

**Aecon Group Inc.**

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

**March 31, 2009**

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

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. ("Aecon") should be read in conjunction with the Company's March 31, 2009 Interim Consolidated Financial Statements and Notes (which have not been reviewed by the Company's external auditors) and in conjunction with the Company's annual MD&A for the year ended December 31, 2008. This interim MD&A has been prepared as of May 5, 2009. Additional information on Aecon is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) and includes the Company's Annual Information Form and other securities and continuous disclosure filings.

### **Introduction**

Aecon operates in four principal segments within the construction and infrastructure development industry – Infrastructure, Buildings, Industrial and Concessions. A description of these operating segments is included in the 2008 annual MD&A.

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

The MD&A presents certain non-GAAP (Canadian generally accepted accounting principles) financial measures to assist readers in understanding the Company's performance. Non-GAAP financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with GAAP.

## CONSOLIDATED FINANCIAL HIGHLIGHTS

\$ millions	Three Months Ended March 31	
	2009	2008
<b>Revenues</b>	<b>\$ 340.9</b>	<b>\$ 302.0</b>
Gross margin <sup>(1)</sup>	32.6	18.5
<b>EBITDA <sup>(2)</sup></b>	<b>9.8</b>	<b>4.5</b>
<b>Operating profit (loss) <sup>(3)</sup></b>	<b>1.8</b>	<b>(1.3)</b>
Interest expense	(1.6)	(2.1)
<b>Earnings (loss) before taxes <sup>(4)</sup></b>	<b>0.1</b>	<b>(3.5)</b>
Income tax recovery (expense)	0.3	4.0
<b>Net income (loss) for the period</b>	<b>(0.6)</b>	<b>0.3</b>
<b>Return on revenue <sup>(5)</sup></b>	<b>0.5%</b>	<b>(0.4)%</b>
<b>Backlog – March 31</b>	<b>\$ 1,359</b>	<b>\$ 1,231</b>

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

Revenues in the first quarter of 2009 were \$341 million, representing an increase of \$39 million, or 13%, over the same quarter last year. Revenues increased in the Infrastructure, Buildings, Industrial, and Concessions segments by \$17 million, \$0.4 million, \$6 million, and \$10 million, respectively. Results for each of the four principal operating segments are discussed separately under Reporting Segments.

Gross margin increased from \$19 million or 6.1% of revenues in the first quarter of 2008 to \$33 million or 9.6% of revenues in 2009. Of the \$14 million increase in gross margin in 2009, the Industrial and Concessions segments reported improvements of approximately \$12 million and \$3 million respectively, while margins decreased in the Buildings segment by \$1 million and were essentially unchanged in the Infrastructure segment. The margin increases resulted primarily from improved margin percentages, particularly in the Ontario operations of the Industrial segment as a result of the commencement of profit recognition on one project and the benefit of margin improvements on a small number of projects, and also from higher volumes in both the Industrial and Concessions segments.

Marketing, general and administrative expenses (“MG&A”) as a percentage of revenues increased from 5.3% in the first quarter of 2008 to 7.1% in the first quarter of 2009. In the Buildings segment, higher MG&A costs were primarily the result of reserves established for potentially uncollectible amounts in the segment’s Montreal operations. In the other segments, higher MG&A resulted from

growth in the operations such as from the acquisition of South Rock Ltd. (“South Rock”) in January 2009 by the Infrastructure segment.

Despite the increases in MG&A, operating profit as a percentage of revenues increased in the first quarter of 2009 compared to the same period in 2008.

Depreciation and amortization expense of \$8.0 million in the first quarter of 2009 was \$2.2 million higher than in 2008. The increase occurred mainly in the Infrastructure and Concessions segments and resulted primarily from higher depreciation charges on equipment acquired as part of the South Rock acquisition and from higher amortization charges related to Quito concession operations primarily due to the impact of changes in foreign exchange rates quarter-over-quarter.

Interest expense of \$1.6 million in the first quarter of 2009 was \$0.5 million lower than in the same period in 2008. The conversion to common shares of the outstanding convertible debentures, which occurred in the first quarter of 2008, and the repayment of Aecon’s term loan facility in the second quarter of 2008, were the primary reasons for the lower interest costs in 2009. Partially offsetting these savings in interest costs were increases in non-recourse project debt interest related to three Infrastructure Ontario “build-finance” projects.

Interest income of \$2.9 million in the first quarter of 2009 was \$1.0 million higher than in same quarter of 2008. The higher interest income in 2009 was a result of having higher cash balances on hand compared to 2008 and higher interest income from foreign denominated long-term loans receivable.

Earnings before taxes for the quarter ended March 31, 2009 were \$0.1 million, representing a \$3.6 million improvement over the first quarter of 2008.

Set out in note 5 of the 2009 Interim Consolidated Financial Statements is a reconciliation between the expected income tax recovery/(expense) in 2009 and 2008 based on statutory income tax rates and the actual income tax recovery/(expense) reported for both these periods. In the first quarter of 2009, there was an income tax recovery of \$0.3 million on pre-tax income of \$0.1 million, compared to an income tax recovery of \$4.0 million on pre-tax losses of \$3.5 million in 2008. The high tax recovery in 2008 was due to a \$3.4 million reversal of tax valuation allowances recorded in prior periods. Without the benefit of this reversal, tax expense in 2008 would have been higher by \$3.4 million.

