 million in the first quarter of 2009, of which \$20 million related to Aecon's proportionate share of additional non-recourse financing for the Quito airport project and \$86 million related to non-recourse project financing for various Infrastructure Ontario hospital projects. In addition, \$8 million was used in 2010 to purchase Aecon common shares for the Company's Long-Term Incentive Plan. In the first quarter of 2009, Aecon borrowed \$30 million from its operating line which was repaid in early April, 2009.

## **NEW ACCOUNTING STANDARDS**

Note 2 to the March 31, 2010 Interim Consolidated Financial Statements includes new CICA Handbook sections which became effective on or after January 1, 2010 for Aecon. Aecon does not anticipate any significant impact in 2010 on the Company's financial position or on the results of its operations from adoption of these new standards. The impacts from adopting International Financial Reporting Standards are discussed below.

### **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.

The Company's project and governance structure for its transition to IFRS, as detailed in prior MD&A disclosures, will remain in place through 2010.

The Company has completed the detailed assessment phase of its conversion project for all standards that affect the transition. The Company will focus its effort throughout 2010 on the solutions development and implementation phases of IFRS that will have an impact on Aecon's financial statements. To date, the project is progressing according to plan.

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

Refer to the 2009 Annual MD&A for a summary of select IFRS that may impact Aecon, their differences from current Canadian Generally Accepted Accounting Principles (“GAAP”) and their potential impact to the Company.

At this time, the Company can not quantify the impact of IFRS on its financial statements. The Company has finalized and will report throughout 2010 on its conclusions and accounting policy choices on the standards noted above. The Company will meet an internal project milestone of preparing the first draft of the IFRS Opening Balance Sheet, and explanatory notes, in the spring of 2010. The first quarter restatement for internal use is scheduled for summer of 2010. After both of those milestones have been met, the Company expects to be in a position to disclose directional qualitative analysis on the impacts of the transition to IFRS, with quantitative information disclosed in the third quarter of 2010. While the Company believes it has done an appropriate level of analysis in selecting its IFRS accounting policies, actual quantitative results may reveal additional impacts to the Company. IASB projects, discussed below, may also force changes or adjustments to the Opening Balance Sheet and quarterly restatements.

### *Impact of IASB projects*

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 Company has tested its ability to track IFRS adjustments throughout 2010 as well as implemented the modifications required to existing reports and new reports created to facilitate preparation of the increased note disclosure required by IFRS. All three of these items are producing the intended results in the testing phase and were launched near the end of the first quarter of 2010 in line with preparation of the Opening Balance Sheet. Minor adjustments to the tracking tool and the report changes are anticipated as the year progresses and the reports are put to use.

As noted in prior communications about the Company’s transition to IFRS, report requirements have required modifications to existing general ledger account structures. The Company has implemented those changes necessary to begin tracking data from the start of 2010 at a more detailed level for disclosure requirements. At this time, the transition is expected to have minimal impact on the Company’s other information systems.

### *Impact on 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 to lead to many measurement or fundamental differences in the accounting processes 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 processes, 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. Ongoing processes required to properly apply some of the Company's IFRS accounting policies from the start of 2010 for comparative purposes have been put in place and are being applied by all divisions. Processes that center on period end reporting will be rolled out for preparation of first quarter financial statements.

The Company rolled out the first phase of training for the wider finance group of the organization in the fourth quarter of 2009. The training focused on the above noted process changes for 2010. The Company's finance group is continuing to receive training on a regular basis to ensure they have the required understanding of new processes, policies and technical knowledge.

## **SUPPLEMENTAL DISCLOSURES**

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

Subject to the limitation described in the next paragraph, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures to ensure that material information with respect to Aecon is made known to them. Subject to the same limitation, the CEO and CFO 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.

#### **Limitation on Scope of Design**

The CEO and CFO limited the scope of their design of disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of Lockerbie which was acquired by the Company in the second quarter of 2009. Summary financial information about this newly acquired entity was included in the 2009 Annual MD&A and further details related to the acquisition of Lockerbie are also disclosed in note 21 to the 2009 Consolidated Financial Statements. Lockerbie will be included within the scope of the design of the Company's disclosure controls and procedures and internal controls over financial reporting within one year of the date of acquisition.

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

There have been no changes in the Company's internal controls over financial reporting during the period beginning on January 1, 2010 and ended on March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **Contractual Obligations**

At December 31, 2009, the Company had commitments totaling \$451 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 three Infrastructure Ontario hospital projects (approximately \$15 million).

At March 31, 2010, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was \$2,146 million. This consists of the reported backlog of \$2,119 million plus an additional \$27 million representing Aecon's share of the Quito project revenues not included in reported backlog revenues.

Further details on Contractual Obligations are included in the 2009 Annual MD&A.

## **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 11 to the Company's 2010 Interim Consolidated Financial Statements.

Aecon's defined benefit pension plans had a combined deficit of \$7.1 million at December 31, 2009 (December 31, 2008 - \$2.0 million). Refer to the 2009 Annual MD&A for further details regarding Aecon's defined benefit plans.

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 March 31, 2010, 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 less than \$0.1 million. The net unrealized exchange gain represents the estimated net amount the Company would have received if it terminated its foreign exchange contracts at March 31, 2010. Financial instruments are discussed in note 19 to the 2010 Interim Consolidated Financial Statements.

Further details of contingencies and guarantees are included in the 2010 Interim Consolidated Financial Statements and in the 2009 Consolidated Financial Statements.

## **Related Party Transactions**

There were no significant related party transactions in the first quarter of 2010.

## **Critical Accounting Estimates**

The reader is referred to the detailed discussion on Critical Accounting Estimates as outlined in the notes to the Company's 2009 Consolidated Financial Statements and in the 2009 Annual MD&A.

