Aecon Group Inc. Financial Report 2006

2006

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“The strong results achieved this year are evidence that our strategic plan has us headed in the right direction”. John M. Beck, Chairman and CEO

Dear Fellow Shareholders,

2006 was a year of significant progress and achievement for Aecon. In part, it was a significant year because it marked Aecon's return to profitability – an important and notable milestone. But perhaps more importantly, 2006 was significant because it demonstrated that the strategic path Aecon has adopted is working.

Last year in this letter, I made the commitment that Aecon would focus on driving stronger margins, even at the expense of increased volumes. This focus guided everything we did throughout the year. As such, I'm pleased to report that in 2006 gross margins increased by nearly 50 percent – driving operating profits to $19.7 million (more than double the $7.2 million recorded in 2005) and producing net income of $11.5 million, or 31 cents per diluted share.

Importantly, all four segments reported improved operating results in 2006, especially in the second half of the year, which saw both the best third quarter and the best fourth quarter in Aecon's history.

These strong results are due to the convergence of two key factors – one internal and one external. Internally, we began to fully benefit from the strategic plan we adopted in 2005, including a disciplined focus on our core businesses and our core markets where we have a proven track record of operating profitably. This has meant, with two obvious exceptions, taking a pass on some tempting large and/or international projects that we might have pursued in the past.

Externally, we continue to benefit from significantly stronger market conditions in three of our key sectors: the oil and gas industry in Alberta, the electricity generation sector in Ontario and the transportation infrastructure sector, also largely in Ontario. These three sectors are as strong as they've been in years, with demand now exceeding industry capacity.

As a result, Aecon won $1.32 billion in new contracts in 2006, a 17 percent increase over 2005, and backlog at year-end reached $786 million, a $209 million increase over the same time last year. I also note that the margin profile of our backlog continues to improve – with each dollar of work in backlog today expected to generate even stronger margins than we saw in 2006.

Looking ahead to 2007, I expect most of the key trends that produced the strong results last year to continue, and I believe Aecon is well positioned to continue the improvement in our financial performance seen over the past two years.

In our Infrastructure segment, we are excited about Aecon's recent acquisition of The Karson Group, which nearly triples Aecon's total aggregate reserves and makes Aecon one of Ontario's five largest aggregate producers. Our materials operation has been a strategically important and profitable component of our business for decades. The addition of The Karson Group's substantial reserves and asphalt production capabilities solidifies our competitive profile in one of Canada's largest regional markets.

In Ontario, the roadbuilding sector remains stronger than it has been in years. Favourable markets also continue in Ontario's utilities construction and heavy civil construction sectors. In Alberta, we made significant strides in 2006 to re-enter the civil construction market, which we expect will result in profit contributions in 2007.

Internationally, both the Cross Israel Highway and the Quito Airport projects are expected to contribute to our profit margins in 2007, as they continue to reach various milestones.

Although our Buildings business operates in a very competitive market, the outlook for the commercial and institutional buildings sector continues to improve and we expect to build on the strong progress and improved results achieved in 2005 and 2006.

Aecon's Industrial segment continues to benefit from two very strong trends: growth of the oil and gas sector in Western Canada and the Ontario government's commitment to expand electricity generation capacity. In addition, Aecon's substantial joint venture work at the Bruce Nuclear plant in Ontario also continues to progress well. Innovative Steam Technologies ended 2006 with strengthened backlog and a new product line for its Cambridge manufacturing facility that significantly broadens its sales offering.

This past year also saw an important change in Aecon's ownership structure. After seven years as our largest shareholder, Hochtief determined that the time was appropriate for them to redeploy the equity investment they had in Aecon. Their shares were successfully placed in the hands of a number of institutional investors and since that time we have seen a significant improvement in the liquidity of our shares.

I want to take this opportunity to express my appreciation to our friends at Hochtief for all that they have done to help make Aecon successful. They brought more than capital to the table in 1999 when they helped fund our acquisition of BFC. They brought experienced counsel, measured guidance and above all – friendship and goodwill. We wish them well.

In conclusion, 2006 demonstrated what Aecon is capable of achieving. As we look forward to 2007, our robust backlog, strong margins and growing core markets underscore our confidence in Aecon's ability to build on this success. The evidence shows that Aecon is firmly on the right track and our strategy is working. For this I would like to thank all of Aecon's employees, who have worked diligently this past year to help us reach our goals.

John M. Beck
Chairman and Chief Executive Officer
March 19, 2007

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 2006 Consolidated Financial Statements and Notes. This MD&A has been prepared as of March 6, 2007. Additional information on Aecon is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and includes the Company's Annual Information Form and other securities and continuous disclosure filings.

Introduction

Aecon operates in four principal segments within the construction industry – Infrastructure, Buildings, Industrial and Concessions. Prior to the second quarter of this year, Aecon reported its concession operations (principally its investment in the Cross Israel Highway) within its Infrastructure segment. However, with the recent achievement of financial close of a concession agreement to operate the existing and new airports in Quito, Ecuador, concession operations became a significant portion of Aecon's overall operations. As a result, it was decided that a breakout of these operations into a new segment improves the quality of the information that is provided to shareholders. Consequently, the Quito concession operations as described above are reported as part of the Concession segment, and the Quito construction operations, which includes construction of the new Quito airport, are included in the Infrastructure segment.

The Infrastructure segment includes all aspects of the construction of both public and private infrastructure, including roads and highways, principally within the Province of Ontario, as well as toll highways, dams, tunnels, bridges, airports, marine facilities, transit systems and hydro-electric power projects, domestically and internationally. There is also a strategic focus to develop civil capacity in the Alberta marketplace. 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, also principally within the Province of Ontario. Services provided in the Infrastructure segment include construction of large civil infrastructure projects in Canada and, on a selective basis, internationally.

The Buildings segment specializes in the construction and renovation of commercial, institutional and multi-family residential buildings, including retail complexes, office buildings, industrial buildings, airport terminals, entertainment facilities, schools, embassies, hospitals, 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, and design build services, as well as building renovation and facilities management.

The Industrial segment encompasses all of Aecon's industrial construction and manufacturing activities including in-plant construction and module assembly in the manufacturing, energy, petrochemical, steel and automotive sectors. Activities in this sector include the construction of alternative, fossil fuel and cogeneration power plants as well as in-plant construction at nuclear power plants and the fabrication and module assembly of small diameter specialty pipe. In addition, activities in this sector include the design and manufacture of "once-through" heat recovery steam generators for industrial and power plant applications. Although activity in this segment is concentrated primarily in Canada, with selected projects in the United States and Europe, Aecon sells and installs "once-through" heat recovery steam generators throughout the world through its Innovative Steam Technologies division.

Activities within the Concessions segment include the development, financing and operation of infrastructure projects by way of build-operate-transfer, build-own-operate-transfer or public-private partnership contract structures. This segment focuses primarily on the operation, management, maintenance and enhancement of investments held by Aecon in infrastructure concessions – currently these comprise investments in the Cross Israel Toll Highway and Quito International Airport Project concession companies. This segment includes the operations of the Highway 104 toll plaza in Atlantic Canada. This segment also has a development function whereby it monitors and, where appropriate, brings the unique capabilities and strengths within the Aecon group and within Aecon's strategic partners to the development of domestic and international public-private partnership concession projects in which Aecon may play a role as an investor, constructor and/or operator.

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

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

Consolidated Financial Highlights

$ millions	Year Ended December 31 2006	2005
Revenues	**$1,113.3**	$1,120.2
Gross margin[1]	**96.6**	66.8
Operating profit[2]	**19.7**	7.2
Interest expense, net	**7.5**	9.3
Income taxes	**0.7**	2.5
Extraordinary gain, net of income taxes	**–**	3.4
Net income (loss) for the period	**11.5**	(1.1)
Return on revenue[3]	**1.8%**	0.6%
Backlog – December 31[4]	**$ 786**	$ 577

(1) Gross margin is calculated as revenues less direct costs and expenses (before deducting MG&A, depreciation and amortization, foreign exchange, interest, gains (losses) on sales, income taxes and extraordinary items).
(2) Operating profit (loss) represents the profit (loss) from operations, before interest, income taxes and extraordinary items.
(3) Return on revenue is calculated as operating profit (loss) as a percentage of revenues.
(4) Included in backlog at December 31, 2006, is $130 million related to the new Quito airport project. Although Aecon's 50% share of the construction revenues from this project are estimated at $226 million, the amount reported as backlog has been reduced by $96 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 backlog that effectively arises from transacting with itself.

Revenues in 2006 were $1,113 million, representing a slight decrease of $7 million over last year. Revenues increased in the Infrastructure, Industrial and Concessions segments by $52 million, $17 million, and $10 million, respectively, and decreased in the Buildings and Corporate segments by $72 million and $14 million, respectively. Results for each of the four principal operating segments are discussed separately under Reporting Segments.

Gross margin as a percentage of revenues increased from 6.0% in 2005 to 8.7% in the current year, reflecting increased margins from all segments. Of the $30 million improvement in gross margin, approximately $8 million was the result of the commencement of concession operations at the existing Quito airport. Gross margins from the balance of operations, including Infrastructure, Buildings, and Industrial, were up $4 million, $3 million and $15 million, respectively, with increases resulting from a combination of factors including higher volumes in certain segments, improved revenue mix, and better job performance. Marketing, general and administrative expenses ("MG&A") amounted to $62.5 million in 2006, which is $12.8 million higher than last year. This increase results from a number of items including higher volumes in most segments, the expansion of operations in Western Canada, higher performance–related incentive costs, higher stock option compensation expenses, and increased Bill 198 compliance costs. As a result of these increases and, to a lesser extent, the shift in focus from "hard bid" work to "construction management", MG&A as a percentage of revenues increased from 4.4% in 2005 to 5.6% in 2006. However, higher gross margins far exceeded the increase in MG&A and resulted in a higher overall return on revenues in 2006.

Depreciation and amortization expense in the current year of $14.6 million is $7.0 million higher than last year. The increase resulted from amortization of the concession rights related to the existing Quito airport operations. The amortization of these concession rights amounted to $6.9 million in 2006 versus none in 2005.

Net interest expense of $7.5 million in 2006 is $1.8 million lower than last year. Reduced borrowings resulting from the receipt of net proceeds of a $27.7 million equity issue in March 2006 and the conversion during the same month of $7.7 million of convertible debentures into common shares were the principal reasons for the decline in interest in the year. Partially offsetting these favourable impacts were higher interest costs related to the March 2005 issuance of $32.5 million of convertible debentures.

Set out in note 6 of the December 31, 2006 Consolidated Financial Statements is a reconciliation between the expected tax expense/recoveries in 2006 and 2005 at statutory income tax rates and the actual reported tax expense in 2006 and 2005.

Net income for the year ended December 31, 2006 is $11.5 million representing a $12.6 million improvement compared to 2005.

Backlog at December 31, 2006, was $786 million or $209 million higher than the same time last year, while new contract awards of $1,322 million in 2006, were $190 million higher than in 2005. Further details for each of the segments are included in the discussion below under Reporting Segments. The projected margins expected to be earned from this backlog, both as percentage of revenue and on a total dollar basis, continues to show a positive upward trend relative to prior years.

At December 31, 2006, major projects backlog was $131 million which is $129 million higher than last year. The increase results from new backlog related to the construction of the Quito airport which offset a decline in backlog related to the substantially completed Israel and India projects.

It is notable that significant and increasing commitments made to Aecon based on general contracts, supplier of choice, and alliance agreements do not show up as backlog for external reporting purposes, primarily due to the degree of uncertainty regarding the exact amount of work than can be expected under these arrangements. Therefore, to the extent that the volume of work to be performed under these arrangements is

expected to be significant, Aecon's effective backlog at any given time is greater than what is reported. Because it is one of Aecon's strategic directives to focus on general contract, supplier of choice and partnering arrangements with clients, the amount of effective backlog that is excluded from reported backlog is expected to increase.

Reporting Segments

Infrastructure

Financial Highlights[(1)&(3)]

$ millions	Year Ended December 31 **2006**	2005
Revenues	**$ 484.0**	$ 431.6
Segment operating profit	**16.5**	10.8
Return on revenue	**3.4%**	2.5%
Backlog – December 31[(2)]	**$ 410**	$ 117

(1) Certain prior period comparative figures have been reclassified to conform to the new segment definitions currently being used and as described in the introduction section of the MD&A.

(2) Included in backlog at December 31, 2006, is $130 million related to the new Quito airport project. Although Aecon's 50% share of the construction revenues from this project are estimated at $226 million, the amount reported as backlog has been reduced by $96 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 backlog that effectively arises from transacting with itself.

(3) Not included in the Financial Highlights table above is a first quarter 2005 extraordinary gain of $4.1 million before income taxes resulting from the acquisition by Aecon of its partner's share in a joint venture.

For the year ended December 31, 2006, the Infrastructure segment reported revenues of $484 million compared to revenues of $432 million last year, an increase of $52 million. Revenues from roadbuilding and utilities were up $64 million and $15 million, respectively, while revenues from other heavy civil operations were down $27 million versus last year.

The Government of Ontario continues to place a greater focus on infrastructure development in the province, leading to more new projects being tendered for bid. The roadbuilding division was very successful in its tendering activities in 2006, obtaining $370 million in new contracts awards in 2006 compared to $227 million last year. This increase in new awards, combined with the higher opening backlog, and favourable weather conditions, particularly in the fourth quarter, all contributed to the higher revenues in the roadbuilding operations.

The increase in utilities revenues reflects mostly higher volumes of communications and gas pipeline installation work. Also, this sector continues to expand its share of the utilities engineering and utilities locate markets, both of which are new strategic focus areas for Aecon.

Revenues from other heavy civil operations decreased in 2006, principally as a result of the Eastmain project reaching substantial completion in 2006 and a decision to curtail new project pursuits in the heavy civil sector within Quebec. These declines were partially offset by revenues of approximately $13 million from the construction of the new Quito airport which commenced during the third quarter of 2006.

Infrastructure operating profits of $16.5 million in 2006 are $5.7 million higher than in 2005. Increased operating profits were reported by the roadbuilding and utilities operations, with increases of $3.8 million and $2.1 million, respectively. Operating profits of the other heavy civil operations were down slightly by $0.2 million.

Operating profits from roadbuilding operations are higher than last year mostly on account of the significantly higher volumes in the current year. In fact, when the impact of unusually high claim settlements of $3.8 million is removed from the 2005 roadbuilding results, the increase in profits is substantially greater and is more reflective of the significant increase in volumes experienced this year. The improvement in the utilities sector arose primarily from higher volumes. Operating profits from other heavy civil operations benefited from $3.0 million in favourable foreign exchange effects on a year-over-year basis (i.e. foreign exchange gains of $0.6 million in 2006 versus losses of $2.4 million in 2005). These gains offset the impact on operating profits caused by the revenue declines in 2006 in this operating segment, and the fact that no construction profits have been reported in 2006 on the revenues recorded for the period on the new Quito airport project. Under Aecon's accounting policy for large multi-year contracts, profit is recognized only when construction progress reaches a stage of completion sufficient to reasonably determine the probable results. Based on this policy, construction profit from the new Quito airport is not expected to be recognized until late 2007.

Backlog at the end of December 2006 was $410 million, which represents a $292 million increase from the same time last year. Consistent with the higher backlog levels, new contract awards of $771 million were received in the current year. These awards levels represent a current year increase of $379 million. The majority of the increase in awards and backlog relates to roadbuilding operations where several major contract awards totaling $370 million were received in 2006, and to the Quito airport construction project which, as a result of financial close in June 2006, added $139 million in awards this year. As previously noted, since a portion of the construction revenues from the new Quito airport, equivalent to Aecon's percentage investment in the Quito airport concession, are viewed as being earned from construction work undertaken for our own use, such revenues, and the profits thereon, will not be recognized as construction revenues and profits for consolidated reporting purposes, nor are such revenues included in reported backlog. The construction profits not recognized as income will be accounted for as a reduction in the cost of the new airport concession right and will be effectively recognized in income by way of lower amortization expenses over the life of the new airport concession asset.

As discussed in the Consolidated Financial Highlights section, significant commitments made to Aecon based on general contracts, supplier of choice and alliance agreements do not necessarily show up as backlog. Therefore, to the extent that the volume of work to be performed under these arrangements is expected to be significant, Aecon's effective backlog at any given time is greater than what is reported.

Buildings

Financial Highlights

$ millions	Year Ended December 31 2006	2005
Value of work managed	**$ 493.0**	$ 560.0
Revenues	**$ 322.7**	$ 394.8
Segment operating profit	**4.6**	2.1
Return on revenue	**1.4%**	0.5%
Backlog – December 31	**$ 191**	$ 289

Revenues in the Buildings segment were $72 million lower than 2005. Similarly, the value of work managed was $67 million lower than 2005. In this segment, particularly in the segment's Toronto operations, the strategic focus has been on margin enhancement rather than revenue growth, including more emphasis on design-build, construction management and ongoing program interiors and renovations work. Revenues of $177 million from the segment's Toronto operations continue to represent the largest component of this segment's revenues. However, the Toronto operations had the largest single reduction in revenue this year compared to 2005 ($77 million), while the Ottawa and Montreal operations reported reductions of $17 million and $12 million, respectively. The drop in revenues in Toronto is primarily the result of a number of large lump sum projects reaching peak production in 2005 compared with much lower production levels towards the close-out of these same projects in 2006, and also a reduction in new work. Lower revenues in the Ottawa and Montreal operations are the result of fewer new work awards in 2006 and resulted from fewer opportunities to bid new work as well as competitive market conditions. Partially offsetting these declines was an increase of $23 million in revenues from the division's Seattle operations which arose as a result of a stronger backlog to start the year and additional awards on projects that had been delayed last year.

Operating profits for 2006 were $4.6 million or $2.4 million higher than last year. The Toronto and Ottawa operations reported profit improvements of $3.9 million and $0.3 million, respectively, while the Montreal and Seattle operations were down $0.2 million and $0.8 million, respectively. The Toronto operations benefited from favourable resolutions in the current year of outstanding change orders on projects that carried forward from 2005. These settlements, combined with ongoing operational improvements, offset the impact of lower revenues. The Ottawa improvement is related to the higher margins percentages earned on work performed combined with reduced overhead costs. The decline in Seattle this year is related to lower margins on projects. The remaining operations all combined to produce a net $0.8 million decline in operating profits principally related to the impact of a $1.4 million unfavourable adjustment on an investment in a joint venture this year, partially offset by a $0.4 million improvement related to growth in the Halifax operations.