Overall, there was a net loss for the quarter ended March 31, 2009 of \$0.6 million or \$(0.01) per share on a fully diluted basis, which compares with net income of \$0.3 million or \$0.01 per share in the first quarter of 2008.

Backlog at March 31, 2009 was \$1,359 million, representing a \$128 million increase over the amount on hand at the same time in 2008, a new record for first quarter ending backlog. New contract awards of \$296 million were booked in the first quarter of 2009, which compared with \$298 million in the first quarter of 2008.

It is important to note that Aecon does not report as backlog the significant and increasing number of contracts and arrangements in hand where the exact quantity of work to be performed cannot be

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

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

## **REPORTING SEGMENTS**

### **INFRASTRUCTURE**

#### **Financial Highlights**

<b>\$ millions</b>	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenues</b>	<b>\$ 111.7</b>	<b>\$ 94.7</b>
<b>Segment operating loss <sup>(1)</sup></b>	<b>(13.2)</b>	<b>(6.8)</b>
<b>Capital charges and allocations of corporate overhead <sup>(2)</sup></b>	<b>(7.5)</b>	<b>(5.0)</b>
<b>Segment loss before income taxes</b>	<b>(20.6)</b>	<b>(11.9)</b>
<b>Return on revenue <sup>(3)</sup></b>	<b>(11.8)%</b>	<b>(7.2)%</b>
<b>Backlog – March 31 <sup>(4)</sup></b>	<b>\$ 660</b>	<b>\$ 414</b>

- (1) Segment operating profit (loss) represents the profit or loss from operations, before interest expense, income taxes, non-controlling interests, and corporate allocations of overhead costs and capital charges.
- (2) Corporate allocations represent charges from the Corporate segment to each division for Corporate overhead costs and capital charges related to the cash, working capital and long-term capital invested in each segment.
- (3) Segment return on revenue is calculated as segment operating profit (loss) as a percentage of revenues.
- (4) Included in backlog at March 31, 2009 is \$90 million (2008 – \$97 million) related to the new Quito airport project. Although Aecon's 50% share of the remaining construction revenues from this project is estimated at \$155 million (2008 - \$169 million), the amount reported as backlog has been reduced by \$65 million (2008 - \$71 million) or 42.3%. This reduction is to reflect the fact that since Aecon has a 42.3% interest in the concession joint venture for which the new airport is being constructed, it cannot report revenue, and therefore does not report backlog, that effectively arises from transacting with itself.

For the quarter ended March 31, 2009, Infrastructure segment revenues of \$112 million were \$17 million, or 18%, higher than the corresponding quarter in 2008. Revenues from civil, materials and international operations increased by \$4 million, \$3 million and \$10 million, respectively, while revenues from utilities operations were essentially unchanged.

The majority of the increase in revenues from civil operations occurred in western Canada where expansion of the segment's Alberta civil operations in the first quarter of 2009 produced a revenue increase of \$9 million. This increase was, however, partly offset by lower revenues from civil operations in Ontario, mostly as a result of lower work volumes related to heavy civil operations. Revenues from material operations in Ontario were up by \$2 million in the first quarter, while revenues from material operations in Alberta grew by \$1 million as a result of the South Rock acquisition (which is considered part of this segment's "material" operations). The increase in revenues from international operations occurred primarily because of higher revenues from construction of the Quito airport project.

The Infrastructure segment operating loss of \$13.2 million in the first quarter of 2009 represents a \$6.3 million, or 93%, increase over the same quarter in 2008. Operating profits decreased in the civil, materials and utilities operations by \$3 million, \$3 million, and \$2 million, respectively and increased in the international operations by \$2 million.

The majority of the decline in civil operating profits was the result of lower work volumes in Ontario heavy civil operations and higher seasonal losses in civil operations in Ontario. The decline in operating profits from materials occurred primarily in Alberta as a result of seasonal losses from the newly acquired South Rock operations. The decline in utilities profits occurred in Ontario where margins were down generally because of the impact of poor winter weather conditions which hindered volumes and productivity. International operations in the first quarter of 2009 benefited from the recognition of profits on the Quito airport construction project, which reached 44% completion in first quarter of 2009, whereas no profits were recognized on this project in the first quarter of 2008.

In 2008, the arbitration panel considering the first of two major claims launched by Continental Foundation Joint Venture ("CFJV") (in which Aecon is a 45% partner) in respect of the Nathpa Jhakri hydroelectric project in India ruled substantially in the joint venture's favour and dismissed a counter-claim for liquidated damages filed against CFJV. In 2008, CFJV received approximately \$4 million in claim settlements net of expenses which were applied to reduce the carrying value of the unbilled work-in-progress balance of the joint venture. A further \$6 million will be received in 2009. CFJV has also repaid in full the joint venture working capital loan balance, and \$12.8 million of the \$25 million in letters of credit filed by Aecon to cover working capital and performance guarantees have been cancelled as at March 31, 2009, with a further \$7.9 million cancelled in April 2009. A second claim for 2.26 billion Indian Rupees (approximately \$55.9 million) and a counter-claim for liquidated damages by SJVN, both in respect of an adjacent and concurrent project to the one that was settled, remains with the arbitration panel and is expected to be resolved in 2009. Refer to the 2008 Annual MD&A for further details related to this project.