## RISK FACTORS

The reader is referred to the detailed discussion on Risk Factors as outlined in the 2009 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>Mar. 31, 2010</u>	<u>May 4, 2010</u>
Number of common shares outstanding (1)	56,814,232	56,814,232
Paid-up capital of common shares outstanding (2)	\$ 297,033	\$ 297,033
Outstanding securities exchangeable or convertible into common shares:		
Number of stock options outstanding	1,872,817	1,872,817
Number of common shares issuable on exercise of stock options	1,872,817	1,872,817
Increase in paid-up capital on exercise of stock options	\$ 22,881	\$ 22,881
Principal amount of convertible debentures outstanding (see note 14 to the 2010 Interim Consolidated Financial Statements)	\$ 159,331	\$ 159,331
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	\$ 159,331	\$ 159,331

- (1) The number of common shares outstanding as per the above table at March 31, 2010 includes 2,267,404 shares (May 4, 2010 – 2,267,404 shares) held by the trustee of Aecon's Long-Term Incentive Plan ("LTIP").

The number of common shares outstanding at March 31, 2010 for financial statement purposes, after deducting the above LTIP shares, was 54,546,828 shares (May 4, 2010 – 54,546,828 shares) (see note 14 to the 2010 Interim Consolidated Financial Statements).

- (2) As described in note 14 to the 2010 Interim Consolidated Financial Statements, and in accordance with the recommendations of The Canadian Institute of Chartered Accountants, share capital at March 31, 2010 and May 4, 2010 has been reduced by \$25.4 million to reflect shares held by the trustee of the LTIP plan.

## OUTLOOK

As the second quarter begins, most of the key trends that shaped Aecon's outlook at the beginning of the year remain in place. Those segments most exposed to public infrastructure such as roads, transit, hospitals and water infrastructure, continue to see strong markets, healthy backlog and substantial new business opportunities, while those most exposed to commercial building, industrial construction and private development continue to see lower backlog and more uncertain short term growth prospects.

The ongoing strength of the bidding pipeline in Canada's public infrastructure markets, combined with a general increase in the size and duration of the projects Aecon is winning, provides the company with increased visibility regarding its outlook for these markets. Fifteen months ago, at the end of 2008, almost 80% of Aecon's backlog had a duration of less than 12 months. At March 31, 2010, less than 70% of Aecon's backlog had a duration shorter than 12 months, with over 30% stretching into 2011, 2012 or beyond. This trend was further enhanced following the end of the quarter when Aecon joined the construction joint venture extending the A30 highway near Montreal, one of the largest contracts Aecon has ever been awarded, and one that continues until late 2012.

The A30 project is one of many examples of alternative financing models (such as public private partnerships) that have emerged across the country. As Canada recovers from the recession with federal and provincial government deficits to deal with, but with years of underinvestment in public infrastructure still needing to be addressed, public private partnerships are expected to become an increasingly attractive tool for the delivery of public infrastructure, further strengthening Aecon's outlook for these markets.

In an economic environment where the commercial and industrial construction markets continue to feel the impact of the recent recession, Aecon's growing visibility and confidence in the public infrastructure markets is important. Combined with Aecon's strong balance sheet and liquidity position, it allows Aecon to pursue an appropriately patient strategy in its industrial businesses, continuing to make capital investments and bidding new work strategically as the market returns to strength over coming quarters.

While signs of recovery are clearly present in the oilsands, with a number of important projects 'back off the shelf' (including Suncor's Firebag 3 project where Aecon-Lockerbie is playing an important role), Aecon continues to believe that most of the impact of a strengthening oilsands market will not be felt until 2011 and 2012. Similarly, the industrial markets in Ontario and Eastern Canada, which were hit hard by the recession, are beginning to show signs of recovery. As such, while Aecon's 2010 results will likely be driven primarily by public infrastructure construction, 2010 and 2011 should be a period of recovery in private sector investment (likely to be stronger in the latter half of the period).

Taken together, the strong outlook for public infrastructure construction over the next three years, and the improving outlook for industrial construction over the same period, would suggest that 2011 and 2012 should be a period where Aecon's financial results increasingly reflect strength in both the private sector and public sector elements of the business.

Aecon's Buildings segment is one that straddles both the public infrastructure market and the commercial construction market. Currently, most of Aecon Buildings' backlog consists of public infrastructure projects such as hospitals and universities, and this is expected to remain the case over the next several quarters as these markets continue to present significant new opportunities. While much work remains to improve the process, controls and people elements of Aecon's Buildings business, successful execution and turnaround in the Buildings business continues to provide an opportunity for significant upside, and continues to be an important element of Aecon's outlook.

As outlined earlier in this MD&A, progress continues to be made in resolving issues surrounding Aecon's concession interest in the Quito International Airport project, significantly solidifying the future of the project. This project remains an important one for Aecon, with a robust financial model notwithstanding the costs inherent in the recent project agreements.

The broad national presence Aecon has established, unmatched by any public company in the industry, and the result of a concerted strategic effort over the past few years, means that Aecon can now respond to opportunities wherever they may present themselves across Canada. In addition, Aecon's strong balance sheet, financial liquidity and substantial bonding/surety capacity, each of which are among the strongest in the Canadian industry, position the Company well to exploit the many growth opportunities that exist in today's market.

Overall, management continues to believe that its near-record backlog, the strength, depth and durability of the public infrastructure markets, and the expected return to strength of its oilsands and industrial power markets, combine to signal continued strong financial performance throughout 2010 and even more so into 2011 and 2012.