Backlog of $191 million at the end of 2006 was $98 million lower than last year. New contract awards of $225 million were booked in the current year, which compares with $338 million in 2005. The largest declines in awards occurred in Toronto and Montreal ($146 million combined for the year) and resulted from a combination of continued competitive pressures in these markets, a reduced focus on lump sum contract pursuits, and a strategy to pursue more contract management work rather than higher risk lump sum work. The work-off throughout 2005 and 2006 of backlog on large projects combined with these lower award levels produced the lower backlog amount at December 31st.

As discussed in the Consolidated Financial Highlights section, commitments made to Aecon based on construction management advisory agreements, general contracts, supplier of choice and alliance agreements do not necessarily show up as firm backlog. Therefore, to the extent that the volume of work to be performed under these arrangements is expected to be significant, Aecon's effective backlog at any given time is greater than what is reported.

Industrial

Financial Highlights

$ millions	Year Ended December 31 2006	2005
Revenues	**$ 290.2**	$ 273.3
Segment operating profit	**19.5**	8.8
Return on revenue	**6.7%**	3.2%
Backlog – December 31	**$ 186**	$ 172

Current year revenues in the Industrial segment of $290 million were $17 million higher than in 2005.

In 2006, revenues of $123 million from construction operations in Ontario were up $28 million from the prior year, mostly as a result of increases in work performed for customers in the utilities/gas, power/nuclear, and petrochemical sectors. This

increase was partially offset by a decline in revenues from customers in the automotive sector. Aecon has strategically chosen to decrease its focus on this sector, and now only focuses on a select few core automotive clients, because of the highly competitive nature of this market.

Fabrication revenues of $40 million from the segment's Ontario and eastern Canada operations were $12 million higher than in 2005, primarily from volume growth in Eastern Canada.

Revenues from the segment's Western Canada operations were $113 million versus $120 million in 2005. Revenues throughout 2005 were strongly impacted by a significant amount of one-time demolition and rebuild work performed on the Suncor site in Fort McMurray after a fire in January 2005. As anticipated, 2006 operations experienced a decline in site construction work following conclusion of the fire rebuild project. However, there were significant offsetting increases in the volume of module assembly and pipe fabrication work performed in Western Canada in 2006. Western Canada operations continue to benefit from the development of several oilsands and gas projects in the Fort McMurray and Long Lake regions of Alberta.

Revenues of $18 million for the year from Innovative Steam Technologies ("IST"), which sells and licenses the technology for "once through" heat recovery steam generators ("OTSG"), were down $13 million from the prior year reflecting delays from customers in booking new orders. Notably, IST's backlog profile improved by year end with the receipt of new awards totaling $28 million in the fourth quarter of 2006.

In 2006, the Industrial segment generated an operating profit of $19.5 million compared to $8.8 million last year. Of the $10.7 million improvement, Ontario Construction, Western Canada, and Fabrication operations were up $3.4 million, $5.2 million, and $6.1 million, respectively. Only IST, with a loss of $3.7 million in 2006 compared to a profit of $1.4 million in 2005, was down from last year. IST's loss is reflective of the impact of lower revenues, while the improved margins and profit performance in all the other sectors results from very strong market conditions and from improved internal commercial discipline.

Ontario Construction operating profits increased from $6.0 million in 2005 to $9.4 million in 2006. Western Canada operating results increased from $5.0 million in 2005 to $10.2 million in 2006. In 2006, the Ontario and Eastern Canada Fabrication operation produced an operating profit of $3.5 million after incurring a loss of $2.6 million in 2005. The majority of the improvement ($4.1 million) was produced by the Ontario Fabrication operations, which is now benefiting from the steps taken to improve profitability following a detailed strategic analysis of these operations.

Backlog at December 31, 2006 of $186 million is $14 million higher than last year. In the Western Canada operations, backlog of $40 million at December 31, 2006 is up $16 million from last year, and IST backlog of $23 million is up $18 million as a result of the awards noted above. Although down $22 million from last year, Ontario Construction backlog remains strong at $106 million. The decline from last year is due principally to the work-off of backlog on large projects throughout 2006. New contract awards of $304 million in the current year are $72 million lower than in 2005, principally because of the unusually high ($102 million) addition to backlog in 2005 resulting from Aecon's 50% joint venture share of an award in late 2005 for a nuclear project in Ontario.

As discussed in the Consolidated Financial Highlights section, significant commitments made to Aecon based on general contracts, supplier of choice and alliance agreements do not necessarily show up as firm backlog. Therefore, to the extent that the volume of work to be performed under these arrangements is expected to be significant, Aecon's effective backlog at any given time is greater than what is reported.

Concessions

Financial Highlights[1]

	Year Ended December 31	
$ millions	**2006**	2005
Revenues	**$ 35.7**	$ 25.4
Segment operating loss	**(2.6)**	(3.5)
Return on revenue	**(7.4)%**	(13.8)%
Backlog – December 31	**$ –**	$ –

(1) Certain prior period comparative figures have been reclassified to conform to the new segment presentation that was adopted in the second quarter of 2006 (see Introduction section of MD&A).

Revenues in the Concessions segment were $36 million in the current year, a $10 million increase versus 2005. Commencing in the third quarter of 2006, the results of the Quito airport concessionaire began to be included in Aecon's financial results. This segment also includes the results from the operators of the Cross Israel Highway and Highway 104 toll plaza in Atlantic Canada. Aecon's long-term investment in Derech Eretz Highways (1997) Ltd. ("Derech Eretz"), the company owning the concessionaire rights to the Cross Israel Highway, 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 monetized. As such, Aecon has not reported any revenues and profits from its investment in Derech Eretz in the above periods, even though the Cross Israel Highway is performing well, is generating strong operating cash flow, and remains on track to deliver an expected 15% after tax IRR on Aecon's $42.7 million investment, notwithstanding the fact that cash distributions from this investment are expected to be later than originally expected.

In 2006, the majority of the revenue improvement arose from the Quito airport project, which reported no revenues in 2005 and $13 million in 2006.

The operating loss of $2.6 million in 2006 was an improvement of $0.9 million compared to last year. The Quito airport concessionaire, which includes the results from operating the existing airport while the new airport is being constructed, was the main contributor to the improvement in operating profit. Profit, earned from the Quito airport project was $7.9 million before amortization charges. However, after deducting amortization expenses ($6.9 million) on concession rights related to the existing airport (see note 5 to the December 31, 2006 Consolidated Financial Statements), the operating profit contribution of the Quito airport concessionaire was $1.0 million in the current year. This profit contribution, combined with Aecon's share of the small margin contribution from the entity that manages the operations of the Cross Israel Highway, was more than offset by the segment's ongoing MG&A costs, thus resulting in an overall loss for the segment.

Aecon does not include in its reported backlog potential 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 December 31st. Therefore, the effective backlog is greater than what is reported.

For further details on Aecon's investment in the Quito airport concessionaire, refer to note 5 of the December 31, 2006 Consolidated Financial Statements.

Corporate and Other

Net Corporate expenses for the current year are $18.2 million compared to $11.1 million in 2005. The increase results primarily from higher pension, incentive and stock option charges in 2006, and higher compliance costs related to Bill 198 initiatives.

The higher pension expenses of $1.4 million relate to non-recurring costs associated with the termination of one of Aecon's defined benefit pension plans.

Stock based compensation charges increased by $0.8 million and resulted from the issuance of stock options in the first quarter of 2006. Higher incentive costs were the result of exceeding certain financial performance targets in the year.

Quarterly Financial Data

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

(Unaudited)	**2006**				2005			
	Quarter 4	**Quarter 3**	**Quarter 2**	**Quarter 1**	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Revenues	**$ 338.0**	**$ 316.0**	**$ 258.7**	**$ 200.6**	$ 323.5	$ 340.8	$ 283.0	$ 172.9
Net income (loss)	**10.6**	**12.8**	**(1.0)**	**(10.9)**	3.5	2.1	1.7	(8.4)
Earnings (loss) per share:								
Basic	**0.29**	**0.35**	**(0.03)**	**(0.36)**	0.12	0.07	0.06	(0.29)
Diluted	**0.28**	**0.34**	**(0.03)**	**(0.36)**	0.11	0.07	0.05	(0.29)

Due to the impact of share issuances throughout the periods, the sum of the quarterly earnings (losses) per share will not equal the total for the year. The total of the quarterly earnings (losses) per share from continuing operations, compared with the amounts for the full year are as follows:

	2006		2005	
	Quarterly Total	**Annual Amount**	Quarterly Total	Annual Amount
Earnings (loss) per share:				
Basic	**$ 0.25**	**$ 0.33**	$ (0.04)	$ (0.04)
Diluted	**0.23**	**0.31**	(0.06)	(0.04)

The analysis of operating results for each of the first three quarters of 2006 is included in the Management Discussion and Analysis incorporated in the Interim Reports to Shareholders for each quarter.

For the fourth quarter of 2006, revenues amounted to $338 million, which is $14 million higher than the same period in 2005. Similar to the year-to-date results, revenues increased in the Infrastructure, Industrial and Concessions operating segments by $11 million, $22 million, and $1 million, respectively, while decreasing in the Buildings segment by $11 million.

Gross margin increased by $16 million in the final three months of the year, as margins increased from $24 million in 2005 to $40 million in 2006, with all segments generating increased operating margins, generally as a result of strong industry conditions and improved commercial and strategic disciplines.

MG&A increased to $22 million in the quarter, compared to $14 million in the same period last year, primarily as a result of higher performance-related incentive costs and the non-recurring costs associated with the termination of one of Aecon's pension plans, as noted above.

Operating profits in the current quarter are $12.8 million compared to an operating profit of $7.1 million during the same period in 2005. The improvement is primarily a function of the higher operating margins noted above.

Revenues and operating profit (loss) by segment for the fourth quarters of 2006 and 2005 are set out in the table below ($ millions).

	2006		2005	
	Revenue	**Operating profit (loss)***	Revenue	Operating profit (loss)*
Infrastructure	**$ 146**	**$ 7.2**	$ 135	$ 5.1
Buildings	**84**	**2.6**	95	0.1
Industrial	**105**	**12.6**	83	6.4
Concessions	**13**	**(0.3)**	12	(1.8)
Corporate	**(10)**	**(9.3)**	(1)	(2.7)
Consolidated	**$ 338**	**$ 12.8**	$ 324	$ 7.1

* Operating profit (loss) represents the profit (loss) from operations, before interest, income taxes and extraordinary items.

In the Infrastructure segment, revenues were $11 million higher than last year. Revenues from roadbuilding and utilities operations increased in the fourth quarter by $4 million and $5 million, respectively, versus the corresponding three months of 2005. Contributing to the increases were higher backlog levels to start the quarter (a result of the high level of awards received earlier in the year) and favourable weather conditions during the quarter.

The Infrastructure segment earned an operating profit in the current quarter of $7.2 million compared to $5.1 million last year. The largest year-over-year improvements incurred in the roadbuilding and utilities operations which increased by $3.0 million and $1.2 million, respectively, primarily from higher volumes in the current quarter.

Revenues in the Buildings segment of $84 million were $11 million lower than the same quarter last year. The decline occurred primarily in the Toronto operations ($13 million) and, as discussed previously in the Buildings segment section, resulted from the lower award levels experienced in 2006.

The Buildings segment produced an operating profit of $2.6 million in the current quarter compared to an operating profit of $0.1 million last year. The majority of the operating profit was generated by the Toronto operations.

The Industrial segment revenues in the current quarter were $105 million or $22 million higher than in 2005. Volume increases occurred in all operations except IST. The reasons for the changes are similar to those cited above in the section on the Industrial segment's results for all of 2006.

The Industrial segment recorded a profit of $12.6 million in the current quarter, which compares with a $6.4 million in the same period of 2005. A combination of increased volumes and improved gross margin percentages from the Construction, Western Canada and Fabrication operations in the current quarter produced the improved results in this segment.

Revenues in the Concessions segment of $13 million in the current quarter were up $1 million from last year. The Concessions segment operating loss of $0.3 million for the fourth quarter of 2006 represents a $1.5 million improvement over the same quarter last year. Most of the improvement relates to lower MG&A costs in the current quarter whereas 2005 included one-time expenditures incurred in relation to the startup of the Quito project.

Overall, net income for the quarter amounted to $10.6 million or $0.29 per share, which compares with $3.5 million or $0.12 per share in 2005.

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: (a) managing and operating the existing Quito Airport, and (b) the development, construction, operations and maintenance of the new Quito International Airport under a concession arrangement. Aecon's investment in the Quiport JV is accounted for by the proportionate consolidation method, whereby the Consolidated Financial Statements reflect, line by line, Aecon's pro-rata share of each of the assets, liabilities, revenues, expenses and cash flows of Quiport JV. Given the significant effect of Quiport JV on Aecon's Consolidated Financial Statements, and in order to provide additional information about the Quiport JV operations and assets, which act as security for project debt, Aecon provides consolidating balance sheet and cash flow worksheets in note 23 to the December 31, 2006 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 December 31, 2006 are $50.1 million, which compares with $27.0 million at the end of last year. Of these amounts, $42.2 million and $10.2 million, respectively, were on deposit in joint venture bank accounts, which Aecon cannot access directly.

Restricted cash of $13.2 million at December 31, 2006 (December 31, 2005 - $7.5 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.

Restricted marketable securities and term deposits of $15.2 million (December 31, 2005 - $15.3 million) were all held within joint ventures and, similar to cash held by joint ventures, these securities cannot be accessed directly by Aecon.

At December 31, 2006, long-term debt and convertible debentures, including the current portion, totaled $145.9 million compared to $108.7 million at the end of 2005. The $37.2 million net increase results mainly from the proportionate consolidation of Aecon's share of the borrowings of $66.4 million to finance the Quito Airport Project (which are non-recourse to Aecon), less debt repayments on the Company's revolving debt facility of $22.9 million, and the conversion of $7.7 million of convertible debentures into common shares.

Bank indebtedness of $15.0 million at the end of December 2006 includes $8.2 million, representing Aecon's 45% share of funds borrowed within the Nathpa Jhakri hydro-electric project joint venture in India, and $6.8 million from Aecon's operating line of credit.

Interest bearing debt amounted to $160.9 million at December 31, 2006, compared to $119.6 million at December 31, 2005, the composition of which is as follows ($ millions):

	Dec. 31, 2006	Dec. 31, 2005
Bank indebtedness	**$ 15.0**	$ 8.3
Loan from Hochtief	**–**	2.5
Current portion of long-term debt	**4.8**	6.2
Convertible debentures – current	**–**	7.7
Long-term debt – recourse	**14.7**	35.7
Long-term debt – non-recourse	**66.4**	–
Convertible debentures	**60.0**	59.2
Total interest bearing debt	**$ 160.9**	$ 119.6
Interest bearing debt held directly	**86.2**	109.8
Interest bearing debt in joint ventures	**74.7**	9.8
Total	**$ 160.9**	$ 119.6

Aecon has a reducing revolving term loan to fund working capital and operating requirements (with a current limit of $20.6 million). This facility, which is reported as long-term debt, had no amounts outstanding at December 31, 2006, and, as such, the entire facility was available for drawdown to supplement Aecon's liquidity and working capital position. Aecon also had $60.0 million outstanding in convertible debentures, details of which are described in note 12 to the December 31, 2006 Consolidated Financial Statements. In March 2006, $7.7 million of convertible debentures were converted into common shares.

Aecon's liquidity position and capital resources continue to be sufficient to finance its operations and working capital requirements for the foreseeable future.

Future equity investments of US$20 million by Aecon in the Quito airport concessionaire are expected to be funded by cash profits from construction of the new Quito airport. To-date, Aecon has invested US$13.7 million in equity and has deposited US$1 million with Export Development Canada ("EDC") in support of letters of credit issued by EDC on the Quito airport project. These EDC deposits are included in restricted cash on the consolidated balance sheets at December 31, 2006.

Summary of cash flows

$ millions	Consolidated Cash Flows Year Ended Dec. 31 **2006**	2005	Cash Flows Excluding Quiport JV Year Ended Dec. 31 **2006**	2005
Cash provided by (used in):				
Operating activities	**$ (1.7)**	$ (27.9)	**$ 19.5**	$ (27.9)
Investing activities	**(46.2)**	(21.9)	**(8.8)**	(21.9)
Financing activities	**69.5**	27.0	**3.9**	27.0
Increase (decrease) in cash and cash equivalents	**21.6**	(22.8)	**14.6**	(22.8)
Effects of foreign exchange on cash balances	**1.5**	(0.3)	**0.2**	(0.3)
Cash and cash equivalents – beginning of period	**27.0**	50.1	**27.0**	50.1
Cash and cash equivalents – end of period	**$ 50.1**	$ 27.0	**$ 41.8**	$ 27.0

Operating Activities

Cash used in operating activities of $1.7 million in 2006 is $26.2 million better than last year. The large year-over-year improvement is due to higher earnings in the current year (a profit in the current year versus a loss last year) and lower investments in working capital (i.e. increases in deferred revenue balances created by higher over-billings on projects were only partially offset by higher investments in accounts receivable balances). Included in cash flows from operating activities is the impact of the consolidation of Aecon's $21.2 million proportionate share of cash used by Quiport (the Quito concession Joint Venture) operations. This cash usage relates primarily to advance payments made by Quiport for construction of the new Quito airport.

Investing Activities

For the year, investing activities resulted in a use of cash of $46.2 million, which compares with cash used of $21.9 million in 2005. Of the $46.2 million of cash used in the year, $37.4 million represents the consolidation of Aecon's proportionate share of the cash used by Quiport relating to construction of the new Quito airport (i.e. increase in concession rights of $37.4 million) in 2006. In 2005, the largest use of cash related to an increase in other assets of $9.7 million, and consisted mostly of development costs incurred on the Quito airport project. Another major use of cash in 2005 was a $4.3 million increase in Aecon's investment in Derech Eretz Highways (1997) Ltd ("Derech Eretz").

Investing activities in 2006, not requiring an immediate use of cash, include the acquisition of concession rights (valued at $80 million) to operate the existing and new Quito airports. In addition to this non-cash investment in the Quito airport, non-cash investments in 2006 included a $1.5 million increase in Aecon's investment in Derech Eretz, the concessionaire of the Cross Israel Highway. The increased investment was financed by a loan from the other shareholders in Derech Eretz at an interest rate of 6% per annum.