After deducting internally directed capital charges and allocations of Corporate overheads, which increased by \$2.4 million in the first quarter of 2009, the Infrastructure segment's operating loss before income taxes in 2009 was \$20.6 million compared to \$11.9 million in 2008. The higher capital charges in 2009 relate primarily to higher investments in working capital and long-term capital employed as a result of the South Rock acquisition.

Backlog at March 31, 2009 was \$660 million, which represents a \$246 million increase over the same time in the prior year. The quarter-over-quarter improvement results primarily from higher backlog in the civil and materials operations, mostly as a result of the project award for the Seymour Capilano Filtration Project and the acquisition of South Rock. New contract awards totalled \$152 million in the first quarter of 2009 compared to \$135 million in the corresponding period in 2008. The Seymour Capilano Filtration Project was the largest contributor to new awards in 2009.

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

## **BUILDINGS**

### **Financial Highlights**

<b>\$ millions</b>	<b>Three Months Ended March 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenues</b>	<b>\$ 108.5</b>	<b>\$ 108.1</b>
<b>Segment operating profit (loss)</b>	<b>(1.0)</b>	<b>1.6</b>
<b>Capital charges and allocations of corporate overhead</b>	<b>(0.7)</b>	<b>(0.1)</b>
<b>Segment profit (loss) before income taxes</b>	<b>(1.7)</b>	<b>1.6</b>
<b>Return on revenue</b>	<b>(0.9)%</b>	<b>1.5%</b>
<b>Backlog – March 31</b>	<b>\$ 520</b>	<b>\$ 428</b>

First quarter revenues in the Buildings segment of \$109 million in 2009 were essentially unchanged from last year. Revenue increases of \$15 million in the segment's Toronto operations were almost entirely offset by revenues decreases of \$7 million in Montreal and \$8 million in Seattle. The increase in Toronto reflects the impact of several Infrastructure Ontario projects which were underway during the quarter. Montreal operations experienced a reduction in volumes as part of an intentional downsizing and ongoing restructuring initiative in order to return this unit to expected performance levels. The decline in Seattle revenues was primarily caused by peak production work on a large project in 2008 that is now winding down as the project nears completion.

The segment operating loss of \$1.0 million in the first quarter of 2009 compares with a profit of \$1.6 million in the same quarter last year. Most of the decrease in operating profits occurred in Montreal and Seattle, partly offset by an increase in Toronto. A \$1.9 million decline in Montreal occurred as a result of reserves established for potential uncollectible amounts on certain projects, while a \$0.6 million decline in Seattle resulted from the above noted quarter-over-quarter decline in revenues. Operating profits from Toronto increased by \$0.3 million, which is small relative to the large \$15 million increase in Toronto revenues noted above. This arises because of Aecon's policy not to recognize profits on large projects until they are generally 20% complete. Thus, while Toronto

reported increased revenues from a few large projects in the first quarter of 2009, because these projects had not reached 20% completion, no profits from these projects were recognized.

After deducting capital charges and allocations of corporate overheads, the Buildings segment operating loss before income taxes for the first quarter of 2009 was \$1.7 million compared to a profit of \$1.6 million in the first quarter of 2008.

Backlog of \$520 million at the end of the first quarter of 2009 was \$92 million higher than at the same time in 2008 with the largest increase in backlog occurring in the segment's Toronto operations, which ended the period with a record backlog level of \$388 million, and the largest decrease occurring in Seattle. New contract awards totaling \$94 million were recorded in the first quarter of 2009, which compares with awards of \$56 million in the same period in 2008. The largest contributor to new awards in 2009 was the \$82 million award from Infrastructure Ontario related to the redevelopment of the Lakeridge Health Oshawa hospital project.

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

## **INDUSTRIAL**

### **Financial Highlights**

<b>\$ millions</b>	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenues</b>	<b>\$ 96.5</b>	<b>\$ 90.9</b>
<b>Segment operating profit</b>	<b>13.2</b>	<b>3.8</b>
<b>Capital charges and allocations of corporate overheads</b>	<b>(1.4)</b>	<b>(1.8)</b>
<b>Segment profit before income taxes</b>	<b>11.8</b>	<b>1.9</b>
<b>Return on revenue</b>	<b>13.6%</b>	<b>4.2%</b>
<b>Backlog – March 31</b>	<b>\$ 179</b>	<b>\$ 390</b>

Revenues in the first quarter of 2009 of \$97 million from the Industrial segment were \$6 million, or 6%, higher than in the same period in 2008. All operating units with the exception of Western Canada reported increases in revenues. In the first quarter of 2009, revenues from construction operations in Ontario were up \$10 million over last year, mostly as a result of increased work in the nuclear, power and gas sectors, while revenues from fabrication operations increased by \$9 million with volume increases in both central and eastern Canada. Revenues in the first quarter of 2009 for Innovative Steam Technologies Inc. ("IST") were up \$6 million over the same quarter last year, reflecting the impact of new orders received in 2008. Partially offsetting these increases were lower revenues from the segment's Western Canada operations which decreased by \$20 million to approximately \$8 million in 2009. Revenues from both module assembly and pipe fabrication

projects as well as from site construction projects were down as a result of a virtual halt in new capital spending in the oilsands in recent months.