# **Aecon Group Inc.**

Consolidated Financial Statements  
(Unaudited)

**March 31, 2010 and 2009**

## **Notice to Reader**

The management of Aecon Group Inc. (“the Company”) 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) David Smales, Executive Vice-President and Chief Financial Officer

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

(in thousands of dollars) (unaudited)

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	\$ 284,369	\$ 340,893
Restricted cash (note 3)	57,487	54,045
Marketable securities and term deposits (note 3)	19,673	19,509
Accounts receivable	287,333	325,836
Holdbacks receivable	106,248	126,709
Deferred contract costs and unbilled revenue	253,679	218,645
Inventories	31,903	33,377
Income taxes recoverable	2,497	-
Prepaid expenses	11,965	9,597
	<b>1,055,154</b>	<b>1,128,611</b>
<b>Property, plant and equipment</b> (note 5)	<b>202,730</b>	<b>200,883</b>
<b>Future income tax assets</b>	<b>10,878</b>	<b>11,993</b>
<b>Concession rights</b> (note 6)	<b>221,193</b>	<b>215,697</b>
<b>Long-term concession investment</b>	<b>32,685</b>	<b>32,685</b>
<b>Goodwill</b> (note 7)	<b>52,851</b>	<b>50,961</b>
<b>Other intangible assets</b> (note 8)	<b>22,941</b>	<b>24,137</b>
<b>Other assets</b> (note 9)	<b>21,656</b>	<b>24,371</b>
	<b>\$ 1,620,088</b>	<b>\$ 1,689,338</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)

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 327,670	\$ 389,196
Holdbacks payable	73,645	73,385
Deferred revenue	94,510	88,005
Income taxes payable	-	9,272
Future income tax liabilities	50,043	50,043
Current portion of non-recourse project debt (note 10)	225,312	217,436
Current portion of long-term debt (note 10)	21,447	16,489
	<b>792,627</b>	<b>843,826</b>
<b>Non-recourse project debt</b> (note 10)	<b>76,703</b>	<b>70,000</b>
<b>Other long-term debt</b> (note 10)	<b>57,355</b>	<b>63,037</b>
<b>Other liabilities</b>	<b>8,227</b>	<b>7,851</b>
<b>Other income tax liabilities</b>	<b>16,542</b>	<b>16,341</b>
<b>Concession related deferred revenue</b>	<b>65,192</b>	<b>67,348</b>
<b>Convertible debentures</b> (note 12)	<b>159,331</b>	<b>158,614</b>
	<b>1,175,977</b>	<b>1,227,017</b>
<b>Non-controlling interests</b>	<b>5,996</b>	<b>4,929</b>
<b>Commitments and contingencies</b> (notes 11 and 13)		
<b>Shareholders' Equity</b>		
Capital stock (note 14)	297,033	304,946
Contributed surplus (note 14)	4,299	4,097
Convertible debentures (note 12)	6,887	6,887
Retained earnings	134,778	144,237
Accumulated other comprehensive loss (note 14)	(4,882)	(2,775)
	<b>438,115</b>	<b>457,392</b>
	<b>\$ 1,620,088</b>	<b>\$ 1,689,338</b>

# Aecon Group Inc.

Consolidated Statements of Income (Loss)

For the three months ended March 31, 2010 and 2009

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

	<u>2010</u>	<u>2009</u>
<b>Revenues</b>	<b>\$ 426,181</b>	<b>\$ 340,885</b>
<b>Direct costs and expenses</b>	<b>(398,834)</b>	<b>(308,257)</b>
	<b>27,347</b>	<b>32,628</b>
<b>Marketing, general and administrative expenses</b>	<b>(27,557)</b>	<b>(24,162)</b>
<b>Foreign exchange losses</b>	<b>(788)</b>	<b>(1,576)</b>
<b>Loss from investments accounted for using the equity method</b>	<b>(2,123)</b>	<b>-</b>
<b>Gain on sale of assets (note 15)</b>	<b>7,080</b>	<b>23</b>
<b>Depreciation and amortization (note 16)</b>	<b>(8,063)</b>	<b>(8,047)</b>
<b>Interest expense</b>	<b>(7,835)</b>	<b>(1,636)</b>
<b>Interest income</b>	<b>2,812</b>	<b>2,906</b>
	<b>(36,474)</b>	<b>(32,492)</b>
<b>Income (loss) before income taxes and non-controlling interests</b>	<b>(9,127)</b>	<b>136</b>
<b>Income tax recovery (expense) (note 4)</b>		
Current	<b>4,606</b>	<b>(1,203)</b>
Future	<b>(955)</b>	<b>1,455</b>
	<b>3,651</b>	<b>252</b>
<b>Income (loss) before non-controlling interests</b>	<b>(5,476)</b>	<b>388</b>
<b>Non-controlling interests</b>	<b>(1,142)</b>	<b>(1,014)</b>
<b>Net loss for the period</b>	<b>\$ (6,618)</b>	<b>\$ (626)</b>
<b>Loss per share (note 14)</b>		
Basic	<b>\$ (0.12)</b>	<b>\$ (0.01)</b>
Diluted	<b>\$ (0.12)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares outstanding (note 14)</b>		
Basic	<b>55,077,223</b>	<b>50,207,924</b>
Diluted	<b>69,888,645</b>	<b>50,953,865</b>

# Aecon Group Inc.

For the three months ended March 31, 2010 and 2009

(in thousands of dollars) (unaudited)

## Consolidated Statements of Comprehensive Income (Loss)

	<u>2010</u>		<u>2009</u>
<b>Net loss for the period</b>	<b>\$ (6,618)</b>	\$	<b>(626)</b>
<b>Other comprehensive income (loss), net of tax</b>			
Foreign currency translation adjustments of self-sustaining foreign operations	(2,107)		1,932
Mark-to-market adjustments on available-for-sale investments	-		(145)
<b>Comprehensive income (loss) for the period</b>	<b>\$ (8,725)</b>	\$	<b>1,161</b>