Financing Activities

In 2006, cash provided by financing activities amounted to $69.5 million, compared to cash generated of $27.0 million in 2005. Of the $69.5 million of cash generated in 2006, $65.6 million represents the consolidation of Aecon's proportionate share of Quiport operations and $3.9 million from other Aecon operations. Quiport's financing activities were principally related to the financing of the new Quito airport. Aecon's proportionate share of Quiport's project financing, none of which is recourse to Aecon, amounted to $66.4 million at December 31, 2006. During 2006 Aecon issued 4,680,000 common shares for net proceeds of $27.7 million plus an additional 275,000 common shares for an additional $1 million in proceeds were issued upon the exercise of stock options. Issuances of long-term debt, excluding Quiport, amounted to $14.6 million while repayments totalled $42.4 million, for a net change of $27.8 million. The net change results primarily from a net repayment of $23.0 million on the Company's revolving term facility. Gross long-term debt issuances and repayments were affected by a series of drawdowns and repayments under the Company's revolving term facility. In 2005, a $32.5 million convertible debenture financing was completed, which yielded net proceeds of $31.0 million.

Financing activities not resulting in an inflow of cash in 2006 included the increase in deferred revenue of $64 million resulting from acquisition of the concession rights to the Quito Airport project.

New Accounting Standards

No new Canadian accounting standards were adopted in 2006 in the Consolidated Financial Statements.

The CICA has issued three new accounting standards: CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; and Section 1530, Comprehensive Income. These standards are substantially harmonized with U.S. GAAP and are effective for Aecon beginning January 1, 2007. The principal impacts of the standards are as follows:

Financial assets will be classified as available for sale, held to maturity, trading, or loans and receivables. Financial liabilities will be classified as trading or other. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value. Subsequent measurement is to be determined by the classification of each financial asset and financial liability. Held-to-maturity assets will be limited to fixed-maturity instruments that Aecon intends to and is able to hold to maturity and will be accounted for at amortized cost using the effective interest method. Loans and receivables will also be accounted for at amortized cost using the effective interest method. Trading assets will continue to be accounted for at fair value with realized and unrealized gains and losses reported through net income. The majority of the remaining assets will be classified as available for sale and measured at fair value with unrealized gains and losses recognized through other comprehensive income. Certain assets and liabilities may be designated as trading under the fair value option.

Other comprehensive income will be a new component of shareholders' equity. Comprehensive income is composed of Aecon's net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale securities, foreign currency translation and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes.

The new standards require that all derivative instruments be recognized as either assets or liabilities and measured at their fair values. In addition, the new standards allow special hedge accounting for some types of transactions provided that certain criteria are met. For fair value hedges, where Aecon is hedging changes in the fair value of assets, liabilities or firm commitments, the change in the fair value of derivatives and hedged items attributable to the hedged risk will be recorded in the Consolidated Statement of Income. For cash flow hedges where Aecon is hedging the variability in cash flows related to variable-rate assets, liabilities or forecasted transactions, the effective portion of the changes in the fair values of the derivative instruments will be recorded through other comprehensive income until the hedged items are recognized in the Consolidated Statement of Income.

Application of these standards is complex and Aecon is currently assessing the impact on its financial reporting, however, Aecon does not expect any material impact on the balance sheet and statement of operations.

Supplemental Disclosures

Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures as at the financial year ended December 31, 2006. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2006 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities.

Internal Control Over Financial Reporting

As at the financial year ended December 31, 2006, the Chief Executive Officer and Chief Financial Officer evaluated the design of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal control over financial reporting was effective as at December 31, 2006 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Contractual Obligations

Aecon has commitments for equipment and premises under operating leases requiring minimum payments and principal repayment obligations under long-term debt (including the convertible debentures described in note 12 to the Consolidated Financial Statements) as follows (in thousands of dollars):

	Lease Payments	Long-term Debt Repayments
2007	$ 16,508	$ 4,797
2008	12,261	11,730
2009	9,716	31,373
2010	6,071	32,199
2011	3,750	8,385
Beyond	10,464	57,421
	$ 58,770	$ 145,905

At December 31, 2006, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was $882 million. This consists of the reported backlog of $786 million plus an additional $96 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 India and Israel, Aecon has provided various financial and performance guarantees and letters of credit, which are described in note 11 to the December 31, 2006 Consolidated Financial Statements. With respect to Aecon's operations in Quito, refer to notes 5 and 23 of the December 31, 2006 Consolidated Financial Statements for details of various financial and performance guarantees and letters of credit provided.

Aecon's defined benefit pension plans had a combined deficit of $4.0 million at December 31, 2006 (2005 - $6.4 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, 2006, unrecognized liabilities amounted to $5.8 million (2005 - $8.6 million). Details relating to Aecon's defined benefit plans are set out in note 19 to the Consolidated Financial Statements.

From time to time Aecon enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. At December 31, 2006, the Company had net outstanding contracts to sell US$0.8 million (December 31, 2005 - sell US$3.6 million) on which there was a net unrealized exchange loss of $0.03 million (2005 - net gain of $0.2 million). The net unrealized exchange gain (loss) represents the estimated amount the Company would have received if it terminated the contracts at the end of the respective periods. Financial instruments are discussed in note 21 to the 2006 Consolidated Financial Statements.

Related Party Transactions

In March 2006, $7.7 million of convertible subordinated debentures held by Hochtief AG, who at the time was Aecon's largest shareholder, were converted to equity, and a $2.5 million short-term unsecured loan was repaid on January 13, 2006. Hochtief AG has issued guarantees totalling $25.9 million in support of the financial and performance related obligations of the Nathpa Jhakri hydro-electric project in India in which Aecon has a joint venture interest.

Note 20 to the Consolidated Financial Statements details various other significant related party transactions and balances.

In November 2006, Hochtief sold all the shares it previously held in Aecon.

Critical Accounting Estimates

By its nature, accounting for construction contracts requires the use of estimates. Revenue and income from fixed price construction contracts, including contracts in which Aecon participates through joint ventures, are determined on the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs. Aecon has a process whereby progress on jobs is reviewed by management on a regular basis and estimated costs to complete are updated. However, due to unforeseen changes in the nature or cost of the work to be completed or performance issues, contract profit can differ significantly from earlier estimates.

Unpriced change orders are change orders that have been approved as to scope but unapproved as to price. For such change orders, contract revenues are recognized to the extent to which costs incurred are expected to be recovered. Therefore, to the extent that actual costs recovered are different from expected cost recoveries, significant swings in revenue and profitability can occur from one reporting period to another.

Claims are amounts in excess of the agreed contract price, or amounts not included in the original contract price, that Aecon seeks to collect from clients or others for client-caused delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. In accordance with Aecon's accounting policy, claims are recognized in revenue only when resolved. Therefore, it is common for Aecon to have substantial contract costs recognized in one accounting period with associated revenue recognized only in a later period.

In the preparation of the Consolidated Financial Statements, various other estimates are required, which are either subjective, could be materially different under different conditions or using different assumptions, or which require complex judgments. The more significant estimates are related to the accounting for income taxes, concession rights to operate the existing Quito airport, employee benefit plans and the accounting for pension expense, and the allocation of the purchase price to the fair value of assets acquired and liabilities assumed on acquisitions. The Company's accounting for income taxes is described in note 6 to the Consolidated Financial Statements and under Tax Accrual Risks in the following section of the MD&A entitled Risks and Uncertainties. The significant actuarial assumptions used in accounting for pension expense are set out in note 19 to the Consolidated Financial Statements.

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)	December 31, 2006	March 6, 2007
Number of common shares outstanding[1]	**38,069,829**	38,119,829
Paid-up capital of common shares outstanding[2]	**$ 131,975**	$ 132,288
Outstanding securities exchangeable or convertible into common shares:		
Number of stock options outstanding	**1,200,000**	1,200,000
Number of common shares issuable on exercise of stock options	**1,200,000**	1,200,000
Increase in paid-up capital on exercise of stock options	**$ 7,279**	$ 7,304
Principal amount of convertible debentures outstanding (see note 12 to the Consolidated Financial Statements)	**$ 59,988**	$ 59,988
Number of common shares issuable on conversion of convertible debentures	**8,276,316**	8,276,316
Increase in paid-up capital on conversion of convertible debentures	**$ 59,988**	$ 59,988

(1) Number of common shares outstanding excludes shares held by the trustee of Aecon's LTIP plan (see note 15 to the Consolidated Financial Statements).
(2) As described in note 15 to the Consolidated Financial Statements, and in accordance with the recommendations of The Canadian Institute of Chartered Accountants, share capital has been reduced by $1.1 million on account of share purchase loans receivable from employees and by $1.3 million to reflect shares held by the trustee of the LTIP plan.

Risks and Uncertainties

Large Project Risk

A substantial portion of Aecon's revenues is derived from large projects, some of which are conducted through joint ventures. These projects provide opportunities for large revenue and profit contributions but can occasionally result in significant losses.

Opportunities for Aecon to compete for large projects do not occur regularly. As a result, Aecon's ability to successfully compete for these opportunities and the length of time required to execute these projects are not predictable, and therefore the Company may experience periods of irregular or reduced revenues. In fact, since the completion of the Cross Israel Highway and Nathpa Jhakri projects, Aecon has not undertaken construction of a similar large project with exception of the new Quito International Airport which commenced in 2006.

The recording of the results of large project contracts can distort revenues and earnings on both a quarterly and an annual basis and can, in some cases, make it difficult to compare the financial results between reporting periods.

As described more fully in notes 5, 11 and 14 to the Consolidated Financial Statements, Aecon has a number of commitments and contingencies. If Aecon was called upon to honour these obligations, its financial results would be adversely affected.

The Nathpa Jhakri Project in India, although now complete, incurred significant delays in respect of which the joint venture, in which Aecon has a 45% interest, submitted requests for extensions of contract time as well as claims for significant compensation arising from the costs of delays. The joint venture has submitted for arbitration claims of approximately $96 million against the owner, Satluj Jal Vidyut Nigam Ltd. ("SJVN") (formerly Nathpa Jhakri Power Corporation Limited), the most significant of which is to cover the joint venture's cost of extra work and delays related to these same matters. In 2005, the joint venture was advised by SJVN of its intention to levy liquidated damages against the joint venture in the amount of $30.4 million for alleged delay damages resulting from not completing the contract on time. Since the delay in the completion of the project was caused by numerous items outside of the joint venture's control and contractual responsibility, including, among many other things, a catastrophic flood in 2002, the joint venture believes that these claims for liquidated damages are unsubstantiated, unwarranted and without legal merit. Currently, no provision has been made for the liquidated damages, nor has any amount been recognized for potential recoveries under the claims. This treatment is in accordance with the Company's accounting policy, which is to recognize revenues from claims only when resolved. The arbitration process is nearly complete and a decision is expected in 2007. For further information refer to note 14 to the Consolidated Financial Statements. In the event the joint venture is unsuccessful in its claims for additional compensation and request for extension of contract time, the joint venture could be faced with potential liquidated damages claims by SJVN for which the Company is jointly and severally liable. If such possible claims were to materialize and be successful, the financial results and the financial position of Aecon would be adversely affected.

In addition, as at December 31, 2006, the Company had outstanding guarantees and letters of credit totalling approximately $26 million in support of financial and performance related obligations for the Nathpa Jhakri project. Also, to December 31, 2006, the Company had profits of approximately $14 million (at current exchange rates) after income taxes relating to this project, which have not yet been distributed to the Company. If such guarantees were to be called upon and/or if Aecon was not able to collect its profits, Aecon's financial results and its financial position would be adversely affected. Construction of the Nathpa Jhakri project is fully complete and the warranty period has expired.

In connection with the Cross Israel Highway project, the Company has provided two joint and several guarantees, a continuous guarantee, which guarantees the performance of the concessionaire in which the Company has a 25% interest and a leakage guarantee, which is a guarantee by the operator of the toll highway, in which the Company has a 30.60% interest, to the concessionaire and covers toll capture and collection rates generated from users of the highway during the operating period. These guarantees extend to the end of the concession period which ends in 2029. If such guarantees were to be called upon, the financial results and the financial position of Aecon would be adversely affected.

In addition, a significant portion of Aecon's capital (approximately $50 million) is invested, directly or indirectly, in the Cross Israel Highway. As a result, any material diminution in the value of the Cross Israel Highway would adversely affect the financial results and condition of the Company.

The Company is a partner in a joint venture with Hochtief Construction AG. that constructed a hydro-electric facility in northern Quebec for Société d'énergie de la Baie James, a subsidiary of Hydro Quebec (the "Eastmain Project"). To date, the Eastmain Project has incurred cost overruns, primarily because of customer changes to the original contract scope. The Company is currently negotiating with Hydro Quebec for a full recovery of these cost overruns and expects that it will be successful in doing so. Should the Company not be successful in recovering these cost overruns, its financial results and position would be adversely impacted by a material amount.

The cost impacts of these client delays and scope changes are classified as unpriced change orders, which are change orders for which the client has agreed it is responsible but where the value of such change orders has not yet been settled. In accordance with Aecon's accounting policy for unpriced change orders, until the value of an unpriced change order is settled with the client, contract revenues are recognized to the extent of costs incurred or, if lower, to the extent to which recovery is probable. Accordingly, no profit has been recognized on these change orders nor, on the contract as a whole. These unpriced change orders are included on Aecon's consolidated balance sheet as "deferred contract costs and unbilled revenue." Should the unpriced change orders related to this project no longer be considered probable of recovery and the Company is unsuccessful in recovering the full value of these cost overruns from the client, the financial results would be negatively impacted by charges to income for the amounts not recovered. Amounts not recovered through change orders could result in claims by Aecon against the client, which are recognized for accounting purposes only when the amounts are resolved.

The Company holds a 42.3% effective economic interest in Corporacion Quiport S.A. ("Quiport JV"), an Ecuadorian company, whose main operations consist of: (a) managing and operating the existing Mariscal Sucre International Airport (the "Existing Quito Airport") until its operations are transferred to a new airport; and (b) the development, financing, construction, operation and maintenance of the new Quito International Airport under a concession arrangement with Corporacion Aeropuerto y Zona Franca del Distrito Metropolitano de Quito ("CORPAQ").

On January 27, 2006, Quiport JV assumed control of Existing Quito Airport operations and on June 28, 2006 financial close was achieved and the first tranche of financing was advanced by the Project Senior Lenders. The construction contract for the new airport was signed on June 22, 2005, and the formal construction commencement date was July 12, 2006. The New Quito Airport will be constructed under a 51-month fixed-price Engineer-Procure-Construct contract signed between CORPAQ and Canadian Commercial Corporation ("CCC"), a Crown agency of the Canadian government. CORPAQ assigned the construction contract to Quiport JV. CCC subcontracted 100% of the construction work to the Company as its Canadian supplier, which then subcontracted 100% of the construction work to a 50%/50% joint venture consisting of the Company and Brazil's Construtora Andrade Gutierrez (the "Construction JV"). The Company will be the managing partner of the Construction JV.

In connection with the Quito International Airport Project, the Company has made equity investments and provided letters of credit in support of its remaining equity obligations and for various project contingencies. These letters of credit are supported by guarantees issued on behalf of the Company to the issuing banks by EDC and will remain in place until its equity obligations are fulfilled and the conditions giving rise to the contingencies are satisfied or cleared. In addition, the Company and Andrade Gutierrez have provided surety bonds, guaranteed joint and severally, to cover construction and concession related performance obligations, an advance payment bond and a retention release bond, in each case the Company's share supported by guarantees issued by EDC. If Aecon was called upon to honour these obligations, or should

the project incur significant cost overruns, its financial results and position would be adversely impacted. For further information on the Quito project refer to notes 5 and 23 to the Consolidated Financial Statements.

During the year, Quiport JV exercised its right under its concession contract to increase tariffs for services rendered to the airlines using the Existing Quito Airport. These increased tariffs are being challenged by the various airlines. Should Quiport's rights to the recent and future tariff increases be restricted or reduced, the reported value of concession rights related to the Existing Quito Airport could be materially reduced.

Concessionaire Risk

In addition to its work providing design, construction, procurement, operation and other services on a given project, Aecon will sometimes also invest in the infrastructure asset itself as a concessionaire. In such instances, Aecon assumes a degree of risk (essentially equity risk) associated with the financial performance of the asset during the concession period. The Cross Israel Highway and the Quito International Airport are two current examples of such projects.

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

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

International/Foreign Jurisdiction Factors

Aecon is from time to time engaged in large international projects in foreign jurisdictions. International projects such as the Nathpa Jhakri hydro-electric project in northern India, the Cross Israel Highway in Israel and the Quito Airport in Ecuador can expose Aecon to risks beyond those typical for its activities in its home market, including without limitation economic, geopolitical, geotechnical, military, repatriation of undistributed profits, currency and foreign exchange risks, and other risks beyond the Company's control.

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

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

Aecon's investment in Derech Eretz Highways (1997) Ltd. ("Derech Eretz") is denominated in New Israeli Shekels ("NIS") and, as such, the value of this investment fluctuates with changes in the relationship between the Canadian dollar and NIS. Similarly, although much less significant, Aecon's investments in India and Israel (other than its investment in Derech Eretz), which primarily represent undistributed profits from its now completed construction projects in these countries, are denominated in foreign currencies (mostly NIS, Rupees and United States dollars) and the value of these investments fluctuate as the value of the Canadian dollar changes relative to the values of these foreign currencies.

Contractual Factors

Historically, a substantial portion of Aecon's revenue is derived from lump sum contracts pursuant to which a commitment is provided to the owner of the project to complete the project at a fixed price ("Lump Sum") or guaranteed maximum price ("GMP"). In Lump Sum and GMP projects, in addition to the risk factors of a unit price contract (as described below), any errors in quantity estimates or schedule delays or productivity losses, for which contracted relief is not available must be absorbed within the Lump Sum or GMP, thereby adding a further risk component to the contract.

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

In certain instances, Aecon guarantees to a customer that it will complete a project by a scheduled date or that the facility will achieve certain performance standards. If the project or

facility subsequently fails to meet the schedule or performance standards, Aecon could incur additional costs or penalties commonly referred to as liquidated damages.