In the first quarter of 2009, the Industrial segment generated an operating profit of \$13.2 million compared to \$3.8 million in the corresponding quarter of 2008. Of the \$9.4 million improvement, the majority occurred in Ontario construction operations where profits increased by \$12.8 million resulting from the benefit of margin improvements on a small number of projects as well as a result of higher revenues in the quarter. The results for 2009 also benefited from the commencement of profit recognition on a project in the first quarter of 2009, whereas no profits were recognized on this project in the first quarter of 2008 because the project had yet to reach 20% completion at that time. Offsetting the profit improvement in Ontario construction was a \$5.3 million drop in operating profits from Western Canada, which incurred an operating loss of \$1.9 million in the quarter, resulting from the above noted significant reduction in volumes.

After deducting capital charges and allocations of corporate overheads, the Industrial segment's operating profit before income taxes was \$11.8 million compared to \$1.9 million in 2008.

Backlog at March 31, 2009 of \$179 million was \$211 million lower than at the same time last year with the largest decrease occurring in the Ontario construction operations. The decline in backlog in Ontario construction of \$172 million is largely due to work off on large projects during the past year that has not been replaced. Overall, new contract awards of \$26 million in the first three months of 2009 were \$71 million lower than in same period in 2008. Most of the decrease in new awards occurred in Ontario construction where award levels for the first three months of 2009 are down \$79 million quarter-over-quarter.

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

## CONCESSIONS

### Financial Highlights

\$ millions	Three Months Ended	
	March 31	
	2009	2008
Revenues	\$ 25.3	\$ 15.2
Segment operating profit	4.4	1.3
Capital charges and allocations of corporate overheads	(3.5)	(2.2)
Segment profit (loss) before income taxes	1.0	(0.9)
Return on revenue	17.6%	8.8%

Revenues in the first quarter of 2009 of \$25 million in the Concessions segment were up \$10 million, or 66%, compared to the corresponding quarter of 2008. The majority of the increase in revenues came from Aecon's proportionate share of the revenues from operating the Cross Israel Highway which is being carried out on a fee for service basis by a company in which Aecon holds a 30.6% interest.

Aecon's long-term concession investment in the Cross Israel Highway, through its 25% interest in Derech Eretz Highways (1997) Ltd. ("Derech Eretz") is carried at cost and, as a result, income is only recognized to the extent of dividends received (i.e. a profit distribution) or when a portion of this investment is sold. As such, even though the Cross Israel Highway is performing well and is generating strong operating cash flow, Aecon has not reported any revenues and profits from this investment. Average weekday traffic on the highway in March 2009 surpassed 102,000 vehicles, a 4.4% increase over March 2008. The project remains on track to deliver an expected 14% after-tax internal rate of return on Aecon's investment.

Segment operating profit of \$4.4 million in the first quarter of 2009 increased by \$3.1 million over the same period in 2008, due to improvements in operating profits from the Quito airport concessionaire, which includes the results from operating the existing Quito airport while the new airport is being constructed, and higher results from Aecon's interest in the company that operates the Cross Israel Highway. Nearly 1.1 million passengers passed through the existing Quito airport in the first three months of 2009, a 1.3% increase over the same period in 2008. It should be noted that operating profits from the operations of the existing Quito airport are required to be invested to finance the development and construction costs of the new airport.

After deducting capital charges and allocations of corporate overheads, the Concessions segment had an operating profit before income taxes for the first quarter of 2009 of \$1.0 million, which compared to an operating loss before income taxes of \$0.9 million in the first quarter of 2008.

Aecon does not include in its reported backlog expected revenues from operations management contracts and concession agreements. As such, while Aecon expects future revenues from its concession assets, no concession backlog is reported at March 31. Therefore, the Concessions segment's effective backlog is greater than what is reported.

For further details on Aecon's investment in the Quito airport concessionaire, refer to note 4 of the 2009 Interim Consolidated Financial Statements.

## CORPORATE AND OTHER

### Financial Highlights

\$ millions	Three Months Ended	
	March 31	
	2009	2008
MG&A	\$ (4.5)	\$ (3.1)
Other income (expense) <sup>(1)</sup>	(0.1)	-
Interest income	2.9	1.9
Segment operating loss	(1.7)	(1.2)
Capital charges and allocations of corporate overheads	13.1	9.2
Segment profit before income taxes	11.4	8.0

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

Corporate segment operating loss in the first quarter of 2009 was higher than in 2008 by \$0.5 million. Impacting the operating loss in 2009 was marketing, general and administrative expenses (“MG&A”) which were \$1.4 million higher than in 2008. The increase in MG&A was primarily due to increased staffing levels including increases in salaries and performance-related incentive costs, as well as a \$0.2 million impact from stock options awards granted in the third quarter of 2008. Also favourably impacting the segment operating loss in the first quarter of 2009 was a \$1.0 million increase in interest income in 2009.