## Consolidated Statements of Retained Earnings

	<u>2010</u>		<u>2009</u>
<b>Retained earnings - beginning of period</b>	<b>\$ 144,237</b>	\$	<b>110,903</b>
Net loss for the period	(6,618)		(626)
Dividends (note 14)	(2,841)		(2,545)
<b>Retained earnings - end of period</b>	<b>\$ 134,778</b>	\$	<b>107,732</b>

## Consolidated Statements of Accumulated Other Comprehensive Income (Loss)

	<u>2010</u>		<u>2009</u>
<b>Accumulated other comprehensive income (loss) - beginning of period</b>	<b>\$ (2,775)</b>	\$	<b>5,890</b>
Foreign currency translation adjustments of self-sustaining foreign operations	(2,107)		1,932
Mark-to-market adjustments on available-for-sale investments	-		(145)
<b>Accumulated other comprehensive income (loss) - end of period</b>	<b>\$ (4,882)</b>	\$	<b>7,677</b>

# Aecon Group Inc.

## Consolidated Statements of Cash Flows

For the three months ended March 31, 2010 and 2009

(in thousands of dollars) (unaudited)

	2010	2009
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the period	\$ (6,618)	\$ (626)
Items not affecting cash		
Depreciation and amortization	8,063	8,047
Loss from investments accounted for using the equity method	2,123	-
Gain on sale of assets	(7,080)	(23)
Amortization of commitment fees	506	99
Unrealized foreign exchange losses	57	1,844
Non-cash interest on other income tax liabilities	201	201
Notional interest representing accretion	(1,395)	(270)
Defined benefit pension	412	256
Future income taxes	955	(1,455)
Stock-based compensation	241	265
	(2,535)	8,338
Change in other balances relating to operations (note 16)	(40,236)	(1,461)
	(42,771)	6,877
<b>Investing activities</b>		
(Increase) decrease in restricted cash balances	(5,104)	477
Increase in marketable securities and term deposits	(164)	-
Purchase of property, plant and equipment	(3,894)	(2,842)
Proceeds on sale of property, plant and equipment	8,745	324
Acquisitions (note 17)	(2,350)	(31,381)
Investment in concession rights	(14,934)	(20,743)
Increase in other intangible assets and other assets	(337)	(1,344)
Increase in non-controlling interests	1,122	902
	(16,916)	(54,607)
<b>Financing activities</b>		
Increase in bank indebtedness	-	27,313
Issuance of long-term debt	22,175	105,799
Repayments of long-term debt	(8,442)	(3,654)
Increase in other liabilities	433	-
Issuance of capital stock (note 14)	438	-
Repurchase of capital stock (note 14)	(8,390)	-
Dividends paid (note 14)	(2,838)	(2,545)
	3,376	126,913
<b>(Decrease) increase in cash and cash equivalents during the period</b>	<b>(56,311)</b>	<b>79,183</b>
<b>Effects of foreign exchange on cash balances</b>	<b>(213)</b>	<b>1,491</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>340,893</b>	<b>292,873</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 284,369</b>	<b>\$ 373,547</b>
<b>Supplementary disclosures (note 16)</b>		

# **Aecon Group Inc.**

## Notes to Consolidated Financial Statements

**March 31, 2010 and 2009**

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(in thousands of dollars, except 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. 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, 2009. 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 period ended March 31, 2010 are not necessarily indicative of results expected for the full fiscal year or any other future period.

### **2) Future accounting changes**

The CICA has 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 remeasured 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 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 Company is in the process of transitioning its financial statement reporting, presentation and disclosure to IFRS in time to meet the January 1, 2011 deadline. The process will be ongoing as new standards and recommendations are issued by the International Accounting Standards Board and AcSB. Further details regarding the Company’s transition to IFRS are included in the Company’s March 31, 2010 Management’s Discussion and Analysis filed on The System for Electronic Document Analysis and Retrieval (“SEDAR”).

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

March 31, 2010 and 2009

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

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

		<b>March 31, 2010</b>			
		<b>Balances excluding joint ventures and Build Finance SPVs</b>	<b>Joint ventures</b>	<b>Build Finance SPVs</b>	<b>Consolidated Total</b>
Cash and cash equivalents	(a)	\$ 218,530	\$ 27,230	\$ 38,609	\$ 284,369
Restricted cash	(b)	7,589	49,898	-	57,487
Marketable securities and term deposits	(c)	-	-	19,673	19,673

		<b>December 31, 2009</b>			
		<b>Balances excluding joint ventures and Build Finance SPVs</b>	<b>Joint ventures</b>	<b>Build Finance SPVs</b>	<b>Consolidated Total</b>
Cash and cash equivalents	(a)	\$ 261,425	\$ 31,113	\$ 48,355	\$ 340,893
Restricted cash	(b)	7,802	46,243	-	54,045
Marketable securities and term deposits	(c)	-	-	19,509	19,509

- (a) Cash and cash equivalents as at March 31, 2010 of \$284,369 (December 31, 2009 - \$340,893) include \$27,230 (December 31, 2009 - \$31,113) on deposit in joint venture and affiliate bank accounts, which the Company cannot access directly. 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 ("Build Finance SPVs"). Included in cash and cash equivalents was \$38,609 (December 31, 2009 - \$48,355) of cash advanced by lenders to finance the construction by Build Finance SPVs.
- (b) Restricted cash of \$57,487 at March 31, 2010 (December 31, 2009 - \$54,045) includes \$14,137 (December 31, 2009 - \$14,409) that was deposited as collateral for borrowings and letters of credit issued by the Company and was not available for general operating purposes. The restricted cash balance at March 31, 2010 also includes \$43,350 (December 31, 2009 - \$39,636) held in Quiport JV.
- (c) Marketable securities and term deposits of \$19,673 at March 31, 2010 (December 31, 2009 - \$19,509) consisted of highly liquid interest bearing securities with maturities up to one year and were all held by Build Finance SPVs.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