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

Certain of Aecon's contractual requirements may also involve financing elements, where Aecon is required to provide one or more letters of credit, performance bonds, financial guarantees or equity investments. There can be no assurance that Aecon will be able to obtain the necessary financing on favourable or commercially reasonable terms and conditions for such equity investments, nor that its available working capital and bonding facilities will be adequate in order to issue the required letters of credit and performance bonds.

Change orders, which modify the nature or quantity of the work to be completed, are frequently issued by clients. Final pricing of these change orders is often negotiated after the changes have been started or completed. Until pricing has been agreed, these change orders are referred to as "unpriced change orders." Revenues from unpriced change orders are recognized to the extent of the costs incurred on executing the change order. Only when pricing is agreed is any profit on such change orders recognized. If, ultimately, there are disputes with clients on the pricing of change orders or disputes regarding additional payments owing as a result of changes in contract specifications, delays, additional work or changed conditions, Aecon's accounting policy is to record all costs for these changes but not to record any revenues anticipated from these disputes until actually resolved, even though the Company may believe that full compensation from clients is probable. The timing of the resolution of such events can have a material impact on income and liquidity and thus can cause fluctuations in the revenue and income of Aecon in any one reporting period.

Economic Factors

Aecon's profitability is closely tied to the general state of the economy in those geographic areas in which it operates. More specifically, the demand for infrastructure, which is the principal component of Aecon's operations, is perhaps the largest single driver of the Company's growth and profitability.

In North America, which tends to have relatively sophisticated infrastructure, Aecon's profitability is dependent both on the development, rehabilitation and expansion of basic infrastructure (highways, airports, dams, hydro-electric plants, etc.) and on the type of infrastructure that flows from commercial and population growth. Commercial growth demands incremental facilities for the movement of goods within and outside of the community, along with water and sewer systems and heat, light and power supplies. Population growth creates a need to move people to and from work, schools and other public facilities, and demands similar services to new homes. Since growth in both these areas, with the possible exception of road maintenance and construction, is directly affected by the general state of the local economy, the general strength or weakness of the economy or the public sectors fiscal situation can have a significant impact on Aecon's operations.

Internationally, Aecon is involved with the development of basic infrastructure, particularly in developing countries. As such, the Company's growth and profitability from this work depends largely on the pace of growth in these foreign jurisdictions and the ability of these countries to allow for the arrangement of long-term financing.

Ongoing Financing Availability

Aecon's business strategy involves the selective growth of its operations through internal growth and acquisitions. Certain of Aecon's operating segments, particularly its Infrastructure and Industrial segments, require substantial working capital during their peak busy periods. As these businesses grow, Aecon is continually seeking to enhance its access to funding in order to finance the higher working capital associated with this growth. However, from time to time, Aecon is constrained in its ability to capitalize on growth opportunities to the extent that financing is either insufficient or unavailable.

Access to Bonding and Pre-qualification Rating

Many of Aecon's construction contracts require either sufficient bonding or pre-qualification rating. As a result of the worldwide reduction in surety capacity and price increases, the Company continually monitors the surety market through its broker and surety firm. The surety industry has undergone significant consolidation in recent years, which has constrained overall industry capacity. Although the Company believes it will be able to continue to maintain sufficient surety capacity adequate to satisfy its requirements, should those requirements be materially greater than anticipated, or should sufficient surety capacity not be available, this may have a material adverse effect on the ability of Aecon to operate its business or take advantage of all market opportunities.

Environmental and Safety Factors

Unfavourable weather conditions represent one of the most significant uncontrollable risks for Aecon. Construction projects are susceptible to delays as a result of extended periods of poor weather, which can have an adverse effect on profitability arising from either late completion penalties imposed by the contract or from the incremental costs arising from loss of

productivity, compressed schedules, or from overtime work utilized to offset the time lost due to adverse weather.

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

Aecon is subject to and complies with federal, provincial and municipal environmental legislation in all of its manufacturing and construction operations. Aecon recognizes that it must conduct all of its business in such a manner as to both protect and preserve the environment in accordance with this legislation. At each place where work is performed, Aecon develops and implements a detailed quality control plan as the primary tool to demonstrate and maintain compliance with all environmental regulations and conditions of permits and approvals. Management is not aware of any pending environmental legislation that would be likely to have a material impact on any of its operations, capital expenditure requirements or competitive position, although there can be no guarantee that future legislation will not be proposed, and if implemented, it may have a material impact on the Company and its financial results.

Aecon is also subject to and complies with health and safety legislation in all of its operations in the jurisdictions in which it operates. The Company recognizes that it must conduct all of its business in such a manner as to ensure the protection of both its workforce and the general public. Aecon has developed a comprehensive health and safety plan and is proud of its record in this regard. Nevertheless, given the nature of the industry accidents will inevitably occur from time to time. Management is not aware of any pending health and safety legislation or prior incidents which would be likely to have a material impact on any of its operations, capital expenditure requirements or competitive position. Nevertheless, there can be no guarantee with respect to the impact of future legislation or accidents.

Litigation Risk

In the normal course of business, the Company is involved in various legal actions and proceedings which arise from time to time, some of which may be substantial. In view of the quantum of the amounts claimed and the insurance coverage maintained by the Company in respect of these matters, management of the Company does not believe that any of the legal actions or proceedings that are presently known or anticipated by the Company is likely to have a material adverse effect on the Company's financial position. However, there is no assurance that the Company's insurance arrangements will be sufficient to cover any particular claim or claims that may arise in the future. Furthermore, the Company is subject to the risk of claims and legal actions for various commercial and contractual matters, primarily arising from construction disputes, in respect of which insurance is not available.

Labour Factors

A significant portion of Aecon's labour force is unionized and accordingly, Aecon is subject to the detrimental effects of a strike or other labour action, in addition to competitive cost factors. In Ontario, the sector wide collective agreements are due for renewal in 2007. The inability of industry wide employer bargaining agencies to successfully conclude such agreements could have a negative impact on affected employers, including Aecon.

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

Dependence on the Public Sector

A significant portion of Aecon's revenues is derived from contracts with various governments or their agencies. Consequently, any reduction in demand for Aecon's services by the public sector whether from funding constraints, changing political priorities, or delays in projects caused by the election process would likely have an adverse effect on the Company if that business could not be replaced from within the private sector.

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

Potential Fluctuation in Financial Results

Aecon's quarterly and annual financial results may be impacted by a variety of factors including, without limitation: the recognition of revenue from existing large project contracts; the opportunity to compete for new large projects; costs or penalties associated with unanticipated delays in project completion; fluctuations in the general economic and business conditions in the markets

in which Aecon operates, which may impact pricing levels of its services; actions by governmental authorities including government demand for the services provided by Aecon; government regulations and the associated expenditures required to comply with regulations; labour action involving Aecon's unionized workers; seasonal or materially adverse weather conditions; the risk associated with the use of Lump Sum and guaranteed maximum price contracts; geopolitical risks in the foreign jurisdictions in which Aecon operates as well as risk associated with foreign currency and exchange rates; and other circumstances affecting revenue and expenses. Aecon's operating expenses are incurred throughout the year. As a result, if expected revenues are not realized as anticipated, there may be significant variations in Aecon's quarterly and annual financial results.

Protection of Intellectual Property and Proprietary Rights

The Company, particularly through its 100% interest in IST depends, in part, on its ability to protect its intellectual property rights. Aecon relies primarily on patent, copyright, trademark and trade secret laws to protect its proprietary technologies. The failure of any patents or other intellectual property rights to provide protection to Aecon's technologies would make it easier for competitors to offer similar products, which could result in lower sales or gross margins.

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

In addition, IST holds a number of patents on its once-through heat recovery system. Nevertheless, there remains a threat of others attempting to copy IST's proprietary technology and processes. To mitigate this risk, the normal business practice of IST includes the signing of confidentiality agreements with all parties to which confidential information is supplied including all customers and licensees.

Tax Accrual Risks

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

During 2001, the Company received federal income tax reassessments relating to deductions claimed by predecessor companies between 1993 and 1999. The reassessments, which disallow previously claimed Canadian development expense (CDE) deductions, amounted to $10,581 at December 31, 2006. Provincial income tax reassessments related to the disallowed CDE and received to date amount to $804. Although the Company has filed Notices of Objection, it was required to pay 50% of the federal assessed amounts and 100% of the Ontario provincial assessments pending resolution of the objections. At December 31, 2006, the Company had paid $5,414 resulting from these assessments. To-date, the Canada Revenue Agency has not responded to the Notices of Objection. The total potential federal and provincial reassessments, including income taxes, interest and penalties could be up to $17,786. The Company believes it has adequate income tax provisions to cover the ultimate outcome of these reassessments.

As of December 31, 2006, Aecon had recorded a valuation allowance of $26.2 million which is available to offset future income tax expense related to Aecon's Canadian controlled operations. However, based on Aecon's performance, there is the possibility that the benefit of the unused portion of this allowance may have to be recognized in income earlier than management contemplated. There is, therefore, a risk that future estimates of earnings per share may be impacted as a result of a change in the timing of the recognition of this benefit.

Aecon Operates in a Highly Competitive Industry

Aecon carries on businesses in highly competitive product and geographic markets in Canada, the United States and internationally. The Company competes with many companies that have financial resources and staff larger than Aecon's and which may be able to benefit from economies of scale, pricing advantages and greater resources. Aecon has little control over and cannot otherwise affect these competitive factors. If the Company is unable to effectively respond to these competitive factors, or if the competition in any of the Company's markets results in price reductions or decreased demand for Aecon's services, results of operations and financial condition will be materially impacted.

Loss of Key Management; Inability to Attract and Retain Management

The Company's future prospects depend to a significant extent on the continued service of its key executives. Furthermore, the Company's continued growth and future success depends on its ability to identify, recruit and retain key management personnel. The competition for such employees is intense and there can be no assurance that the Company will be successful in identifying, recruiting or retaining such personnel.

Subcontractor Performance

The profitable completion of some contracts, primarily within Aecon's Buildings division, depends to a large degree on the satisfactory performance of the subcontractors who complete different elements of the work. If these subcontractors do not perform to accepted standards, Aecon may be required to hire different subcontractors to complete the tasks, which may add additional costs to a contract, may impact profitability on a specific job, and in certain circumstances, lead to significant losses.

Acceptance of Innovation Steam Technologies

IST has yet to gain full acceptance within certain segments of the industry for its innovative "once through" approach to heat recovery steam generators, and consequently, earnings derived from IST can fluctuate from quarter to quarter and from year to year. The success of IST's business will continue to depend on its ability to promote commercial acceptance of its steam generators and associated technology.

Outlook

In 2007, Aecon expects to see a continuation of most of the key trends that drove its improved bottom line results in 2006.

Infrastructure Segment

In Ontario, the outlook for the roadbuilding sector remains strong as the Ontario government and other funding entities continue to make significant investments in transportation infrastructure across the province. This investment helped Aecon build a substantial backlog in the roadbuilding sector in 2006, which is up significantly from the already high levels seen at the end of the previous year. Further, Aecon's acquisition of The Karson Group in the first quarter of 2007 is expected to make a positive earnings contribution this year, with the most significant impact expected in the materials sector, where strong market conditions continue for both asphalt and aggregate products. Favourable markets also continue in Ontario's utilities construction and heavy civil construction sectors, both of which are growing as a result of the increased investments being made by public and private sector clients to maintain and expand their various power, communication, gas and water/wastewater infrastructure.

Aecon's re-entry into the Alberta civil construction market in 2006 is expected to result in profit contributions in 2007. Early business development successes in the province generated backlog with which to begin the year and prospects continue to develop for increased work on oilsands projects in the Fort McMurray area.

Internationally, financial close is expected this year on a US$150 million extension of the Cross Israel Highway in which Aecon has a 25% stake. As well, construction of the new Quito Airport is expected to reach 20% completion (the point where Aecon will begin booking profit contributions from the project) in the fourth quarter of 2007. Aecon is a 50% partner in the joint venture building this US$410 million airport scheduled for completion in 2010.

Aecon also expects to reach two important settlements in 2007, as contract issues surrounding both the Nathpa Jhakri hydro-electric project in India and the Eastmain hydro-electric project in northern Quebec are expected to be substantially resolved during the year. Neither of these settlements is expected to have material income impact but both are expected to have significantly positive impact on Aecon's improving cash and working capital positions.

Buildings Segment

Although it remains a very competitive market, the outlook for the commercial and institutional buildings sector continues to improve and Aecon expects to build on the progress it made in this sector in 2005 and 2006.

Notable in the Buildings segment is the growth of healthcare related construction in Ontario, Quebec and Atlantic Canada, the growing demand for LEED certified construction (a particular focus of Aecon's Quebec business) and the strong Native gaming market in the U.S. Pacific northwest, where Aecon has considerable strength. Also, Aecon's Ottawa and Halifax based operations are now performing well and are expected to contribute profitable growth in 2007. The positive contribution from these growth opportunities will be partially offset by the wind down of the Pearson International Airport expansion project in Toronto, which is Aecon's largest project in this segment.

Industrial Segment

Aecon's Industrial segment continues to benefit from two very strong trends: growth of the oil and gas sector in Western Canada and expansion of electrical generation capacity in Ontario. In Western Canada, strong backlog in place at the end of 2006 and the continuing strength of the oil and gas sector (especially in the oilsands of northern Alberta) combine to position Aecon well for 2007.

In Ontario, the provincial government's commitment to expand the province's electrical generation capacity is responsible for driving much of the continued growth in the industrial construction sector. This growth, along with Aecon's expanding maintenance activities at many of the existing power facilities in Ontario, is expected to drive continued strong performance. Aecon's substantial joint venture work at the Bruce Nuclear plant in southwestern Ontario also continues to progress well.

IST ended 2006 with significantly strengthened backlog and, as a result of a recent joint venture to produce enhanced oil recovery steam generators for the oil and gas industry, a new product line as well. This new line gives IST a second product for its Cambridge manufacturing facility and significantly broadens its sales offering.

Backlog

Aecon began 2007 with a stronger backlog of work on hand than was in place a year earlier. Backlog increased $209 million or 36% to $786 million during the year, including an increase of $129 million in major projects backlog as a result of the financial close of the Quito airport project in Ecuador. Backlog increased over the year in both the Infrastructure and Industrial segments, more than offsetting a decline in the Buildings segment, and giving Aecon its largest year-end backlog in six years. Importantly, the positive trend in the margin profile of Aecon's backlog that commenced in late 2005 continued through 2006. Contract awards during the year amounted to $1.32 billion, a 17% increase over the $1.13 billion reported in 2005.

Conclusion

Overall, the continuing strength of Aecon's backlog and core markets, especially in the energy and transportation infrastructure sectors in Canada, bode well for continued improvement in 2007. Management believes that these strong core markets should keep Aecon on track to reach its stated EPS objective of 75 cents per share in 2008.

Forward-Looking Information

In various places in Management's Discussion and Analysis and in other sections of this document, management's expectations regarding future performance of Aecon was discussed. These "forward-looking" statements are based on currently available competitive, financial and economic data and operating plans, but are subject to risks and uncertainties. Many factors could cause Aecon's actual results, performance or achievements to vary from those expressed or inferred herein, including without limitation, the ability of the Eastmain Joint Venture to recover the full value of unpriced change orders, failure to achieve the targets associated with the Quito Airport, the achievement of lower than expected volumes of work in Western Canada and the failure of IST to secure anticipated contract levels. Risk factors are discussed in greater detail in the section on "Risk Factors" in the Annual Information Form filed on March 31, 2006 and available at 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.

Auditors' Report

To the Shareholders of Aecon Group Inc.

We have audited the consolidated balance sheets of Aecon Group Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Mississauga, Ontario
March 7, 2007

Consolidated Balance Sheets

As at December 31, 2006 and 2005 (in thousands of dollars)	**2006**	2005
Assets		
Current assets		
Cash and cash equivalents (note 3)	**$ 50,109**	$ 27,002
Restricted cash (note 3)	**13,195**	7,500
Restricted marketable securities and term deposits (note 3)	**15,224**	15,318
Accounts receivable	**208,689**	135,005
Holdbacks receivable	**58,282**	66,583
Deferred contract costs and unbilled revenue	**90,312**	82,058
Inventories	**9,045**	7,186
Prepaid expenses	**6,511**	1,763
	451,367	342,415
Property, plant and equipment (note 7)	**53,348**	56,116
Future income tax assets (note 6)	**19,046**	20,100
Concession rights (note 5)	**120,088**	–
Long-term investment (note 8)	**42,733**	41,273
Other assets (note 9)	**29,705**	44,518
	$ 716,287	$ 504,422

As at December 31, 2006 and 2005 (in thousands of dollars)		2006		2005
Liabilities **Current liabilities**				
Bank indebtedness (note 3)	**$**	**15,036**	$	8,312
Accounts payable and accrued liabilities		**190,020**		166,594
Holdbacks payable		**30,666**		38,021
Deferred revenue		**64,444**		29,274
Income taxes payable		**2,044**		1,779
Future income tax liabilities (note 6)		**23,160**		26,275
Other loan payable (note 20(b))		**–**		2,500
Current portion of long-term debt (note 10)		**4,797**		6,228
Convertible debenture (note 12)		**–**		7,676
		330,167		286,659
Long-term debt (note 10)		**81,120**		35,671
Other liabilities (note 13)		**3,062**		2,971
Other income tax liabilities (note 6)		**13,994**		13,634
Concession related deferred revenue (note 5(f))		**74,353**		–
Convertible debentures (note 12)		**59,988**		59,159
		562,684		398,094
Commitments and contingencies (note 14)				
Shareholders' Equity **Capital stock** (note 15)		**131,975**		95,985
Contributed surplus (note 15)		**1,329**		361
Convertible debentures (note 12)		**4,146**		4,982
Retained earnings		**16,543**		5,000
Cumulative foreign currency translation adjustments		**(390)**		–
		153,603		106,328
	$	**716,287**	$	504,422