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

### Quarterly Financial Data

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

(Unaudited)	2009	2008				2007		
	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2
Revenues	340.9	\$ 602.7	\$ 534.7	\$ 437.7	\$ 302.0	\$ 482.3	\$ 430.4	\$ 338.3
Earnings (loss) before income taxes	0.1	31.4	35.7	24.3	(3.5)	23.4	17.4	11.1
Net income (loss)	(0.6)	20.4	23.1	15.6	0.3	22.5	19.0	9.7
Earnings (loss) per share:								
Basic	(0.01)	0.41	0.46	0.32	0.01	0.56	0.51	0.26
Diluted	(0.01)	0.40	0.45	0.31	0.01	0.50	0.44	0.24

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

Aecon holds a 42.3% economic interest in Corporacion Quiport S.A. (“Quiport JV”), an Ecuadorian company, whose main operations consist of managing and operating the existing Quito airport, and the development, construction, operations and maintenance of the new Quito airport under a concession arrangement. Aecon’s investment in its joint ventures, including Quiport JV, are accounted for by the proportionate consolidation method, whereby the Consolidated Financial Statements reflect, line by line, Aecon’s pro-rata share of each of the assets, liabilities, revenues, expenses and cash flows of Quiport JV. Aecon is also involved in three build finance hospital projects with Infrastructure Ontario. Each of these hospital projects is being financed by non-recourse project financing during the construction period through the use of individual build finance special purpose vehicles (“Build Finance SPVs”).

Given the significant effect of Quiport JV and other joint ventures, as well as the impact of Build Finance SPVs, on Aecon’s Consolidated Financial Statements, Aecon provides supplemental financial information in note 18 to the 2009 Interim Consolidated Financial Statements as additional information about its accounts, thereby enabling the reader to have a greater understanding of Aecon’s underlying assets, earnings base and financial resources.

### **Cash and Debt Balances**

Cash and cash equivalents at March 31, 2009 were \$373.5 million, which compares with \$292.9 million at December 31, 2008. Of these amounts, \$85.9 million and \$62.0 million, respectively, were on deposit in joint venture bank accounts, which Aecon cannot access directly. Of this joint venture cash, \$38 million (December 31, 2008 - \$20 million) was held by Quiport JV. Also included in cash and cash equivalents was \$77 million (December 31, 2008 - \$8 million) of cash held by Build Finance SPVs which was advanced by lenders to finance the construction by Aecon of Infrastructure Ontario hospital projects.

Restricted cash of \$36.4 million at March 31, 2009 (December 31, 2008 - \$28.2 million) represents cash that was deposited as collateral for borrowings and letters of credit issued by Aecon. As such, this cash was not available for general operating purposes. These restricted balances arose primarily from advance payments received on certain joint venture projects where such payments have, in turn, been secured by letters of credit which are, at least in part, collateralized by this restricted cash.

Total debt of \$323.5 million at March 31, 2009 compares to \$182.8 million at December 31, 2008, the composition of which is as follows (\$ millions):

	<u>Mar. 31, 2009</u>	<u>Dec. 31, 2008</u>
Bank indebtedness	\$ 30.0	\$ 2.6
Current portion of long-term debt	23.6	16.4
Long-term debt – non-recourse	230.0	118.7
Long-term debt – recourse	39.9	45.2
<b>Total debt</b>	<b>\$ 323.5</b>	<b>\$ 182.8</b>
Debt held directly	87.7	56.0
Debt held by Build Finance SPVs	116.6	30.7
Debt of joint ventures	119.2	96.1
<b>Total</b>	<b>\$ 323.5</b>	<b>\$ 182.8</b>

Bank indebtedness of \$30.0 million at March 31, 2009 compares to \$2.6 million as at December 31, 2008. The March 31, 2009 balance includes \$30 million of temporary borrowings on Aecon’s operating line of credit. This indebtedness was drawn on March 31 to ensure sufficient working capital funds were on hand after the scheduled \$152.5 million payment made on April 1 to fund the acquisition of Lockerbie & Hole Inc. (“Lockerbie”) common shares, and was fully repaid on April 2, 2009. The December 2008 balance represents Aecon’s 45% share of funds borrowed by the Nathpa Jhakri hydroelectric project joint venture in India which was fully repaid in the first quarter of 2009.