March 31, 2010 and 2009

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

### 4) Income taxes

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

	Three months ended March 31	
	2010	2009
Income (loss) before income taxes and non-controlling interests	\$ (9,127)	\$ 136
Statutory income tax rate	31%	33%
Expected income tax recovery (expense)	2,829	(45)
Effect on income tax of:		
Provincial and foreign rate differentials	677	643
Non-deductible expenses	(441)	(190)
Foreign exchange translation losses	(4)	(58)
Tax-exempt portion of capital gains	613	-
Other	(23)	(98)
	822	297
Income tax recovery	\$ 3,651	\$ 252

### 5) Property, plant and equipment

	March 31, 2010		
	Cost	Accumulated depreciation	Net
Land and improvements	\$ 27,968	\$ -	\$ 27,968
Buildings and leasehold improvements	60,259	14,320	45,939
Aggregate properties	47,380	7,042	40,338
Machinery and construction equipment	135,412	61,182	74,230
Office equipment, furniture and fixtures, and computer equipment	23,838	13,478	10,360
Vehicles	5,998	2,103	3,895
	\$ 300,855	\$ 98,125	\$ 202,730

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

March 31, 2010 and 2009

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

	<b>December 31, 2009</b>		
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net</b>
Land and improvements	\$ 27,396	\$ -	\$ 27,396
Buildings and leasehold improvements	59,263	13,568	45,695
Aggregate properties	48,701	6,963	41,738
Machinery and construction equipment	131,322	58,727	72,595
Office equipment, furniture and fixtures, and computer equipment	22,619	13,094	9,525
Vehicles	5,875	1,941	3,934
	<b>\$ 295,176</b>	<b>\$ 94,293</b>	<b>\$ 200,883</b>

Depreciation expense during the three months ended March 31, 2010 amounted to \$4,916 (2009 - \$3,729). See also note 16.

### 6) Concession rights

The Company has recorded concession rights as follows:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Concession rights to operate the existing Quito Airport, net of accumulated amortization of \$48,264 (December 31, 2009 - \$48,448)	<b>\$ 9,979</b>	\$ 11,813
Concession rights to operate the new Quito Airport	<b>211,214</b>	203,884
	<b>\$ 221,193</b>	\$ 215,697

### 7) Goodwill

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Balance - beginning of period	\$ 50,961	\$ 9,804
Changes resulting from business combinations	(a) 1,890	41,157
Balance - end of period	<b>\$ 52,851</b>	\$ 50,961

(a) During the quarter ended March 31, 2010, goodwill increased by \$1,890 as a result of the acquisition of GCCL Contracting Limited (see note 17).

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

March 31, 2010 and 2009

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

### 8) Other intangible assets

	<b>March 31, 2010</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
Acquired customer backlog	\$ 24,631	\$ 10,885	\$ 13,746
Computer software	6,769	3,247	3,522
Licences	6,077	1,109	4,968
Other	778	73	705
	<b>\$ 38,255</b>	<b>\$ 15,314</b>	<b>\$ 22,941</b>

	<b>December 31, 2009</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
Acquired customer backlog	\$ 24,631	\$ 9,747	\$ 14,884
Computer software	5,567	1,887	3,680
Licences	6,191	1,340	4,851
Other	786	64	722
	<b>\$ 37,175</b>	<b>\$ 13,038</b>	<b>\$ 24,137</b>

For the quarter ended March 31, 2010 and 2009, the Company recorded related amortization expense as follows (see also note 16):

	<b>2010</b>		<b>2009</b>	
Acquired customer backlog	\$	1,138	\$	-
Other		528		251
	<b>\$</b>	<b>1,666</b>	<b>\$</b>	<b>251</b>

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

March 31, 2010 and 2009

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

### 9) Other assets

	March 31, 2010	December 31, 2009
Long-term receivables	\$ 9,276	\$ 9,189
Income tax deposit	5,414	5,414
Pension assets	3,705	4,117
Investments accounted for using the equity method	548	2,671
Commitment fees	290	513
Other	2,423	2,467
	<b>\$ 21,656</b>	<b>\$ 24,371</b>

### 10) Long-term debt

	March 31, 2010	December 31, 2009
<b>Non-recourse project debt</b>		
Quiport JV project financing	\$ 111,808	\$ 115,682
Quiport JV CORPAQ debt	4,622	4,782
Rouge Valley Health System project debt	51,719	45,935
Toronto Rehabilitation Hospital project debt	63,522	50,607
Lakeridge Health Oshawa Hospital project debt	70,000	70,000
Other joint venture project debt	344	430
	<b>302,015</b>	<b>287,436</b>
<b>Other long-term debt</b>		
Capital leases and equipment loans	52,550	50,619
Notes payable	15,373	17,742
Mortgages	5,678	5,791
Loans from Derech Eretz partners	5,198	5,178
Investment loan	3	196
	<b>78,802</b>	<b>79,526</b>
<b>Total long-term debt</b>	<b>380,817</b>	<b>366,962</b>
Less: Amounts due within one year		
- Non-recourse project debt	225,312	217,436
- Other long-term debt	21,447	16,489
	<b>\$ 134,058</b>	<b>\$ 133,037</b>

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

March 31, 2010 and 2009

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

### 11) Guarantees

Guarantees are described in note 13 to the Company's December 31, 2009 Consolidated Financial Statements.

The following describes the major changes during the quarter ended March 31, 2010:

- (a) The Company has issued, in the normal conduct of operations, letters of credit amounting to \$55,022 (December 31, 2009 - \$39,021) in support of financial and performance related obligations of its North American operations.
- (b) 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 March 31, 2010, 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 \$235,728 (December 31, 2009 - \$279,292), 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.