Approved by the Board of Directors

John M. Beck, Director

Michael A. Butt, Director

Consolidated Statements of Operations

For the years ended December 31, 2006 and 2005		2006		2005
Revenues	**$**	**1,113,306**	$	1,120,244
Costs and expenses		**1,016,744**		1,053,413
		96,562		66,831
Marketing, general and administrative expenses		**62,458**		49,648
Foreign exchange (gains) losses		**(324)**		2,996
Loss (gain) on sale of assets		**68**		(629)
Depreciation and amortization		**14,613**		7,626
Interest expense, net (note 16)		**7,516**		9,307
		84,331		68,948
Income (loss) before income taxes and extraordinary item		**12,231**		(2,117)
Income taxes (recovery) (note 6)				
Current		**2,790**		(1,335)
Future		**(2,061)**		3,802
		729		2,467
Income (loss) before extraordinary item		**11,502**		(4,584)
Extraordinary gain, net of income taxes (note 18)		**–**		3,444
Net income (loss) for the year	**$**	**11,502**	$	(1,140)
Earnings (loss) per share before extraordinary item (note 15)				
Basic	**$**	**0.33**	$	(0.16)
Diluted	**$**	**0.31**	$	(0.16)
Net earnings (loss) per share (note 15)				
Basic	**$**	**0.33**	$	(0.04)
Diluted	**$**	**0.31**	$	(0.04)
Average number of shares outstanding (note 15)				
Basic		**35,157,471**		29,444,844
Diluted		**37,116,872**		33,136,178

Consolidated Statements of Retained Earnings

For the years ended December 31, 2006 and 2005		2006		2005
Retained earnings – beginning of year	**$**	**5,000**	$	6,111
Add (deduct):				
Net income (loss) for the year		**11,502**		(1,140)
Interest received on share purchase loans (note 15)		**41**		29
Retained earnings – end of year	**$**	**16,543**	$	5,000

Consolidated Statements of Cash Flows

For the years ended December 31, 2006 and 2005	2006	2005
Cash provided by (used in) **Operating activities**		
Net income (loss) for the year	**$ 11,502**	$ (1,140)
Items not affecting cash:		
Depreciation and amortization	**14,613**	7,626
Loss (gain) on sale of assets	**68**	(629)
Amortization of deferred financing charges	**680**	869
Extraordinary gain (note 18)	**–**	(4,122)
Unrealized (gain) loss on foreign exchange	**(405)**	2,646
Non-cash interest on other income tax liabilities	**360**	360
Notional interest representing accretion (notes 12 and 13)	**897**	859
Defined benefit pension (note 19)	**454**	(1,144)
Future income taxes	**(2,061)**	4,480
Stock-based compensation	**968**	171
	27,076	9,976
Change in other balances relating to operations (note 17)	**(28,720)**	(37,889)
	(1,644)	(27,913)
Investing activities		
Increase in restricted cash (note 3)	**(5,695)**	(7,500)
Decrease (increase) in restricted marketable securities and term deposits	**338**	(614)
Purchase of property, plant and equipment	**(4,059)**	(3,528)
Proceeds on sale of property, plant and equipment	**1,331**	2,070
Acquisitions (note 18)	**(901)**	(192)
Concession rights (note 5(d))	**(37,474)**	–
Long-term investment (note 8)	**–**	(4,348)
Increase in other assets (note 9)	**221**	(9,656)
Cash acquired on acquisition of a subsidiary, net of consideration paid (note 18)	**–**	1,896
	(46,239)	(21,872)
Financing activities		
Increase (decrease) in bank indebtedness	**6,708**	(3,325)
Issuance of other loan payable (note 20(b))	**–**	2,500
Repayment of other loan payable (note 20(b))	**(2,500)**	–
Issuance of long-term debt	**73,043**	45,948
Repayments of long-term debt	**(42,444)**	(51,370)
Increase in concession related deferred revenue (note 5(f))	**7,246**	–
Issuance of capital stock (note 15)	**27,423**	2,156
Interest received on share purchase loans (note 15)	**41**	29
Net proceeds from issuance of convertible debentures (note 12)	**–**	31,016
	69,517	26,954
Increase (decrease) in cash and cash equivalents	**21,634**	(22,831)
Effects of foreign exchange on cash balances	**1,473**	(306)
Cash and cash equivalents – beginning of year	**27,002**	50,139
Cash and cash equivalents – end of year	**$ 50,109**	$ 27,002

Supplementary disclosures (note 17)

Notes to Consolidated Financial Statements

December 31, 2006 and 2005 (in thousands of dollars, except per share amounts)

1) Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries, as well as its pro rata share of assets, liabilities, revenues, expenses, net income and cash flows of its joint ventures. Note 4 summarizes the effect of the joint ventures on these consolidated financial statements.

Use of significant accounting estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. A certain amount of uncertainty is inherent in estimating the costs of completing construction projects and estimating amounts ultimately realizable on unpriced change orders. The impact on the consolidated financial statements of future changes in these estimates could be material.

Cash and cash equivalents

The Company considers investments purchased with original maturities of three months or less to be cash equivalents. Cash held by joint ventures is for the sole use of joint venture activities.

Accounting for contracts

Revenue and income from fixed price construction contracts, including contracts in which the Company participates through joint ventures, are determined on the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs. This method is used because management considers expended costs to be the best available measure of progress on these contracts. Contract costs include all direct material and labour costs and those indirect costs relating to contract performance such as indirect labour and supplies, tools and repairs. For large multi-year fixed price contracts, income is recognized when progress reaches a stage of completion sufficient to reasonably determine the probable results, which is generally when the contract is 20% complete. Consulting contracts to manage or supervise construction activity of others are recognized only to the extent of the fee revenue. Revenues from cost plus fee contracts are recognized on the basis of costs incurred. Provision is made for anticipated contract losses as soon as they are evident. Contract revenues and costs are adjusted to reflect change orders that have been approved as to both price and scope. For change orders that have not been approved as to price, contract revenues are recognized to the extent of costs incurred or, if lower, to the extent to which recovery is probable. Profit on unpriced change orders is not recognized until pricing has been agreed. If, ultimately, there are disputes with clients on the pricing of change orders or disputes regarding additional payments owing as a result of changes in contract specifications, delays, additional work or changed conditions, the Company's accounting policy is to record all costs for these change orders but not to record any revenues anticipated from these disputes until actually resolved, even though the Company may believe that full compensation from clients is probable.

Deferred contract costs and unbilled revenues represent costs incurred and revenues earned in excess of amounts billed on uncompleted contracts. Deferred revenue represents the excess of amounts billed over costs incurred and revenue earned on uncompleted contracts. Contract advances are included in deferred revenue and represent advance payments received from clients for mobilization of project staff, equipment and services.

The operating cycle, or duration, of many of the Company's contracts exceeds one year. All contract related assets and liabilities of such contracts are classified as current as they are expected to be realized or satisfied within the operating cycle of the contract.

Inventories

Inventories are recorded at the lower of cost and net realizable value, with the cost of materials and supplies determined on a first-in, first-out basis and aggregate inventories determined at weighted average cost.

Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated amortization. Amortization of aggregate properties is calculated using the unit of extraction method. Depreciation of other property, plant and equipment is provided on a straight-line basis using annual rates that approximate the estimated useful lives of the assets as follows:

Buildings	20 to 40 years
Machinery and equipment	2 to 15 years

When joint ventures are established to perform single contracts and equipment is acquired for use during the contract and disposed of upon completion of the contract, the cost of such equipment, net of estimated salvage value, is treated as a contract cost and is not included in property, plant and equipment.

Property, plant and equipment and intangible assets are reviewed for impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the projected undiscounted future net cash flows and is measured as the amount by which the carrying value exceeds fair value.

Investments
Investments in entities where the Company exercises significant influence are accounted for using the equity method. These investments are recorded at cost plus the share of income or loss to date less dividends received.

Other investments, where the Company exercises neither significant influence nor control, are carried at cost. If there is other than a temporary decline in value, investments carried at cost are written down to provide for the loss.

Goodwill
Goodwill represents the excess of the cost of acquisitions over the fair value of net identifiable assets acquired. Goodwill is not amortized but is subject to an annual impairment test, or earlier when circumstances indicate impairment may exist. When the estimated fair value of goodwill is lower than its carrying amount, the difference is charged against income.

Income taxes
The Company follows the asset and liability method of tax accounting for future income taxes. Temporary differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates anticipated to apply in the periods when the temporary differences are expected to reverse. A valuation allowance is provided against future tax assets to the extent that recoverability cannot be considered to be more likely than not.

Employee benefit plans
The Company recognizes the cost of retirement benefits over the periods in which employees render services in return for the benefits. The Company sponsors defined contribution pension plans and defined benefit pension plans (which had their membership frozen as of January 1, 1998) for its salaried employees. The Company matches employee contributions to the defined contribution plans, which are based on a percentage of earnings for services rendered by the employees. For the defined benefit pension plans, current service costs are charged to operations as they accrue based on services rendered by employees during the year. Pension benefit obligations are determined by independent actuaries using management's best estimate assumptions, with accrued benefits pro-rated on service. Adjustments arising from plan amendments are amortized over the expected average remaining service life of the employee group. Actuarial gains and losses are amortized over the expected average remaining service life of the employee group if the adjustment is more than 10% of the greater of plan assets or benefit obligations. Amounts below the 10% threshold are not recognized in expense.

Asset retirement obligations
The fair value of the estimated future legal obligations for rehabilitation costs associated with the retirement of pits and a quarry utilized in aggregate mining operations is recognized as a liability when incurred. A corresponding increase in the carrying amount of the related asset is recorded and depreciated over the life of the asset. The liability is accreted over time through annual charges to earnings and is reduced by actual rehabilitation costs. The amount of the liability is subject to remeasurement at each reporting period and is subject to changes in regulatory requirements and cost estimates.

Leasehold inducements
Leasehold inducements are amortized on a straight-line basis over the term of the lease.

Stock-based compensation plans
The Company has stock-based compensation plans, as described in note 15. Stock options are issued at an exercise price no less than the market value of the Company's shares at the date of issuance. The Company uses fair value accounting for stock-based compensation.

Foreign currency translation
Monetary assets and liabilities of the Company, its foreign operations and joint ventures, except those of self-sustaining operations, are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are included in net income (loss) for the year.

The assets and liabilities of the Company's self-sustaining operations having a measurement currency that is not in Canadian dollars are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date, and revenues and expenses are translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred as a separate component of shareholders' equity.

All other foreign exchange gains or losses are included in the consolidated statements of operations.

Earnings (loss) per share
Basic earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method to compute the dilutive effect of stock options and the "if converted" method to compute the dilutive effect of convertible securities. Under the treasury stock

method, options are assumed to be exercised only when the exercise price is below the average price of the Company's stock, whereas under the "if converted method," convertible securities are assumed to be converted at the beginning of the period (or at time of issuance, if later).

2) Change in accounting policies

Effective October 1, 2005, the Company adopted Emerging Issues Committee Abstract EIC-155 ("The effect of contingently convertible instruments on the computation of diluted earnings per share"). This EIC impacts the calculation of diluted earnings per share when debt, which is contingently convertible, exists. Contingently convertible instruments are instruments that have embedded conversion features that are contingently convertible or exercisable based on a market price trigger. A market price trigger is a market condition that is based at least in part on the issuer's own share price. Under EIC 155, the effect of contingently convertible instruments should, if dilutive, be included in the computation of earnings per share regardless of whether the market price trigger has been met. Since the Company's debentures are not contingently convertible, adoption of this abstract had no impact on the Company's consolidated financial statements.

Effective January 1, 2005 the Company adopted Accounting Guideline ("AcG") 15 issued by The Canadian Institute of Chartered Accountants ("CICA"), which modifies the principles used in determining when and by whom entities are consolidated. In general, if a company is exposed to more than 50% of the economic risks of a variable interest entity, it is presumed to control the entity and must consolidate it, notwithstanding that its voting interest may be minimal. Two consolidation "models" are established under AcG 15 – a Voting Interest Model ("VOI") and a Variable Interest Model ("VIE"). The VOI model has been the standard for purposes of determining control and in order to continue to use the VOI model it must be demonstrated that equity holders as a group control the entity and that they are truly at risk. One of the tests is that there must be a minimum amount of equity, as it appears in the financial statements of the entity being assessed. If the VOI tests are not met, the VIE model must be used. Proportionate consolidation is not permitted under the VIE model.

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

(a) Cash and cash equivalents as at December 31, 2006 include $42,212 (2005 - $10,235) on deposit in joint venture and affiliate bank accounts which the Company cannot access directly. Restricted cash of $13,195 at December 31, 2006 (2005 - $7,500) represents cash that was deposited as collateral for borrowings and letters of credit issued by the Company, and as such, this cash was not available for general operating purposes. Restricted marketable securities and term deposits of $15,224 (2005 - $15,318) are held within joint ventures and cannot be accessed directly by the Company. These securities, which include holdback funds of $12,837 (2005 - $12,452) released by the owner on the Nathpa Jhakri hydro-electric project are pledged as collateral for letters of credit and are held in various interest bearing term deposits that mature in 2007. Also included in restricted marketable securities are term deposits of $2,387 (2005 - $2,866) pledged as security for a bank guarantee issued by the operator of the Cross Israel Highway to the company owning the concessionaire rights to the Cross Israel Highway.

(b) On July 31, 2006, the Company signed a new credit agreement with the Toronto Dominion Bank which provides for a $15,000 revolving operating line of credit. Previously, the Company had a $15,000 operating line with the Toronto Dominion Bank, of which $7,500 was secured by a cash collateral. The line is secured by general security agreements that include assignments of accounts receivable, holdbacks receivable and pledges of inventory and equipment. Amounts outstanding generally bear interest at Canadian or U.S. prime rate plus 1.25% (2005 - prime plus 1.25%). The facility has certain covenants to be calculated quarterly, and matures on July 30, 2007. Bank indebtedness related to this facility at December 31, 2006 was $6,823 and includes cheques issued but not cleared. In addition, $12,891 (2005 - $10,616) of the facility was utilized to secure letters of credit.

(c) Bank indebtedness also includes $8,213 (2005 - $8,196) representing the Company's proportionate share of bank loans of the joint venture that built the Nathpa Jhakri hydro-electric project in India, which bears interest at a weighted average rate of 8.8% (2005 - 6.8%). The full amount of the joint venture operating line and borrowings, amounting to $18,250 (2005 - $18,213), is secured by letters of credit that are jointly and severally guaranteed by the Company and by Hochtief AG ("Hochtief"), formerly the Company's largest shareholder. The Company and Hochtief have signed an indemnity agreement whereby the Company has agreed to pay Hochtief any amounts Hochtief is required to pay pursuant to this guarantee.

4) Joint ventures

The Company participates in several incorporated and unincorporated joint ventures and the consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues, expenses, net income and cash flows of these joint ventures.

(a) The following table sets out the Company's proportionate share of the assets, liabilities, venturers' equity, revenues, expenses, net income and cash flows of these joint ventures. Included in expenses in the determination of net income of joint ventures are income taxes for those entities that are separately liable for the payment of taxes. Income taxes are not included for joint ventures where income taxes are the responsibility of the joint venture partners. Income taxes included in joint venture expenses amounted to $455 (2005 - $552).

	2006	2005
Assets		
Current	**$ 138,931**	$ 84,055
Property, plant and equipment	**2,233**	2,049
Other	**125,481**	18,153
	$ 266,645	$ 104,257
Liabilities		
Current	**$ 73,031**	$ 43,595
Long-term	**137,740**	1,282
Venturers' equity	**55,874**	59,380
	$ 266,645	$ 104,257
Revenues	**$ 122,479**	$ 124,678
Expenses	**118,532**	120,040
Net income	**$ 3,947**	$ 4,638
Cash provided by (used in)		
Operating activities	**$ 18,521**	$ (6,392)
Investing activities	**(25,564)**	(5,958)
Financing activities	**37,702**	6,470
	$ 30,659	$ (5,880)

(b) The Company is either contingently or directly liable for obligations of its unincorporated joint ventures (notes 11 and 14). The assets of the joint ventures are available for the purpose of satisfying such obligations.

(c) The Company enters into transactions in the normal course of operations with its joint ventures, which are measured at the exchange amount, being the amount of consideration established and agreed to by the parties involved. During the year, the Company recognized revenues of $9,715 (2005 - $4,804) from its joint venture partners. At December 31, 2006, the Company has included in accounts receivable $5,000 (2005 - $2,785) owing from its joint ventures and has included in accounts payable and accrued liabilities $1,445 (2005 - $323) owing to its joint ventures.

5) Quito International Airport Project

The Company has recorded concession rights at December 31, 2006 as follows:

Concession rights to operate the Existing Quito Airport, net of accumulated amortization of $7,105	$ 59,717
Concession rights to operate the new Quito Airport	60,371
	$120,088

(a) **Background information**

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

The Company's partners in Quiport JV are: Andrade Gutierrez Concessoes of Brazil, Airport Development Corporation of Toronto and HAS Development Corporation of Houston, Texas, which is affiliated with the Houston Airport System. The right to the concession was provided by CORPAQ and the project's senior lenders are: USA-based Overseas Private Investment Corporation, Export-Import Bank of the United States, the Inter-American Development Bank and Export Development Canada ("EDC") (collectively the "Project Senior Lenders").

The Company will invest approximately US$33,670 in this project; US$13,650 having been invested prior to financial close and the balance to be invested over the construction period. The Company will use its expected cash profits from construction-related activities toward financing the Company's equity investment in Quiport JV.

On January 27, 2006, Quiport JV assumed control of the Existing Quito Airport operations and on June 28, 2006 financial close was achieved and the first tranche of financing was advanced by the Project Senior Lenders.

The construction contract for the new airport was signed on June 22, 2005 and the formal construction commencement date was July 12, 2006. The New Quito Airport will be constructed under a 51-month fixed-price Engineer-Procure-Construct contract signed between CORPAQ and Canadian Commercial Corporation ("CCC"), a Crown agency of the Canadian government. CORPAQ assigned the construction contract to Quiport JV. CCC subcontracted 100% of the construction work to the Company as its Canadian supplier, which then subcontracted 100% of the construction work to a 50%/50% joint venture consisting of the Company and Brazil's Construtora Andrade Gutierrez (the "Construction JV"). The Company will be the managing partner of the Construction JV.

(b) **Accounting for Quiport JV and Construction JV**

On June 28, 2006, the Company began accounting for these investments using the proportionate consolidation method, whereby the Company recognizes on its balance sheet its share of the assets and liabilities of both Quiport JV and Construction JV, and in its consolidated statement of operations, its share of the revenues and expenses of these joint ventures. For foreign currency translation purposes, Quiport JV is reported as a self-sustaining operation with a measurement currency of U.S. dollars, and Construction JV is reported as a fully integrated operation.