At March 31, 2009, the long-term debt component of total debt, including the current portion, totalled \$293.5 million compared to \$180.2 million at December 31, 2008. Of the \$113 million net increase in long-term debt, \$112 million related to increases in non-recourse project financing. Changes in non-recourse long-term debt included an increase of \$26 million resulting from the proportionate consolidation of Aecon’s share of non-recourse borrowings to finance the Quito airport project, and an increase of \$86 million in non-recourse project debt related to three Infrastructure Ontario hospital projects. Other changes in long-term debt included a scheduled \$4 million repayment on the note payable issued in connection with the 2007 acquisition of Karson, and an increase in debt of \$8 million resulting from the purchase of South Rock in the first quarter of 2009.

Aecon’s liquidity position and capital resources continued to strengthen in the first quarter of 2009 and, notwithstanding the large net cash outlay to fund the Lockerbie acquisition, are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future. Aecon’s cash flow from operations in the first quarter of 2009 continued to be strong, with cash inflows generated of approximately \$9 million. This continues the positive trend of recent years where cash flow from operations for the years end December 31, 2008 and 2007 were \$144 million and \$97 million, respectively. In addition to carrying large cash balances, Aecon’s liquidity position is further strengthened by its ability to draw on a committed bank operating line of \$100 million which, except for supporting letters of credit amounting to \$37 million, is otherwise undrawn as of May 5, 2009. This credit facility expires on June 15, 2011. Further details relating to Aecon’s operating lines are described in note 10 to the 2008 Consolidated Financial Statements.

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

On April 1, 2009, Aecon acquired, by a plan of arrangement, all of the issued and outstanding common shares of Lockerbie for total consideration of approximately \$220 million. This transaction was financed by Aecon without any additional debt through the payment of \$152.5 million in cash to Lockerbie shareholders and the issuance to Lockerbie shareholders of 5,510,941 common shares of Aecon representing approximately 10% of Aecon's proforma diluted shares. Transaction costs for the transaction are estimated at approximately \$6 million.

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

Aecon's remaining equity investment of US\$3.5 million in the Quito airport concessionaire is expected to be funded from ongoing profit distributions from construction operations of the new Quito airport. To date, Aecon has invested cash of US\$30.2 million as equity in the concessionaire for a total investment in the Quito airport concessionaire of approximately US\$46 million, which includes Aecon's share of the earnings of the existing airport, all of which are being directly invested in the cost of constructing the new airport. Aecon has also deposited US\$3.7 million with Export Development Canada ("EDC") to support letters of credit issued by EDC on the Quito airport project. Also, in accordance with an agreement with EDC, Aecon has US\$1.0 million in a segregated account to secure future equity investment requirements in the Quito airport concessionaire. These EDC deposits are included in restricted cash on the Interim Consolidated Balance Sheet at March 31, 2009.

### Summary of Cash Flows

	<b>Consolidated Cash Flows</b>	
	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2009</b>	<b>2008</b>
<b>\$ millions</b>		
<b>Cash provided by (used in):</b>		
Operating activities	\$ 6.9	\$ 19.4
Investing activities	(54.6)	(13.5)
Financing activities	126.9	(5.0)
Increase in cash and cash equivalents	79.2	0.8
Effects of foreign exchange on cash balances	1.5	1.2
Cash and cash equivalents - beginning of period	292.9	134.6
<b>Cash and cash equivalents - end of period</b>	<b>\$ 373.5</b>	<b>\$ 136.7</b>

### **Operating Activities**

Cash provided by operating activities of \$7 million in the first quarter of 2009 was \$13 million lower than the same quarter last year. The quarter-over-quarter decline is due to higher investments in

working capital, mostly in build finance projects within the Buildings segment, offset in part by higher cash earnings.

### **Investing Activities**

In the first quarter of 2009, investing activities resulted in a use of cash of \$55 million, which compares with cash used of \$14 million in 2008. Of the cash used in 2009, \$31 million was used to fund the acquisition of South Rock and \$21 million represents Aecon's proportionate share of the cash used by Quiport JV for the construction of the new Quito airport (i.e. increase in concession rights). These Quiport JV related cash outlays were, for the most part, financed by non-recourse project debt (see Financing Activities below). In 2008, Aecon used \$12 million of cash to finance its proportionate share of the cash used by Quiport JV for construction of the new Quito airport

### **Financing Activities**

In the first quarter of 2009, cash provided by financing activities amounted to \$127 million, compared to cash used of \$5 million in the same quarter last year. During 2009, issuances of long-term debt amounted to \$106 million, while repayments totalled \$4 million, for a net change of \$102 million. During the first quarter of 2008, there were net repayments of long-term debt amounting to \$3 million. Of the increase in long-term debt during the first quarter of 2009, \$20 million related to Aecon's proportionately consolidated share of additional non-recourse financing for the new Quito airport project and \$86 million related to non-recourse project financing for various Infrastructure Ontario hospital projects. Repayments of long-term debt in 2009 included a \$4 million scheduled principal repayment on a note payable issued in connection with the acquisition of Karson. Increases in bank indebtedness of \$27 million also were a source of financing in the first quarter of 2009. As noted above, Aecon borrowed \$30 million from its operating line in the quarter, which was repaid on April 2, 2009. This was partly offset by the full repayment by the India joint venture of its bank indebtedness totalling \$3 million. Dividends of \$3 million were paid in the first quarters of 2009 and 2008.