### 12) Convertible debentures

Convertible subordinated debentures consist of:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Debt component reported as long-term liability: Debenture maturing September 30, 2014	<b>\$ 159,331</b>	<b>\$ 158,614</b>
Equity component: Debenture maturing September 30, 2014	<b>\$ 6,887</b>	<b>\$ 6,887</b>

Interest expense related to the debentures consists of:

	<b>Three months ended March 31</b>	
	<b>2010</b>	<b>2009</b>
Interest expense on face value	<b>\$ 2,969</b>	<b>\$ -</b>
Notional interest representing accretion	<b>342</b>	<b>-</b>
Amortization of financing charges	<b>375</b>	<b>-</b>
	<b>\$ 3,686</b>	<b>\$ -</b>

# **Aecon Group Inc.**

## Notes to Consolidated Financial Statements

**March 31, 2010 and 2009**

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

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

The Company holds a 42.3% economic interest in 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.

Refer to note 17(g) in the December 31, 2009 consolidated financial statements for additional details of previous developments regarding the Quito airport project (the “Project”).

In July 2009, as a result of a legal ruling (the “Airports Ruling”) issued by the Ecuadorian Constitutional Court (the “Court”) with respect to the public nature of revenues collected by the concessionaire, a formal contractual dispute was declared and the Project’s financing was suspended. Immediately thereafter, the concessionaire, the Municipality of Quito and the Project’s senior lenders engaged in a process of consultation and negotiation in order to secure a new arrangement that would be satisfactory to all stakeholders.

Subsequently, agreement was reached with the Municipality of Quito, including a new commercial arrangement and legal structure acceptable to all parties, including the Ecuadorian State and the Project’s senior lenders. The execution and effectiveness of the new agreement, however, are subject to various closing conditions and approvals, the most notable being the endorsement of the new arrangement by the Court, the Comptroller General of Ecuador and the Attorney General of Ecuador. Assuming prompt and favourable rulings by these institutions and quick delivery of the remaining closing conditions, commercial and financial close of the new agreement should occur in the second quarter of 2010. In the meantime, because the Airports Ruling represents an event of default under the relevant finance agreements, the debt related to the Project has been classified as a current liability until such time as the default is cured through implementation of the new agreement.

Because of the postponement of construction financing during the period in which the new commercial agreement was being negotiated, Project construction is not expected to be completed until October, 2011, which is approximately one year later than the contractual completion date. As at March 31, 2010, the Quito airport construction project was approximately 71% complete.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

March 31, 2010 and 2009

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

### 14) Capital stock

	2010		2009	
	Number of shares	Amount	Number of shares	Amount
Balance - January 1	55,102,010	\$ 304,946	50,207,924	\$ 262,644
Common shares issued on exercise of options	70,000	477	-	-
Common shares purchased by the Trust of the long-term incentive plan (i)	(625,182)	(8,390)	-	-
Balance - March 31 (i)	54,546,828	\$ 297,033	50,207,924	\$ 262,644

- (i) 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 administering the Company’s Long-Term Incentive Plan (“LTIP”).

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

### Stock option plans

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:

	Three months ended March 31		2009	
	2010		2009	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Balance outstanding - beginning of period	1,942,817	\$ 12.00	1,993,484	\$ 11.26
Granted	-	-	50,000	9.12
Exercised	(70,000)	6.25	-	-
Cancelled	-	-	(54,166)	12.43
Balance outstanding at end of period	1,872,817	\$ 12.22	1,989,318	\$ 11.17
Options exercisable - end of period	1,039,484	\$ 11.09	1,097,651	\$ 8.50

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

March 31, 2010 and 2009

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

### Long-Term Incentive Plan

During the three months ended March 31, 2010, the Company recorded LTIP compensation charges of \$1,500 (2009 - \$1,050).

The LTIP Trust (the "Trust") holds 2,267,404 shares at March 31, 2010 (December 31, 2009 – 1,642,222 shares) with a cost basis of \$25,430 (December 31, 2009 - \$17,040).

The Company has determined 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 March 31, 2010, share capital was reduced by \$25,430 (December 31, 2009 - \$17,040) and accrued liabilities increased by the same amount.

### Earnings per share

Details of the calculations of earnings per share are set out below:

	<u>2010</u>	<u>2009</u>
Net loss for the period	\$ (6,618)	\$ (626)
Interest on convertible debentures <sup>(i)</sup>	<u>2,621</u>	<u>-</u>
Diluted net loss	<u>\$ (3,997)</u>	<u>\$ (626)</u>
Weighted average number of common shares outstanding	55,077,223	50,207,924
Effect of dilutive securities:		
Options	310,504	311,171
Convertible debentures <sup>(i)</sup>	13,042,680	-
Shares held in a trust account in respect of a long-term incentive plan	<u>1,458,238</u>	<u>434,770</u>
Weighted average number of diluted common shares outstanding	<u>69,888,645</u>	<u>50,953,865</u>
Basic loss per share	\$ (0.12)	\$ (0.01)
Diluted loss per share <sup>(i)</sup>	\$ (0.12)	\$ (0.01)

(i) These items are excluded from the calculation of diluted earnings per share. This is required when the impact of dilutive securities would be to increase the earnings per share or decrease the loss per share.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

March 31, 2010 and 2009

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

### Contributed surplus

Changes in contributed surplus for the three months ended March 31 were as follows:

	<u>2010</u>	<u>2009</u>
Balance - beginning of period	\$ 4,097	\$ 2,828
Increase (decrease) in contributed surplus resulting from:		
Granting of stock options	241	265
Exercise of stock options	(39)	-
	<u>4,299</u>	<u>3,093</u>
Balance - end of period	\$ 4,299	\$ 3,093

### Dividends

Annual dividends in the amount of \$0.20 per share are paid in four quarterly payments of \$0.05 per share. In the fourth quarter of 2009, the Company recorded dividends declared of \$2,838 which were paid in 2010 (2009 - \$2,545). For the three months ended March 31, 2010, the Company recorded dividends declared of \$2,841 (2009 - \$2,545) which were paid after March 31.