In accordance with GAAP, the Company's share of Construction JV's revenue and profits will be reduced by the Company's proportionate ownership interest in Quiport JV. The profits eliminated will be effectively recognized over the life of the New Quito Airport concession period. Under the Company's accounting policy for large multi-year contracts, profit is recognized only when construction progress reaches a stage of completion sufficient to reasonably determine the probable results (generally when the contract is 20% complete). To date, no construction profits have been recorded on this project.

(c) **Accounting for operations of the Existing Quito Airport**

As an inducement to develop and finance the new Quito International Airport, Quiport JV was given the right to operate and to benefit from the operations of the Existing Quito Airport while the new airport is being constructed. In accordance with GAAP, an entity acquiring an "in kind" asset must measure the asset at fair value as at the date of acquisition. Therefore, in accounting for the right to operate the Existing Quito Airport, Quiport JV has fair valued this right and recorded an intangible asset (being the "Concession Rights") on its consolidated balance sheet. The Company's proportionate share of this asset was assigned a value of US$57,337 or Canadian equivalent of $64,000 at the date of the acquisition following an independent valuation of the inducement. Quiport JV amortizes the Concession Rights over the remaining term of the right to operate the Existing Quito Airport, and amortization is based on usage (estimated traffic volumes). The offsetting concession related deferred revenue balance (which is the value of the inducement received by Quiport JV to develop and finance the New Quito Airport) will be amortized to earnings over the term of the New Quito Airport concession period. Consequently, income earned from the operation of the Existing Quito Airport, which will be recognized in the normal fashion, will be reduced by the amount of the annual amortization charge related to the Existing Quito Airport Concession Rights.

(d) **Accounting for the costs of the New Quito Airport**

At December 31, 2006, costs incurred of $60,371, representing the Company's proportionate share to construct the New Quito Airport, have been recorded as Concession Rights to operate the New Quito Airport. Amortization of the Concession Rights to operate the New Quito Airport will commence after construction of the New Quito Airport is completed. As a result, there is no amortization expense recorded in the current period results.

(e) **Quiport JV long-term debt**

Subsequent to achieving financial close of the Quito International Airport Project, US$114,592 of senior project financing was advanced to Quiport JV by the Project Senior Lenders. The total financing commitment made by the Project Senior Lenders to Quiport JV is US$376,388.

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

- U.S. 91-day treasury bill rate plus 4% margin (53% of the total financing commitment);
- six-month LIBOR rate plus 4.5% (20% of the total financing commitment);
- 4.9% plus exposure fee of 26.51% on disbursed amounts (17% of the total financing commitment); and
- 10.32% (10% of total financing commitment).

Included in the Company's consolidated balance sheet at December 31, 2006, is debt of US$52,139 (CAD$60,763) representing the Company's proportionate share of Quiport JV debt. This debt is secured by the assets of Quiport JV and is without recourse to the Company.

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

As at December 31, 2006, Quiport JV was in breach of certain non-financial debt covenants. These defaults primarily related to pre-closing conditions that were waived by the lenders at financial close and which continue to be waived by the lenders. Should it be necessary, the Company believes that it can obtain additional waivers from its lenders during 2007 related to the breaches of these non-financial covenants.

(f) **Concession related deferred revenue**

As part of acquiring the rights to operate the Existing Quito Airport (see note 5(c) above), the Company recorded US$57,337 or Canadian equivalent at year-end exchange rates of $66,822 of concession related deferred revenue representing the estimated value of the "inducement" received by Quiport JV to develop and finance the New Quito Airport. This deferred revenue amount will be amortized to earnings over the term of the New Quito Airport concession period.

As at June 28, 2006, CORPAQ also provided Quiport JV with net assets of $4,541, representing net assets received by Quiport JV between the date the concession went into effect (January 27, 2006) and the date of financial close (June 28, 2006). This amount represents an additional inducement and has been classified as concession related deferred revenue in the consolidated balance sheets. As with the other concession related deferred revenue amounts noted above, this balance will be amortized to earnings over the term of the New Quito Airport concession period.

The Company also received $2,990 in development funds and cost reimbursements related to the Quito airport project, which have been recorded as concession related deferred revenue. This deferred revenue balance will be amortized to earnings over the term of the New Quito Airport concession period.

(g) **Guarantees**

In connection with the Quito International Airport Project, the Company has provided letters of credit of US$22,000 (CAD$25,639) in support of its remaining equity obligations, and for various project contingencies of US$30,203 (CAD$35,199). These letters of credit are supported by guarantees issued on behalf of the Company to the issuing banks by EDC and will remain in place until the Company's equity obligations are fulfilled and the conditions giving rise to the contingencies are satisfied or cleared. As a result of EDC issuing these guarantees, the Company was required to place in deposit with EDC the sum of US$1,000 (CAD$1,165), which is included in restricted cash at December 31, 2006.

The Company has also issued a letter of credit to secure an advance received from the Construction JV in the sum of US$9,500 (CAD$11,071). The cash received was used as collateral for the letter of credit.

In addition, the Company and Andrade Gutierrez have provided surety bonds, guaranteed joint and severally, to cover construction and concession related performance obligations of US$67,055 (CAD$78,146), an advance payment bond of US$74,466 (CAD$86,783) and a retention release bond of US$20,685 (CAD$24,106), in each case the Company's share is supported by guarantees issued by EDC.

6) 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:

	2006	2005
Income (loss) before income taxes and extraordinary item	**$12,231**	$ (2,117)
Statutory income tax rate	**36.1%**	36.1%
Expected income tax expense (recovery)	**4,418**	(765)
Effect on income tax of		
(Decrease) increase in the valuation allowance	**(6,664)**	219
Impact of change in substantively enacted tax rates on future tax balances	**1,510**	–
Provincial and foreign rate differentials	**(215)**	(29)
Non-deductible expenses	**945**	431
Foreign exchange translation losses	**46**	1,156
Other foreign exchange losses	**–**	957
Large corporations tax	**–**	325
Other	**689**	173
	(3,689)	3,232
Income tax expense	**$ 729**	$ 2,467

The Company and certain subsidiaries have accumulated non-capital income tax loss carry-forwards of approximately $125,175 (2005 - $152,467), which may be used to reduce future taxable income and expire in the following years:

2007	$ 20,913
2008	4,225
2009	7,457
2010	36,856
2014	29,143
2015	22,357
2026	4,224
	$ 125,175

The components of future income taxes are as follows:

	2006	2005
Net operating and capital losses carried forward	**$ 42,412**	$ 54,830
Reserves expensed for financial statement purposes and deducted for income tax purposes when paid	**2,148**	1,230
Property, plant and equipment: Net book value in excess of tax basis	**(579)**	(1,837)
Long-term contracts, including joint ventures[1]	**(26,037)**	(28,288)
Other temporary differences	**729**	784
Other long-term differences	**3,423**	(20)
Total future income tax assets	**22,096**	26,699
Valuation allowance	**(26,210)**	(32,874)
Future income taxes, net	**$ (4,114)**	$ (6,175)
Classified as:		
Long-term future income tax assets	**$ 19,046**	$ 20,100
Current future income tax liabilities	**(23,160)**	(26,275)
Total future income tax liabilities	**$ (4,114)**	$ (6,175)

(1) Results from the difference between the use of percentage of completion method of reporting for financial statement purposes and use of uncompleted contracts and billings less costs, excluding contractual holdbacks, for tax purposes.

The operations of the Company are complex and related tax interpretations, regulations and legislation are subject to change. The Company believes that the amount reported as other income tax liabilities adequately reflects management's current best estimate of its income tax exposures (see note 14(d)).

7) Property, plant and equipment

		2006	
	Cost	**Accumulated depreciation and amortization**	**Net**
Land and improvements	**$ 6,263**	**$ –**	**$ 6,263**
Buildings	**16,630**	**3,887**	**12,743**
Aggregate properties	**13,804**	**4,204**	**9,600**
Machinery and equipment	**67,350**	**42,608**	**24,742**
	$ 104,047	**$ 50,699**	**$ 53,348**

		2005	
	Cost	Accumulated depreciation and amortization	Net
Land and improvements	$ 6,263	$ –	$ 6,263
Buildings	16,237	3,057	13,180
Aggregate properties	13,804	3,210	10,594
Machinery and equipment	69,022	42,943	26,079
	$ 105,326	$ 49,210	$ 56,116

Included in property, plant and equipment is equipment of $10,192 (2005 - $10,106) held under capital leases, with accumulated depreciation of $3,684 (2005 - $3,263).

8) Long-term investment

The long-term investment in the amount of $42,733 at December 31, 2006 (2005 - $41,273) represents the Company's 25.0% investment, which is carried at cost, in Derech Eretz Highways (1997) Ltd. ("Derech Eretz"), the company that owns the concessionaire rights to the Cross Israel Highway. Under the terms of the concession contract with the State of Israel and lender agreements, the Company is required to obtain approvals in order to sell all or a portion of this investment. In addition, existing shareholders have a right of first refusal to acquire this investment in the event of a sale and also are entitled to participate on a pro rata basis in the event of a sale to a third party. On January 24, 2005, the Company increased its interest in Derech Eretz from 22.2% to 25%. The purchase price for the increased stake was US$3,500 (CAD$4,348). On February 16, 2006, pursuant to an agreement reached with the project lenders, the shareholders of Derech Eretz purchased certain options held by lenders. The lenders' options would have allowed the lenders to purchase directly from the existing shareholders a portion of their equity and subordinated debt of the concessionaire. The Company's pro rata share of the purchase price was US$1,250 (CAD$1,460). Pursuant to an agreement with the State of Israel, the Company's interest in Derech Eretz would be diluted to approximately 12% if options granted are exercised.

9) Other assets

	Notes	2006	2005
Goodwill	(a)	**$ 9,427**	$ 8,154
Long-term receivables	(b)	**6,968**	6,145
Income tax deposit (note 14(d))		**5,414**	5,414
Loans receivable	(c)	**3,428**	3,639
Pension assets (note 19)		**1,788**	2,242
Deferred financing charges	(d)	**1,494**	2,114
Deferred costs	(e)	**–**	15,431
Other	(f)	**1,186**	1,379
		$ 29,705	$ 44,518

(a) In 2006, goodwill related to the 2004 acquisition of Cegerco CCI Inc ("Cegerco"), was increased by $1,273. This goodwill represents the additional consideration payable as a result of the achievement of certain financial targets by the Cegerco operations.

(b) Long-term receivables of $6,968 (2005 - $6,145) include $5,706 (2005 - $4,981) representing the Company's share of an amount due from Derech Eretz to the construction joint venture that built the highway, and in which the Company has a 33.3% interest. The receivable relates to certain expansion work done on the highway at Derech Eretz's request. Derech Eretz will make payments over the period from 2007 to 2010. The receivable, which is denominated in New Israeli Shekels, has been discounted at a rate of 5.5%.

Also included in long-term receivables is $1,262 (2005 - $1,164) due from Derech Eretz Telecom Ltd., a wholly owned subsidiary of Derech Eretz. The receivable is payable in annual instalments including compounded interest at 6% annually. The payment amounts are not fixed and are based on the net cash flow of the borrower. Loan and interest payments are to be made on December 31st of each year and full payment must be made no later than December 31, 2009.

(c) Loans receivable include $2,738 (2005 - $2,706) from Capital Projects Group Inc. ("CPGI"), which is due on December 31, 2008. This company has a 7.5% indirect interest in Strait Crossing Development Inc. ("SCDI"), which owns and operates the Confederation Bridge in eastern Canada. Security for the loan is 60 common shares of SCDI. Interest is at TD Canada Trust's prime rate. CPGI may upon the provision of 30 days' prior written notice to the Company elect to fix the rate of interest at TD Canada Trust's prime rate on the date notice is provided plus 0.75% per annum.

Also included in loans receivable are loans to directors, senior officers and employees in the amount of $518 (2005 - $544). These loans are unsecured and bear interest, which is payable quarterly at Canada Revenue Agency's prescribed quarterly rates. Repayment terms for principal vary, with some loans requiring fixed quarterly repayments and others having flexible repayment terms.

(d) Deferred financing charges include $1,494 (2005 - $2,114) that relate to the issuance of the two convertible debentures, which are described in note 12(b). These charges are being amortized as interest expense over the term of the debentures.

(e) Deferred costs at December 31, 2005 represent the Company's share of development costs net of recoveries related to the Quito airport project in Ecuador, which were incurred subsequent to the date of awarding of the construction contract and prior to the financial close. In 2006, these costs were recovered upon achieving financial close on the project.

(f) Other includes definite life intangible assets of $737 (2005 - $954).

10) Long-term debt

	Notes	**2006**	2005
Quiport JV Project Senior Lenders debt (note 5(e))	(a)	**$ 60,763**	$ –
Revolving term loan	(b)	**–**	21,851
Capital leases and equipment loans	(c)	**11,082**	15,019
Mortgages	(d)	**4,917**	5,029
Quiport JV CORPAQ debt	(e)	**5,614**	–
Derech Eretz investment loan (note 8)	(f)	**1,457**	–
Investment loan	(g)	**1,923**	–
Other		**161**	–
		85,917	41,899
Less: Amounts due within one year		**4,797**	6,228
		$ 81,120	$ 35,671

The following describes the components of long-term debt:

(a) The Company's proportionate share of the Quiport JV Project Senior Lenders long-term debt at December 31, 2006 is $60,763 (2005 - $nil). See note 5(e) for further details.

(b) The Company has a $20,645 (2005 - $21,851) revolving term loan facility, principally secured by first position collateral mortgages over certain of the Company's real estate assets and its aggregate reserves on such properties. The loan is available in either Canadian or U.S. dollars. The maximum availability under the facility reduces annually according to a mortgage-style amortization schedule based on an assumed 7% interest rate and a fifteen-year amortization period. Interest on borrowings under the facility is based on reference rates established and re-established by the Lender on a monthly basis by reference to U.S. LIBOR, Canadian prime or 30-day Canadian bankers' acceptances. At December 31, 2006 there were no borrowings under the facility. At December 31, 2005, the full amount of $21,851 had been borrowed under the facility and bore interest at 6.1%. Three years after December 31, 2006, the Lender may reduce the maximum facility amount to the extent that it exceeds 60% of the appraised value of the loan collateral. At that time, the applicable interest margins can also be re-established at the Lender's discretion up to a maximum increase of 50 basis points.

(c) At December 31, 2006, capital leases and equipment loans bore interest at fixed and floating rates averaging 6.8% (2005 - 6.6%) per annum, with specific equipment provided as security.

(d) Mortgages are secured by certain of the Company's real estate assets. Of the amounts outstanding, $4,917 (2005 - $5,029) are for a term of ten years at a fixed rate of interest of 7.6% (2005 - 7.6%) and require monthly principal and interest payments amortized over 25 years.

(e) Quito JV CORPAQ debt of $5,614 (2005 - $nil) represents the Company's proportionate share of an amount due to CORPAQ by Quiport JV and related to construction of the Quito airport project. Quiport JV will make payments over the period from 2007 to 2012. The debt, which is denominated in United States dollars, has been discounted at the rate of 10.65%.

(f) As described in note 8, the shareholders of Derech Eretz purchased certain options held by project lenders. The Company's pro rata share of the purchase price was financed by a loan from the other shareholders in Derech Eretz. At December 31, 2006, the balance outstanding on the loan was US$1,250 (CAD$1,457) (2005 - $nil). The loan bears interest at 6% per annum and is repayable from future distributions available to the Company from Derech Eretz or the construction joint venture.

(g) The Company borrowed US$1,650 (CAD$1,923) from Airport Development Corporation ("ADC"), a joint venture partner in the Quito International Airport project. This loan which is non-interest bearing was used to fund a portion of the Company's equity contributions in the project and will be fully repaid by October 31, 2009.

The weighted average interest rate on long-term debt outstanding at the end of the year was 7.0% (2005 - 6.4%).

Repayments of long-term debt required within the next five years, including the convertible debentures described in note 12, are as follows:

2007	$ 4,797
2008	11,730
2009	31,373
2010	32,199
2011	8,385
Thereafter	57,421
	$ 145,905

11) Guarantees

The Company has outstanding guarantees amounting to $25,905 (2005 - $25,668) in support of financial and performance related obligations for the Nathpa Jhakri hydro-electric project in India, which has also been guaranteed by Hochtief, the parent of the Company's former principal shareholder. The Company and Hochtief have signed an indemnity agreement whereby the Company has agreed to pay Hochtief any amounts Hochtief is required to pay pursuant to this guarantee.

In connection with the Cross Israel Highway project, the Company has provided two joint and several guarantees, a continuous guarantee, which guarantees the performance of the concessionaire in which the Company has a 25% interest and a leakage guarantee, which is a guarantee by the operator of the toll highway, in which the Company has a 30.60% interest, to the concessionaire and covers toll capture and collection rates generated from users of the highway during the operating period. These guarantees extend to the end of the concession period which ends in 2029. The continuous guarantee is in the amount of US$8,100 (CAD$9,440) (2005 - US$8,100 or CAD$9,420) and is renewed annually to its full amount, irrespective of any drawings made thereunder. The leakage guarantee came into effect when construction was completed and is renewable annually for the lesser of NIS33,000 plus escalation to date (CAD$12,470) (2005 - NIS33,000 plus escalation or CAD$11,397) or 6% of annual toll revenue.

In addition to the above, the Company has provided letters of credit in the amounts of US$200 (CAD$233) in support of working capital requirements of the operator of the toll highway, and NIS2,400 (CAD$663) to support a bid bond that was required by the concessionaire in connection with the construction of an extension to the Cross Israel Highway. These letters of credit are secured by cash.

The Company has also issued performance guarantees of $1,041 (2005 - $4,965) in respect of certain other international projects, which are supported by guarantees issued to the Company by EDC.

In addition, the Company has also issued, in the normal course of operations, guarantees amounting to $12,891 (2005 - $10,616) in support of financial and performance related obligations for certain domestic projects.

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. Circumstances that could lead to a loss include a partner's inability to contribute additional funds to the venture in the event that the project incurs a loss or additional costs that the Company could incur should the partner fail to provide the contractually committed services and resources. At December 31, 2006, the value of uncompleted work for which the Company's joint venture partners are responsible, and for which the Company could be responsible for assuming, amounted to approximately $428,694 (2005 - $40,276), a substantial portion of which is supported by performance bonds. In the event the Company assumed this additional work, it would have the right to receive the partner's share of billings to the project owners pursuant to the joint venture contract.

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

Details regarding the Company's investment and related obligations in the Quito International Airport Project are described in note 5(g).