## **NEW ACCOUNTING STANDARDS**

Several new Canadian accounting standards adopted in 2009 and 2008 are described in note 2 to the 2009 Interim Consolidated Financial Statements.

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

In February 2008, the Accounting Standards Board confirmed that Canadian public companies will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011.

Aecon is currently evaluating this new requirement and is in the process of creating and executing a detailed plan to convert to IFRS. Aecon has performed an initial project scoping exercise which identified the more significant differences between Canadian Generally Accepted Accounting Principles and IFRS. The Company is focusing its efforts during 2009 on these major areas of differences which are expected to involve the majority of the work for the transition to IFRS. To

date, the Company has completed a detailed plan for the 2009 portion of the transition project. The financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Aecon has hired a full-time project manager, and has formed a dedicated project team, to lead its transition to IFRS. A steering committee with representation from operations, finance, information technology, investor relations and legal services was formed to provide overall guidance to the project as well as to receive regular updates on the project's progress. Aecon's audit committee will also receive regular updates on the progress, cost and major milestones of the project.

The Company has also established an IFRS technical committee which meets monthly to provide initial approval of IFRS accounting policies for recommendation to the audit committee. The technical committee will review the judgments and policy recommendations of the IFRS implementation team.

The Company expects that it will incur costs of approximately \$2 million to effect this conversion.

## **SUPPLEMENTAL DISCLOSURES**

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

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

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

There have been no changes in the Company's internal controls over financial reporting during the interim period ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting except for the acquisition of South Rock during the first quarter of 2009 for which internal controls have yet to be fully evaluated. Further details related to the acquisition of South Rock are disclosed in note 12 to the 2009 Interim Consolidated Financial Statements.

### **Contractual Obligations**

At December 31, 2008, the Company had commitments totalling \$248 million for equipment and premises under operating leases requiring minimum payments and principal repayment obligations under long-term debt. The only material changes since year end resulted from additional non-recourse project financing for the Quito airport and three Infrastructure Ontario hospital projects (approximately \$112 million), a partial repayment on the note payable issued in connection with the acquisition of Karson (approximately \$4 million), and additional debt incurred as part of the purchase of the operations of South Rock (approximately \$8 million).

At March 31, 2009, Aecon had contractual obligations to complete projects that were in progress. The revenue value of these contracts was \$1,424 million. This consists of the reported backlog of \$1,359 million plus an additional \$65 million representing Aecon's share of the Quito project revenues not included in reported backlog revenues.

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

In connection with its joint venture operations in Quito, India and Israel, Aecon has provided various financial and performance guarantees and letters of credit, which are described in note 9 to the 2009 Interim Consolidated Financial Statements.

There was no material change in the funded status of Aecon's pension plans during the first three months of 2009. Aecon's defined benefit pension plans (the "Pension Plans") had a combined deficit of \$2.0 million at December 31, 2008 (2007 - \$0.7 million). These deficits include experience and other actuarial gains and losses which, in accordance with Canadian generally accepted accounting principles, are not immediately recognized in the accounts of the Company but are amortized over the average remaining service life of employees. At December 31, 2008, unrecognized liabilities amounted to \$7.2 million (2007 - \$2.8 million). Aecon's pension expense in 2009 is expected to increase by approximately \$0.7 million when the 2008 experience and other actuarial losses begin to be amortized into income. Further details relating to Aecon's defined benefit plans are set out in note 20 to the 2008 Consolidated Financial Statements and in the 2008 Annual MD&A.

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

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

From time to time Aecon enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. At March 31, 2009, the Company had outstanding contracts to buy and/or sell U.S. dollars or euros on which there was a net unrealized exchange loss of \$1.6 million. The net unrealized exchange gain (loss) represents the estimated amount the Company would have

received (paid) if it terminated the contracts at the end of the respective period. Financial instruments are discussed in note 14 to the 2009 Interim Consolidated Financial Statements.

### Related Party Transactions

There were no significant related party transactions since December 31, 2008.

### Critical Accounting Estimates

The reader is referred to the detailed discussion on Critical Accounting estimates as outlined in the notes to the Company's 2008 Consolidated Financial Statements and in the 2008 Annual MD&A.

### Outstanding Share Data

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

(in thousands of dollars, except share amounts)

	<u>March 31, 2009</u>	<u>May 5, 2009</u>
Number of common shares outstanding (1)	50,899,290	56,430,231
Paid-up capital of common shares outstanding (2)	\$ 262,644	\$ 304,183
Outstanding securities exchangeable or convertible into common shares:		
Number of stock options outstanding	1,989,318	1,969,318
Number of common shares issuable on exercise of stock options	1,989,318	1,969,318
Increase in paid-up capital on exercise of stock options	\$ 22,224	\$ 22,098
Principal amount of convertible debentures outstanding	\$ -	\$ -
Number of common shares issuable on conversion of convertible debentures	-	-
Increase in paid-up capital on conversion of convertible debentures	\$ -	\$ -

- (1) The number of common shares outstanding as per the above table at March 31, 2009 includes 691,366 shares (May 5, 2009 – 1,642,222 shares) held by the trustee of Aecon's Long-Term Incentive Plan ("LTIP").