### Accumulated other comprehensive income (loss)

Components of accumulated other comprehensive loss included:

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Foreign currency translation adjustments of self-sustaining foreign operations, net of related hedging activities	\$ (4,882)	\$ (2,775)
Accumulated other comprehensive loss	<u>\$ (4,882)</u>	<u>\$ (2,775)</u>

### 15) Gain on sale of assets

The gain on sale of assets for the first quarter of 2010 of \$7,080 includes a \$6,983 pre-tax gain from a sale of land.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

March 31, 2010 and 2009

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

### 16) Cash flow information

Change in other balances relating to operations:

	<u>2010</u>		<u>2009</u>
Decrease (increase) in:			
Accounts receivable	\$ 37,806	\$	50,752
Holdbacks receivable	20,353		31,722
Deferred contract costs and unbilled revenue	(32,307)		(20,325)
Inventories	1,474		(695)
Prepaid expenses	(2,518)		(336)
(Decrease) increase in:			
Accounts payable and accrued liabilities	(59,669)		(60,099)
Holdbacks payable	420		(2,420)
Deferred revenue	6,511		(1,847)
Income taxes payable	(12,306)		1,787
	<u>\$ (40,236)</u>	<u>\$</u>	<u>(1,461)</u>

Other supplementary information:

	<u>2010</u>		<u>2009</u>
Cash interest paid	\$ 9,456	\$	1,487
Cash income taxes paid	6,973		120

Depreciation and amortization are comprised of:

	<u>Three months ended March 31</u>	
	<u>2010</u>	<u>2009</u>
Property, plant and equipment (note 5)	\$ 4,916	\$ 3,729
Concession rights (note 6)	1,481	4,067
Other intangible assets (note 8)	1,666	251
	<u>\$ 8,063</u>	<u>\$ 8,047</u>

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 March 31, 2010 amounted to \$2,256 (2009 - \$34).

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

March 31, 2010 and 2009

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

### 17) Acquisition

In March 2010, the Company acquired GCCL Contracting Limited, an asphalt, paving, and construction company located in Orangeville, Ontario. The acquisition was accounted for using the purchase method and the results of operations are included from the date of the acquisition.

The preliminary allocation of the purchase price for the acquisition of the above investment 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 acquisition:

Net assets acquired		
Cash	\$	50
Property, plant and equipment		2,322
Goodwill		1,890
Other liabilities		(160)
	\$	<u>4,102</u>
Consideration		
Cash consideration paid	\$	2,400
Note payable		1,702
	\$	<u>4,102</u>

The note payable which is payable over a four-year term is non-interest bearing and has been discounted to arrive at its fair value at the date of the acquisition.

### 18) Employee benefit plans

Employee future benefit expenses for the three months ended March 31 are as follows:

	<u>2010</u>	<u>2009</u>
Defined benefit plan expense:		
Company sponsored pension plans	\$ 623	\$ 449
Defined contribution plan expense:		
Company sponsored pension plans	1,781	596
Multi-employer pension plans	7,906	5,713
Total employee future benefit expenses	<u>\$ 10,310</u>	<u>\$ 6,758</u>

# Aecon Group Inc.

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### 19) Financial instruments

#### Fair values

From time to time, the Company enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar, but does not hold or issue such financial instruments for speculative trading purposes. At March 31, 2010, the Company had net outstanding contracts to sell euro 608, sell US\$1,268, and buy US\$4,438 (December 31, 2009 - sell euro 939, sell US\$4,345, and buy US\$4,576) on which there was a net unrealized exchange gain of \$25 (December 31, 2009 - net gain of \$330). 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.

CICA Handbook Section 3862 enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs. The first two levels are considered observable and the last unobservable. These levels are used to measure fair values as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 – Inputs, other than Level 1 inputs that are observable for assets and liabilities, either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table summarizes the fair value hierarchy under which the Company's financial instruments are valued.

	<b>Assets (Liabilities) Measured at Fair Value</b>		
	<b>As at March 31, 2010</b>		
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>
<b>Financial assets (liabilities) measured at fair value through net income</b>			
Cash and cash equivalents	\$ 284,369	\$ 284,369	\$ -
Restricted cash	57,487	57,487	-
Marketable securities and term deposits	19,673	-	19,673
Holdbacks receivable	106,248	-	106,248
Holdbacks payable	(73,645)	-	(73,645)
Forward contracts mark-to-market adjustments	(25)	-	(25)

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### 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 Company provides an allowance for credit losses in the year in which anticipated losses become known. Balances are considered for impairment on a case by case basis when they are over 60 days past due or if there is indication that a customer will default. At March 31, 2010, the Company had \$92,436 in past due trade receivables. Of this amount, \$63,656 was over 60 days past due against which the Company has recorded an allowance for doubtful accounts of \$6,459.

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 11.

### Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure 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 management and 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 March 31, 2010. Included in the "Next 12 months" column, is Quiport JV debt of \$111,808 which, although not due to mature within one year, has been classified as a current liability payable in 2010:

	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	\$ 225,312	\$ 76,703	\$ -	\$ -	\$ -	\$ -	\$ 302,015
Capital leases and equipment loans	11,711	12,327	20,112	6,756	2,447	2,089	55,442
Other long-term debt	9,736	4,426	4,000	-	-	5,198	23,360
	<b>\$ 246,759</b>	<b>\$ 93,456</b>	<b>\$ 24,112</b>	<b>\$ 6,756</b>	<b>\$ 2,447</b>	<b>\$ 7,287</b>	<b>\$ 380,817</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 March 31, 2010, the interest rate profile of the Company's long-term debt was as follows:

	2010
Fixed rate instruments held by joint ventures	\$ 58,086
Variable rate instruments held by joint ventures	58,688
Fixed rate instruments	258,043
Variable rate instruments	6,000
<b>Total long-term debt</b>	<b>\$ 380,817</b>
<b>Fixed rate convertible debentures</b>	<b>\$ 159,331</b>

Long-term debt held by joint ventures relates to project financing for the Quito Airport project (see note 10), 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 three months ended March 31, 2010, 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 and Indian rupee.