12) Convertible debentures

Convertible subordinated debentures consist of:

	2006	2005
Debt component:		
(a) Debenture maturing June 30, 2006	**$ –**	$ 7,676
(b) Debenture maturing November 2, 2009	**28,872**	28,474
(b) Debenture maturing March 17, 2010	**31,116**	30,685
	$ 59,988	$ 66,835
Reported as:		
Current liability	**$ –**	$ 7,676
Long-term liability	**59,988**	59,159
	$ 59,988	$ 66,835
Equity component:		
(a) Debenture maturing June 30, 2006	**$ –**	$ 836
(b) Debenture maturing November 2, 2009	**1,990**	1,990
(b) Debenture maturing March 17, 2010	**2,156**	2,156
	$ 4,146	$ 4,982

(a) In March 2006, Hochtief exercised its option to convert convertible debt with a face value of $7,731 into 2,147,566 common shares at a conversion price of $3.60 per share.

(b) In November 2004, the Company issued $30,000 in unsecured, subordinated convertible debentures maturing November 2, 2009. The debentures bear interest at the rate of 8.25% per annum payable on a semi-annual basis. At the holder's option, the convertible debentures may be converted into common shares at any time up to the maturity date at a conversion price of $7.50 for each common share, subject to adjustment in certain circumstances. The convertible debentures will not be redeemable before November 2, 2007. From November 2, 2007 through to the maturity date the Company may, at its option, redeem the convertible debentures, in whole or in part, at par plus accrued and unpaid interest provided that the weighted average closing price of the common shares on the Toronto Stock Exchange during a specified period prior to redemption is not less than 125% of the conversion price.

In March 2005, the Company issued $32,500 in unsecured, subordinated convertible debentures maturing March 17, 2010. The debentures bear interest at the rate of 8.25% per annum payable on a semi-annual basis. At the holder's option, the convertible debentures may be converted into common shares at any time up to the maturity date at a conversion price of $7.60 for each common share, subject to adjustment in certain circumstances. The convertible debentures will not be redeemable before March 18, 2008. From March 18, 2008 through the maturity date the Company may, at its option, redeem the convertible debentures, in whole or in part, at par plus accrued and unpaid interest provided that the weighted average closing price of the common shares on the Toronto Stock Exchange during a specified period prior to redemption is not less than 125% of the conversion price.

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

In determining the amount of the debt and equity components of the convertible debentures, the carrying amount of the financial liability is first determined by discounting the stream of future payments of interest and principal at the rate of interest prevailing at the date of issue for instruments of similar term and risk. The equity component equals the amount determined by deducting from the carrying amount of the compound instrument the amount of the debt component.

Interest expense on the debentures is composed of the interest calculated on the face value of the debentures, which amounted to $62,500 at December 31, 2006 (2005 - $70,231), an annual notional interest representing the accretion of the carrying value of the debentures, and amortization of deferred financing costs. Interest recorded was as follows:

	2006	2005
Interest expense on face value	**$ 5,253**	$ 5,029
Notional interest representing accretion	**852**	848
Amortization of deferred financing costs	**588**	540
	$ 6,693	$ 6,417

The liability portion of the debentures is as follows:

	2006	2005
Financial liability component	**$ 58,354**	$ 65,249
Notional interest representing accretion	**1,634**	1,586
	$ 59,988	$ 66,835

13) Other liabilities

	2006	2005
Leasehold inducements	**$ 2,080**	$ 2,260
Asset retirement obligations	**982**	711
	$ 3,062	$ 2,971

Asset retirement obligations

The Company recognizes asset retirement obligations and associated long-lived assets related to the rehabilitation costs of pits and a quarry engaged in aggregate mining operations in Ontario.

	2006	2005
Asset retirement obligation liability, beginning of year	**$ 711**	$ 524
Increase in obligation	**225**	156
Accretion expense	**46**	31
Asset retirement obligation liability, end of year	**$ 982**	$ 711

The total undiscounted amount of the estimated cash flows required for rehabilitating the pits and quarry is approximately $12,300. Rehabilitation costs are expected to be settled between 2016 and 2075. A 3% inflation factor has been applied to obtain the future value of the rehabilitation costs, which has then been discounted at 6% to obtain the present value of the obligation.

14) Commitments and contingencies

(a) The Company has commitments for equipment and premises under operating leases, which require the following future minimum payments:

2007	$ 16,508
2008	12,261
2009	9,716
2010	6,071
2011	3,750
Beyond	10,464
	$ 58,770

(b) The Company is involved in various claims and litigation both as plaintiff and defendant. In the opinion of management, the resolution of claims against the Company will not result in a material effect on the financial position of the Company. Any settlements or awards will be reflected in the consolidated statements of operations, as the matters are resolved.

(c) The Company is contingently liable for the usual contractor's obligations relating to performance and completion of construction contracts and for the obligations of its venturers in unincorporated joint ventures, the assets of which are available to settle any claims that may arise in the joint ventures.

(d) During 2001, the Company received federal income tax reassessments relating to deductions claimed by predecessor companies between 1993 and 1999. The reassessments, which disallow previously claimed Canadian development expense ("CDE") deductions, amounted to $10,581 at December 31, 2006. Provincial income tax reassessments related to the disallowed CDE and received to date amount to $804. Although the Company has filed Notices of Objection, it was required to pay 50% of the federally assessed amounts and 100% of the Ontario provincial assessments pending resolution of the objections. At December 31, 2006, the Company had paid $5,414 resulting from these assessments. To-date, Canada Revenue Agency has not responded to the Notices of Objection. The total potential federal and provincial reassessments, including income taxes, interest and penalties could be up to $17,786. The Company believes it has adequate income tax provisions to cover the ultimate outcome of these reassessments.

(e) In June 2005, the joint venture involved in the construction of the Nathpa Jhakri Project in India, in which the Company has a 45% interest, was advised by the owner, Satluj Jal Vidyut Nigam Ltd. ("SJVN") (formerly Nathpa Jhakri Power Corporation Limited) of its intention to levy liquidated damages against the joint venture in the amount of $30,393 for alleged delay damages resulting from not completing the contract on time. Since the delay in the completion of the project was caused by numerous items outside of the joint venture's control and contractual responsibility, including, among many other things, a catastrophic flood in 2002, the joint venture believes that these claims for liquidated damages are unsubstantiated, unwarranted and without legal merit. The joint venture also believes that even in the unlikely situation that it might be found responsible (through arbitration hearings that are currently in progress) for some part of the delay, this did not result in any actual damages to SJVN, then as a matter of law, liquidated damages cannot be enforced. The joint venture's conclusion regarding the impermissibility of SJVN to enforce liquidated damages is supported by two independent legal opinions. The joint venture had previously submitted for arbitration claims of approximately $111,825 against SJVN, the most significant of which is to cover the joint venture's cost of extra work and delays related to these same matters. This is in addition to $9,535, which was previously received by the joint venture and is included in the joint venture's profit estimate for this project. These claims have been subsequently revised to an amount of $96,158 as a result of findings during the course of the arbitration proceeding. Based on all of the above, no provision has been made for the liquidated damages nor has any amount been recognized for potential recoveries under the claims. This treatment is in accordance with the Company's accounting policy, which is to recognize revenues from claims only when resolved. The arbitration process is nearly complete and a decision is expected in the first half of 2007. As at December 31, 2006, the Company's balance sheet reflects net assets of $13,748 related to this contract.

It should be noted that all amounts quoted in the preceding paragraph are based on foreign currency amounts that have been translated into Canadian dollars at exchange rates effective on December 31, 2006.

(f) The Company is a party to a lawsuit related to its prior involvement in the construction of a grain terminal in Gdansk, Poland whereby the Company guaranteed the payment of a promissory note for US$2,500. The note was originally due on July 12, 2001. As a result of certain alleged contractual breaches and misrepresentations by the other parties involved, the Company has taken the position that the guarantee is not enforceable. The lawsuit seeks to enforce the guarantee

and other damages amounting to, according to the plaintiffs, Canadian $5,300. The Company disputes the validity of the guarantee and the obligation to pay thereunder and is vigorously defending the litigation. The Company has filed a Canadian $30,000 counter claim alleging various grounds including misrepresentation and breach of contract. The Company believes it has a sound position to defend this claim and believes that the liability that it has recorded in its accounts should be sufficient to cover the net liability, if any, to the Company upon ultimate resolution of this litigation.

(g) The Company is currently engaged in a joint venture with Hochtief in the construction of a hydro-electric facility in northern Quebec for Société d'énergie de la Baie James, a subsidiary of Hydro Quebec (the "Eastmain Project"). To date, the Eastmain Project has incurred cost overruns, primarily because of customer changes to the original contract scope. The Company is currently negotiating with Hydro Quebec for a full recovery of these cost overruns and expects that it will be successful in doing so. Should the Company not be successful in recovering these cost overruns, its financial results and position would be adversely impacted by a material amount.

(h) During the year, Quiport JV exercised its right under its concession contract to increase tariffs for services rendered to the airlines using the Existing Quito Airport. These increased tariffs are being challenged by the various airlines. Should Quiport's rights to the recent and future tariff increases be restricted or reduced, the reported value of concession rights related to the Existing Quito Airport could be materially reduced.

With respect to other commitments and contingencies relating to the Company's investment in the Quito International Airport project, see note 5.

15) Capital stock

	2006		2005	
	Number of shares issued	**Amount**	Number of shares issued	Amount
Balance – beginning of year	**31,180,609**	**$ 95,985**	30,524,609	$ 93,829
Common shares issued on exercise of options	**275,000**	**990**	656,000	2,156
Common shares issued, less expenses of $1,551[(i)]	**4,680,000**	**27,699**	–	–
Common shares issued on conversion of debentures[(ii)]	**2,147,566**	**8,567**	–	–
Common shares purchased by the trust of the long-term incentive program[(iii)]	**(213,346)**	**(1,266)**	–	–
Balance – end of year[(iv)]	**38,069,829**	**$ 131,975**	31,180,609	$ 95,985

(i) On March 17, 2006, the Company issued 4,500,000 common shares at $6.25 per share. On April 18, 2006, an Over-Allotment Option was exercised and the Company issued an additional 180,000 common shares at $6.25 per share. Net proceeds, after deducting agents' fees and expenses of the entire issue, were approximately $27,699.

(ii) Hochtief exercised its option to convert convertible debt with a face value of $7,731 into 2,147,566 common shares at a conversion price of $3.60 per share. In addition, share capital was increased by $836 representing the equity portion of the convertible debentures that was previously classified as a separate component of shareholders' equity.

(iii) In accordance with the recommendations of the CICA on accounting for variable interest entities, share capital and shares outstanding have been reduced to reflect shares purchased by the Trust administrating the Company's Long-Term Incentive Plan. As at December 31, 2006, the Trust held 213,346 shares with a cost basis of $1,266 (2005 - $nil).

(iv) In accordance with the recommendations of the CICA on accounting for share purchase loans receivable from employees, such loans, except in certain circumstances are required to be presented as deductions from shareholders' equity. Accordingly, loans totalling $1,084 (2005 - $1,084) are presented as a deduction from capital stock. Interest received on such loans, after provision for income taxes, amounted to $41 (2005 - $29) and is accounted for as a capital transaction in shareholders' equity.

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

Pursuant to an agreement in connection with the provision of bonds on the Quito International Airport Project, the Company is restricted from paying dividends, except for an aggregate of $10,000 per fiscal year.

On June 21, 2005, the Company's shareholders approved a new stock option plan (the "2005 Stock Option Plan") to replace the previous 1998 Stock Option Plan. The aggregate number of common shares that can be issued under the 2005 Stock Option Plan shall not exceed 2,500,000. As at December 31, 2006, 950,000 common shares were issued under the 2005 Stock Option Plan. Similar to the 1998 Stock Option Plan, each option issuance under the 2005 Stock Option Plan specifies the period for which the option thereunder is exercisable (which in no event shall exceed ten years from the date of grant) and shall provide that the option shall expire at the end of such period. The Company's Board of Directors will determine the vesting period on the dates of option grants. Details of common shares issued upon the exercise of options under the 2005 Stock Option Plan, as well as details of changes in the balance of options outstanding are detailed below:

2005 Stock Option Plan		**2006**		2005
	Shares	**Weighted average exercise price**	Shares	Weighted average exercise price
Balance outstanding at beginning of year	**100,000**	**$ 5.51**	–	$ –
Granted	**1,000,000**	**6.25**	100,000	5.51
Forfeited	**(150,000)**	**6.25**	–	–
Balance outstanding at end of year	**950,000**	**$ 6.17**	100,000	$ 5.51
Options exercisable at end of year	**283,333**	**$ 6.16**	–	$ –

Options currently outstanding under the 2005 Stock Option Plan have the following exercise prices and expiry dates:

Options granted in	Number of shares	Exercise price	Expiry date
2005	100,000	$ 5.51	November 7, 2010
2006	850,000	$ 6.25	March 27, 2011

The options granted in 2005 have a term of five years from the date of grant and vest on the anniversary date of the grant at the rate of one-third per annum of the total number of share options granted. The options granted in 2006 have a term of five years from the date of grant and vest one-quarter immediately and one-quarter per annum thereafter on the anniversary date of the grant.

The Company has adopted fair value accounting for options granted after 2001 to employees and records compensation expense upon the issuance of stock options under its 1998 and 2005 Stock Option Plans. The fair value is estimated on the date of grant using the Black-Scholes fair value option pricing model and compensation expense is amortized over the three-year vesting period of the options. During the year, compensation expense was increased by $903 (2005 - $nil) and contributed surplus was increased by the same amount, on account of options granted under the 2005 Stock Option Plan.

The fair value was estimated on the date of grant using the Black-Scholes fair value option pricing model using the following assumptions:

	2006
Dividend yield	0%
Expected volatility	32%
Risk free interest rate	4%
Weighted average expected life (years)	3.25

The granting of options under the 1998 Stock Option Plan ceased effective June 21, 2005. However, this does not affect the rights granted under this plan to the holders of 250,000 options that were previously issued and remain outstanding under this plan. Details of common shares issued upon the exercise of options under the 1998 Stock Option Plan, as well as details of changes in the balance of options outstanding are detailed below:

1998 Stock Option Plan		**2006**		2005
	Shares	**Weighted average exercise price**	Shares	Weighted average exercise price
Balance outstanding at beginning of year	**525,000**	**$ 4.58**	1,181,000	$ 4.05
Exercised	**(275,000)**	**3.60**	(656,000)	3.63
Balance outstanding at end of year	**250,000**	**$ 5.66**	525,000	$ 4.58
Options exercisable at end of year	**200,000**	**$ 5.51**	391,667	$ 4.14

Options under the 1998 Stock Option Plan were exercised during the year for 275,000 shares (2005 - 656,000) for which share capital was increased by $990 (2005 - $2,156). Options currently outstanding have the following exercise prices and expiry dates:

Options granted in	Number of shares	Exercise price	Expiry date
2003	100,000	$ 4.75	April 1, 2008
2004	100,000	$ 6.30	August 3, 2009
2004	50,000	$ 6.20	November 30, 2009

The options granted have a term of five years from the date of grant and vest on the anniversary date of the grant at the rate of one-third per annum of the total number of share options granted.

During the year, compensation expense of $65 (2005 - $171), and contributed surplus were increased by the same amounts on account of options granted under the 1998 Stock Option Plan.

Long-Term Incentive Plan

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

The number of shares awarded to participants is based on the financial results of the Company. Awards will be made in the form of Deferred Share Units ("DSUs") or in the form of restricted shares. Awards made in the form of DSUs will vest only upon the retirement or termination of the participant. Awards made in the form of restricted shares will vest annually over three years. Compensation charges related to the LTIP are expensed over the estimated vesting period of the awards. Awards made to retirement eligible individuals are assumed for accounting purposes to vest immediately. In 2006, the Company recorded compensation charges of $101 (2005 - $1,266).

The LTIP Trust (the "Trust") currently holds 213,346 shares at December 31, 2006 (2005 - nil shares).

The Company has determined that it holds a variable interest in the residual equity of the Trust upon dissolution of the Trust and, as such the Trust meets the criteria of a variable interest entity that requires consolidation by the Company in accordance with the CICA Accounting Guideline No. 15 "Consolidation of Variable Interest Entities."

Earnings per share

Details of the calculations of earnings and loss per share are set out below. For purposes of calculating basic earnings or loss per share, the number of common shares has been reduced by 1,584,963 (2005 - 1,584,963) common shares on account of share purchase loans receivable from employees. For purposes of calculating diluted income or loss per share, these shares have been treated as options.

			2006
	Income (numerator)	**Shares (denominator)**	**Per share**
Net earnings per share			
Net income for the year	**$ 11,502**	**35,157,471**	**$ 0.33**
Effect of dilutive securities:			
Options	**–**	**1,411,951**	**–**
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	**77**	**441,281**	**–**
Long-term incentive plan shares	**–**	**106,169**	**–**
	$ 11,579	**37,116,872**	**$ 0.31**

			2005
	Loss (numerator)	Shares (denominator)	Per share
Net loss per share			
Net loss for the year	$ (1,140)	29,444,844	$ (0.04)
Effect of dilutive securities[i]:			
Options	–	1,543,768	–
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	336	2,147,566	–
	(804)	33,136,178	$ (0.04)

Loss per share before extraordinary item

			2005
	Loss (numerator)	Shares (denominator)	Per share
Loss per share before extraordinary item			
Loss before extraordinary item	$ (4,584)	29,444,844	$ (0.16)
Effect of dilutive securities[i]:			
Options	–	1,543,768	–
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	336	2,147,566	–
	$ (4,248)	33,136,178	$ (0.16)

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

Basic and diluted earnings per share from extraordinary item amounted to $nil (2005 - $0.12).

16) Interest

Interest expense (income) is comprised of:

	2006	2005
Interest on long-term debt and subordinated debentures	**$ 7,826**	$ 7,276
Interest on capital leases	**391**	1,183
Interest on short-term debt	**1,443**	2,139
Interest income	**(2,144)**	(1,291)
	$ 7,516	$ 9,307

17) Cash flow information

Change in other balances relating to operations:

	2006	2005
Decrease (increase) in:		
Accounts receivable	**$ (73,133)**	$ 6,761
Holdbacks receivable	**8,329**	(23,371)
Deferred contract costs and unbilled revenue	**(5,562)**	(25,059)
Inventories	**(1,695)**	1,568
Prepaid expenses	**(4,774)**	(526)
(Decrease) increase in:		
Accounts payable and accrued liabilities	**20,292**	14,527
Holdbacks payable	**(7,379)**	8,197
Deferred revenue	**35,138**	(17,084)
Income taxes payable	**64**	(2,902)
	$ (28,720)	$ (37,889)

Other supplementary information:

	2006	2005
Cash interest paid	**$ 8,091**	$ 7,560
Cash income taxes paid	**2,852**	2,438

Property, plant and equipment acquired and financed by means of capital leases amounted to $1,798 in the year (2005 - $2,492).