The number of common shares outstanding at March 31, 2009 for financial statement purposes, after deducting the above LTIP shares, was 50,207,924 shares (May 5, 2009 – 54,788,009 shares) (see note 10 to the 2009 Interim Consolidated Financial Statements).

- (2) As described in note 10 to the 2009 Interim Consolidated Financial Statements, and in accordance with the recommendations of The Canadian Institute of Chartered Accountants, share capital at March 31, 2009 has been reduced by \$7.6 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.

While equity and debt markets may be showing signs of stabilizing, Canada's economic outlook in several key sectors, including automotive, pulp and paper, and the oilsands remains one of uncertainty.

At the same time, the positive indicators in place at the beginning of the year, including record seasonal backlog, a strong balance sheet and a robust bidding pipeline continue to provide reason for optimism.

A number of other key trends remain in place, including:

- Record levels of government investment in transportation infrastructure across the country;
- Depressed levels of new investment in the oilsands, where restart dates for many of the delayed projects remain uncertain;
- Ongoing strong demand for social infrastructure across the country, especially in the healthcare and education areas;
- Strong medium term demand for new electrical generation capacity in Ontario, but with the timing of many planned projects less certain given the reduced demand impacts from the current economic environment;
- Growing demand for water and wastewater infrastructure in municipalities across the country.

These ongoing trends continue to produce near record seasonal backlog in the Buildings and Infrastructure segments, but a 54% decline in the Industrial backlog from a year ago.

As such, the outlook for Aecon's Infrastructure segment remains strong. Segment backlog has strengthened to \$660 million at March 31, 2009, a 59% increase from a year ago due in large part to the acquisition of South Rock in January. In addition, the healthy bidding pipeline for transportation infrastructure projects across Canada continues to bode well for strong results from this segment into 2010.

Similarly, backlog of \$520 million in the Buildings segment represents a 21% increase from a year ago. This continued strong backlog, and the significant strides made in the segment's Toronto business unit, are evidence of positive momentum in the Buildings segment. With most of the negative impact from the setback encountered in the segment's Montreal operations now behind us, the outlook for Aecon's Buildings segment remains positive.

The Industrial segment, which has been responsible for much of Aecon's growth in profitability over the last two years, is the one segment that is likely to encounter greater difficulty in 2009, as the economic conditions noted above have contributed to a significant decline in backlog from a year ago. In this respect, the strong results achieved in the Industrial segment this quarter are not indicative of the results expected over the balance of the year.

The Lockerbie acquisition in April will, among other things, significantly increase Aecon's market share and presence in Western Canada, including the significant ongoing maintenance requirements of existing oilsands infrastructure, where Lockerbie is well positioned. In addition, Aecon's civil and utilities capabilities will augment Lockerbie's water/wastewater and mining operations, and applying Aecon's strength in the power sector to Lockerbie's strong market presence in Western Canada could produce significant opportunities in that market as well.

Notably, the addition of Lockerbie's commercial mechanical business will also further increase Aecon's backlog in the social infrastructure sector, adding an important western Canadian component to an already healthy social infrastructure backlog in Central and Eastern Canada.

In the Concessions segment, traffic on the Cross Israel Highway and at the Quito airport continues to increase, albeit at a slower pace than was reported a year ago. A close watch is being held for any potential fallout from the current economic turmoil. Construction is progressing well on the Quito Airport project, which continues to proceed on track to open in September of 2010.

Overall, notwithstanding the current economic and financial environment, management continues to believe that its strong backlog and the relative durability of its Infrastructure and Buildings markets bode well for continued strong financial performance throughout 2009 and into 2010.

## **FORWARD-LOOKING INFORMATION**

In various places in Management's Discussion and Analysis and in other sections of this document, management's expectations regarding future performance of Aecon were discussed. These "forward-looking" statements are based on currently available competitive, financial and economic data and operating plans but are subject to risks and uncertainties. Recent events in global financial and credit markets have resulted in abnormally high market volatility and a level of uncertainty not seen in decades. The high level of uncertainty arising from this crisis may continue to impact the global, North American and Canadian economies in unpredictable ways and may impact the results of Aecon in a manner which is currently impossible to ascertain. In addition, factors could cause Aecon's actual results, performance or achievements to vary from those expressed or inferred herein, including without limitation, the successful integration of recent acquisitions, the ability of the Eastmain Joint Venture to recover the full value of unpriced change orders, and failure to achieve the targets associated with the construction of the new Quito airport or operation of the existing Quito airport. Risk factors are discussed in greater detail in the section on "Risk Factors" in the Annual Information Form filed on March 31, 2009 and available at [www.sedar.com](http://www.sedar.com). Forward-looking statements include information concerning possible or assumed future results of operations or financial position of Aecon, as well as statements preceded by, followed by, or that include the words "believes," "expects," "anticipates," "estimates," "projects," "intends," "should" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of Aecon and could cause those results to differ materially from those expressed in any forward-looking statements.