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 March 31, 2010, would have been an increase in comprehensive income of approximately \$7,000. 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 March 31, 2010 would have been a decrease of approximately \$500.

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 arose 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 March 31, 2010 would have been an increase of approximately \$1,100.

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.

The following table details the Company's sensitivity to a 10% strengthening of the US dollar and Israel new shekel on net earnings and comprehensive income against the Canadian dollar for currency exposures other than those discussed above. 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>
Net earnings	\$ 1,200	\$ 200
Comprehensive income	\$ 1,200	\$ 200

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### 20) 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 Eliminations and Other category in the summary below includes corporate costs and other activities not directly allocable to segments and also includes inter-segment eliminations.

#### *Infrastructure*

This segment includes all aspects of the construction of both public and private infrastructure, including roads and highways, as well as toll highways, dams, tunnels, bridges, airports, marine facilities, transit systems and 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.

On January 15, 2009, the Company acquired South Rock Ltd., an integrated construction and materials business headquartered in Medicine Hat, Alberta focusing primarily on the southern Alberta road building market. The Company reports South Rocks' operations within its 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, 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 & Hole Inc. 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

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commercial market sectors. The Company reports 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 Toll Highway and the Quito Airport concession companies. This segment also includes the operations of the Highway 104 toll plaza in Atlantic Canada. In addition, this segment has a development function whereby it monitors and, where appropriate, brings together the unique capabilities and strengths of the Company for the development of public sector infrastructure projects in which the Company can play a role beyond just contractor, as developer, operator or investor.

### Information by reportable segments is as follows:

As at March 31 and the three months then ended	2010					
	Infrastructure	Buildings	Industrial	Concessions	Eliminations and Other	Total
Revenues	\$ 98,351	\$ 139,194	\$ 170,363	\$ 20,813	\$ (2,540)	\$ 426,181
EBITDA (i)	\$ (7,328)	\$ 1,021	\$ 9,177	\$ 6,641	\$ (5,552)	\$ 3,959
Depreciation and amortization	(2,862)	(191)	(2,778)	(1,481)	(751)	(8,063)
Segment operating profit (loss) (i)	(10,190)	830	6,399	5,160	(6,303)	(4,104)
Interest expense (net), income taxes and non-controlling interests						(2,514)
Net loss						\$ (6,618)
Total assets	\$ 398,517	\$ 352,009	\$ 314,376	\$ 339,825	\$ 215,361	\$ 1,620,088
Concession rights, goodwill and other intangible assets	\$ 10,215	\$ 1,915	\$ 48,518	\$ 227,684	\$ 8,653	\$ 296,985
Capital expenditures	\$ 1,703	\$ 3	\$ 1,180	\$ -	\$ 1,008	\$ 3,894
Cash flows from (used in) operating activities (i)	\$ (12,300)	\$ 1,069	\$ 9,160	\$ 5,499	\$ (5,963)	\$ (2,535)

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As at March 31 and the three months then ended

2009

	Infrastructure	Buildings	Industrial	Concessions	Eliminations and Other	Total
Revenues	\$ 111,713	\$ 108,497	\$ 96,531	\$ 25,282	\$ (1,138)	\$ 340,885
EBITDA (i)	\$ (10,295)	\$ (811)	\$ 13,875	\$ 8,514	\$ (4,370)	\$ 6,913
Depreciation and amortization	(2,883)	(175)	(722)	(4,068)	(199)	(8,047)
Segment operating profit (loss) (i)	(13,178)	(986)	13,153	4,446	(4,569)	(1,134)
Interest expense (net), income taxes and non-controlling interests						508
Net loss						\$ (626)
Total assets	\$ 449,099	\$ 238,322	\$ 117,481	\$ 290,997	\$ 218,422	\$ 1,314,321
Concession rights, goodwill and other intangible assets	\$ 20,302	\$ 1,783	\$ 3,750	\$ 190,975	\$ -	\$ 216,810
Capital expenditures	\$ 1,196	\$ 58	\$ 1,153	\$ -	\$ 435	\$ 2,842
Cash flows from (used in) operating activities (i)	\$ (9,632)	\$ (811)	\$ 15,498	\$ 7,083	\$ (3,800)	\$ 8,338

- (i) EBITDA represents earnings or loss before net interest expense, income taxes, depreciation and amortization, and non-controlling interests. Segment operating profit (loss) represents net income (loss) before net 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.

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### 21) 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 sufficient liquidity to adequately fund the on-going operations of the business;
- to provide flexibility 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 a satisfactory 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 sheets. In 2008, the conversion of convertible debt to equity and the issuance of 4,000,000 common shares were the primary drivers in arriving at a debt to equity percentage of 15.3% as at December 31, 2008. Additional loans incurred and the issuance of convertible debentures in 2009 drove the debt to equity percentage up to 52.1% as at December 31, 2009. In the first quarter of 2010, the net loss during the period drove up the debt to equity percentage to 54.4%. If the convertible debentures were to be excluded from debt and added to equity on the basis that they could be redeemed for equity, either at the Company's option or at the holder's option, then the adjusted debt to equity percentage would be 13.2% as at March 31, 2010. While the Company believes 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 March 31, 2010, except as disclosed in note 13 regarding the Quito Airport Project, the Company complied with all of its financial debt covenants. The Company's current operating performance and current debt to equity percentage have significantly lessened the restrictive impact of debt covenants in capital management decisions.

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# ***Aecon***



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