Investing and financing activities not requiring an immediate use of cash in the year ended December 31, 2006 included the acquisition of the concession rights to operate the Existing Quito Airport and the related increase in concession related deferred revenue, both in the amount of $64,000 (US$57,337) (see note 5).

In June 2006, the Company was reimbursed by Quiport JV for deferred development costs. The resulting decrease in other assets of $15,908 (i.e., decrease in deferred development costs) and increase in concession rights to operate the New Quito Airport are treated as non-cash items and not reported in the consolidated statements of cash flows.

In March 2006, the Company's largest shareholder exercised its option to convert convertible debt with a face value of $7,731 into 2,147,566 common shares at a conversion price of $3.60 per share. In addition, share capital was increased by $836 representing the equity portion of the convertible debentures that was previously classified as a separate component of shareholders' equity (notes 12 and 15).

As described in note 8, the shareholders of Derech Eretz purchased certain options held by project lenders. The Company's pro rata share of the purchase price was $1,460 (US$1,250) and was financed by a loan from the other shareholders in Derech Eretz.

18) Acquisitions and extraordinary gain

In the third quarter of 2006, the Company acquired from its joint venture partner an additional 50% interest in the assets and liabilities of the Aecon FABCO joint venture in eastern Canada, raising its total interest in this operation to 100%.

The following is a summary of the acquisition:

Net assets acquired	
Working capital	$ 239
Property, plant and equipment	295
Long-term debt	(311)
	$ 223
Consideration	
Short-term note payable	$ 223

On January 24, 2005, the Company acquired its partner's share in the joint venture that holds a 33.33% interest in the construction joint venture, of which one of its projects was the Cross Israel Highway.

The following is a summary of the acquisition:

Net assets acquired		
Cash	$	3,416
Working capital		533
Long-term receivable		1,693
	$	5,642
Consideration		
Cash	$	1,520
Extraordinary gain before income taxes	$	4,122
Income taxes		678
Extraordinary gain after income taxes	$	3,444

As the fair value of the financial and current net assets acquired exceeded the amount paid, the Company recorded an extraordinary gain of $4,122 before income taxes, and $3,444 net of income taxes on this transaction. Also, since the cash acquired of $3,416 exceeded the consideration paid of $1,520, the Company's overall cash position improved by $1,896.

In 2004, the Company acquired the assets and operations of Cegerco CCI Inc., a general contracting company in the Montreal region, specializing in the construction and management of institutional, commercial and pharmaceutical building projects. In 2006, the Company paid $192 (2005 - $192) with respect to the short-term note payable of $384 recorded in connection with that acquisition. In 2006, goodwill related to this acquisition was increased by $1,273 representing the additional consideration payable as a result of the achievement of certain financial targets by the Cegerco operations.

On December 31, 2005, the Company increased its ownership interest in Atlantic Highways Management Corp., the operator of toll Highway 104 in Nova Scotia, from 50% to 100% through the purchase of the interest held in that entity by AMEC Inc. and St. Lawrence Cement for a total consideration of $180. As the net assets acquired on the purchase were $nil, the consideration paid has been allocated to intangible assets in the accounting records of the Company.

19) Employee benefit plans

The Company has defined benefit pension plans including supplementary executive retirement plans and defined contribution plans covering substantially all employees, other than union employees who are covered by multi-employer pension plans administered by the unions. Benefits under the defined benefit plans are generally based on the employee's years of service and level of compensation near retirement. Benefits are not indexed for inflation, except for a supplementary executive retirement plan which is fully indexed for changes in the consumer price index. The Company does not provide post-employment benefits other than pensions.

The measurement date used for financial reporting purposes of the pension plan assets and benefit obligation is December 31. The most recent actuarial valuation filed for funding purposes for the principal defined benefit pension plan was completed on December 31, 2004 and the next required actuarial valuation is December 31, 2007.

The Pension Plan for Employees of Banister Majestic Inc. (the "Majestic Pension Plan"), was terminated in 2001. The related curtailment impact was recognized in the 2001 pension expense. An annuity was purchased for all remaining plan members in the fourth quarter of 2006. In accordance with the CICA Handbook, the resulting accounting impact of this settlement (a settlement loss of $1,464) has been included in the 2006 pension expense.

The financial position and other selected information related to the employee defined benefit pension plans is presented in the tables below.

	2006	2005
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	**$ 32,178**	**$ 28,900**
Actual return on plan assets	**3,020**	**2,921**
Company contributions	**2,617**	**2,826**
Plan participant contributions	**152**	**166**
Benefits paid	**(2,324)**	**(2,635)**
Fair value of plan assets at end of year	**$ 35,643**	**$ 32,178**
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 38,545**	$ 35,251
Current service cost	**1,246**	1,245
Interest cost	**1,898**	2,016
Benefits paid	**(2,323)**	(2,635)
Actuarial losses	**292**	2,668
Benefit obligation at end of year	**$ 39,658**	$ 38,545
Funded status		
Excess of benefit obligation over plan assets	**$ (4,015)**	$ (6,367)
Unrecognized net actuarial loss	**5,733**	8,482
Unrecognized transitional liability	**70**	127
Pension asset at December 31	**$ 1,788**	$ 2,242
Amounts recognized in consolidated balance sheets		
Other assets	**$ 1,788**	$ 2,242
Weighted average assumptions to calculate benefit obligation		
Discount rate	**5.0%**	5.75%
Rate of increase in future compensation	**3.5%**	3.5%
Asset categories of pension assets		
Cash and short-term notes	**13.3%**	7.1%
Debt securities	**33.8%**	33.7%
Equity securities	**52.9%**	59.2%

Details of pension expense are as follows:

	2006	2005
Pension benefit expense		
Current service cost, net of employee contributions	**$ 1,094**	$ 1,079
Interest cost	**1,898**	2,016
Amortization of actuarial loss[1]	**491**	378
Amortization of transitional liability	**63**	56
Expected return on plan assets	**(1,940)**	(1,847)
Settlement loss	**1,464**	–
Defined benefit pension expense	**3,070**	1,682
Defined contribution pension expense	**1,962**	1,660
Multi-employer pension plan contributions	**21,269**	22,459
Pension benefit expense	**$ 26,301**	$ 25,801
Defined benefit pension expense incurred		
Defined benefit pension expense recognized, above	**$ 3,070**	$ 1,682
Difference between expected and actual return on plan assets	**(1,080)**	(1,074)
Difference between actuarial losses amortized and actuarial losses arising	**(199)**	2,291
Amortization of transitional liability	**(63)**	(56)
Defined benefit pension expense incurred	**$ 1,728**	$ 2,843
Weighted average assumptions to calculate pension benefit expense		
Discount rate	**5.0%**	5.75%
Assumed long-term rate of return on plan assets	**6.25%**	6.5%
Rate of increase in future compensation	**3.5%**	3.5%

(1) At the beginning of each year, it is determined whether the unrecognized actuarial loss is more than 10% of the greater of plan assets or benefit obligations. The amount of unrecognized actuarial losses in excess of this 10% threshold is recognized in expense over the remaining service period of active employees. Amounts below the 10% threshold are not recognized in expense.

Details of cash flows are as follows:

	2006	2005
Cash flows		
Total cash contributions for employee pension plans:		
Defined benefit plans	**$ 2,617**	$ 2,826
Defined contribution plans	**1,962**	1,660
Multi-employer pension plan	**21,269**	22,459
Total cash contributions	**$ 25,848**	$ 26,945

20) Related party transactions and balances

In addition to related party transactions described elsewhere in the notes to these consolidated financial statements, the following summarizes additional transactions during the year. Related party transactions are recorded at their exchange amounts, which is the consideration agreed to by the parties. Prior to November 30, 2006, Hochtief AG indirectly was the largest shareholder of the Company. On November 30, 2006 Hochtief sold all the shares it held in the Company.

(a) Hochtief, the parent of Hochtief Canada Inc. ("HCI"), has issued guarantees in support of the financial and performance related obligations of the Nathpa Jhakri hydro-electric project in India in which the Company has a joint venture interest (note 11). During 2006, the Company paid Hochtief guarantee fees in the amount of $190 (2005 - $266).

(b) At December 31, 2005, the Company was indebted to Hochtief for a total of $2,500 in the form of a short-term unsecured loan. The loan was provided to support a portion of the Company's working capital contribution requirements to the Eastmain joint venture, the hydro-electric powerhouse project in northern Quebec. On January 13, 2006, the Company repaid the remaining outstanding balance of $2,500. Interest due was calculated on the amount outstanding at prime rate plus 1.5%. Interest expense recorded during 2006 amounted to $39 (2005 - $234).

(c) During 2006, the Company paid interest and fees of $97 (2005 - $417) to HCI on the convertible subordinated debentures described in note 12(a).

(d) During 2006, the Company received $21 (2005 - 529) from Hochtief PPP Solutions GmbH with respect to bid costs, pursuant to an arrangement in place for the sharing of such costs.

(e) To the best of the Company's knowledge from information available to it and from public records, $2,150 (2005 - $2,250) of the Company's $32,500 convertible debentures issued on March 17, 2005 is currently held by officers and directors of the Company or parties related thereto.

(f) During 2006, the Company paid professional fees in the amount of $121 (2005 - $77) to a consulting company in which a director of the Company is a partner.

(g) During 2005, the Company paid $190 to Hochtief with respect to bid costs, pursuant to an arrangement in place for the sharing of such costs.

(h) In 2005, the Company paid various service fees in the amount of $140 to Hochtief VSB a.s. with respect to an automotive contract in Europe.

21) Financial instruments

Cash and cash equivalents, marketable securities, accounts receivable, and accounts payable and accrued liabilities approximate their fair values on a discounted cash flow basis because of the short-term nature of these instruments.

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

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

There is not a liquid or quoted market value for the Company's long-term investment in Derech Eretz. The long-term receivable included in other assets has been discounted at an interest rate that results in the carrying value approximating its fair value.

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. At December 31, 2006, the Company had net outstanding contracts to sell US$802 (2005 - sell US$3,613) on which there was a net unrealized exchange loss of $31 (2005 - net gain of $187), which is recognized in the consolidated statements of operations. The net unrealized exchange gains/losses represent the estimated amount that the Company would have received/paid if it terminated the contracts at the end of the respective years.

22) Segmented information and business concentration

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

Infrastructure
This segment includes all aspects of the construction of both public and private infrastructure, including roads and highways, principally within the Province of Ontario, as well as toll highways, dams, tunnels, bridges, airports, marine facilities, transit systems and hydro-electric power projects, domestically and 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, also principally within the Province of Ontario. Services provided in the Infrastructure segment include construction of large civil infrastructure projects in Canada and, on a selective basis, internationally.

Buildings
This segment specializes in the construction and renovation of commercial, institutional and multi-family residential buildings, including retail complexes, office buildings, industrial buildings, airport terminals, entertainment facilities, schools, embassies, hospitals, 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 and fee for service construction management, as well as building renovation and facilities management.

Industrial
This segment encompasses all of the Company's industrial construction and manufacturing activities including in-plant construction and module assembly in the manufacturing, energy, petrochemical, steel and automotive sectors. Activities in this sector also include the construction of alternative, fossil fuel, cogeneration power plants and in-plant construction of nuclear power plants as well as the fabrication of small and large diameter specialty pipe. In addition, activities in this sector include the design and manufacture of "once-through" heat recovery steam generators for industrial and power plant applications. Although activity in this segment is concentrated primarily in Canada, with selected projects in the United States and Europe, the Company sells and installs "once-through" heat recovery steam generators throughout the world through its Innovative Steam Technologies division.

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

(a) Industry segments

2006

	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total
Revenues	**$ 483,955**	**$ 322,711**	**$ 290,201**	**$ 35,686**	**$ (19,247)**	**$1,113,306**
EBITDA[i]	**$ 20,931**	**$ 5,002**	**$ 21,604**	**$ 4,199**	**$ (17,376)**	**$ 34,360**
Depreciation and amortization	**4,350**	**413**	**2,101**	**6,900**	**849**	**14,613**
Segment operating profit (loss)[i and ii]	**$ 16,581**	**$ 4,589**	**$ 19,503**	**$ (2,701)**	**$ (18,225)**	**$ 19,747**
Interest and income taxes						**(8,245)**
Net income						**$ 11,502**
Total assets	**$ 264,081**	**$ 94,515**	**$ 125,329**	**$ 190,031**	**$ 42,331**	**$ 716,287**
Intangible assets and goodwill	**$ 2,743**	**$ 2,994**	**$ 3,750**	**$ 120,261**	**$ –**	**$ 129,748**
Capital expenditures	**$ 1,725**	**$ 304**	**$ 1,412**	**$ –**	**$ 618**	**$ 4,059**
Cash flow from (used in) operating activities[i]	**$ 20,155**	**$ 5,030**	**$ 21,786**	**$ 4,157**	**$ (24,052)**	**$ 27,076**

2005

	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total
Revenues	$ 431,631	$ 394,812	$ 273,255	$ 25,366	$ (4,820)	$1,120,244
EBITDA[i]	$ 15,307	$ 2,584	$ 10,678	$ (3,488)	$ (10,265)	$ 14,816
Depreciation and amortization	4,462	435	1,847	–	882	7,626
Segment operating profit (loss)[i]	$ 10,845	$ 2,149	$ 8,831	$ (3,488)	$ (11,147)	7,190
Interest and income taxes						(11,774)
Loss before extraordinary item						(4,584)
Extraordinary gain						4,122
Income taxes on extraordinary gain						(678)
Extraordinary gain, net of income taxes						3,444
Net loss						$ (1,140)
Total assets	$ 203,219	$ 88,557	$ 83,667	$ 61,677	$ 67,302	$ 504,422
Intangible assets and goodwill	$ 2,743	$ 1,864	$ 3,750	$ 180	$ –	$ 8,537
Capital expenditures	$ 1,915	$ 220	$ 1,007	$ –	$ 386	$ 3,528
Cash flow from (used in) operating activities (i)	$ 16,280	$ 2,584	$ 10,683	$ (3,488)	$ (16,083)	$ 9,976

(i) EBITDA represents earnings or loss before interest, income taxes, depreciation and amortization. Segment operating profit (loss) represents net income (loss) before interest and income taxes. Cash flow from (used in) operations is before the change in other balances related to operations. EBITDA, operating profit (loss), and cash flow from operating activities are not measures that have any standardized meaning prescribed by Canadian GAAP and are considered non-GAAP measures. Therefore, these measures may not be comparable to similar measures presented by other companies. These measures have been described and presented in the manner in which the chief operating decision maker makes operating decisions and assesses performance.

(ii) Included in the 2006 segment operating profit (loss) of the Industrial segment is income of $690 from an investment accounted for by the equity method. Effective August 1, 2006, this investment has been accounted for using the proportionate method of consolidation.

(b) Geographic segments

	2006	2005
Revenues		
Canada	**$1,007,396**	$ 1,037,397
United States	**52,337**	45,299
Ecuador	**21,649**	–
Israel, India, and others	**31,924**	37,548
	$1,113,306	$ 1,120,244
Property, plant and equipment, intangibles and goodwill		
Ecuador	**$ 120,088**	$ –
Canada	**62,867**	64,588
United States	**141**	65
	$ 183,096	$ 64,653

23) Quito airport concession – additional information

In accordance with the recommendations of the CICA, the Company's investment in the Quito airport concession is currently accounted for by the proportionate consolidation method, whereby the consolidated financial statements reflect, line by line, the pro rata share of each of the assets, liabilities, revenues and expenses of the Quito airport concession. Given the significant effect of the Quito airport concession on the Company's consolidated financial statements and to provide additional information about the Quito airport concession operations and assets, which act as security for the debt described in note 5(e), the Company provides the following consolidating worksheets as additional information about its accounts, thereby enabling the reader to have a greater understanding of the Company's underlying assets, earnings base and financial resources.

Consolidating Balance Sheets

	As at December 31, 2006			
	Consolidated Balance Sheet excluding Quito Airport concession	Quito Airport concession	Eliminations	Consolidated Balance Sheet
Assets				
Current assets				
Cash and cash equivalents	$ 41,759	$ 8,350	$ –	$ 50,109
Other current assets	412,262	7,658	(18,662)	401,258
	454,021	16,008	(18,662)	451,367
Property, plant and equipment	53,348	–	–	53,348
Future income tax assets	19,046	–	–	19,046
Concession rights	–	144,817	(24,729)	120,088
Long-term investment	42,733	–	–	42,733
Other assets	29,705	–	–	29,705
Due from Quiport JV	15,377	–	(15,377)	–
Investment in Quiport JV	530	–	(530)	–
	$614,760	$160,825	$ (59,298)	$ 716,287
Liabilities				
Current liabilities	$369,981	$ 3,577	$ (43,391)	$ 330,167
Long-term debt	14,868	66,252	–	81,120
Due to Aecon	–	15,377	(15,377)	–
Other liabilities	3,062	–	–	3,062
Other income tax liabilities	13,994	–	–	13,994
Concession related deferred revenue	–	74,353	–	74,353
Convertible debentures	59,988	–	–	59,988
	461,893	159,559	(58,768)	562,684
Shareholders' Equity				
Capital stock	131,975	530	(530)	131,975
Contributed surplus	1,329	–	–	1,329
Convertible debentures	4,146	–	–	4,146
Retained earnings	15,849	694	–	16,543
Cumulative foreign currency translation adjustments	(432)	42	–	(390)
	152,867	1,266	(530)	153,603
	$614,760	$160,825	$ (59,298)	$ 716,287

Consolidating Statements of Cash Flows

	For the year ended December 31, 2006			
	Consolidated Cash Flows excluding Quito Airport concession	Quito Airport concession	Eliminations	Consolidated Cash Flows
Cash provided by (used in)				
Operating activities	$ 19,525	$ 3,560	$ (24,729)	$ (1,644)
Investing activities	(8,765)	(78,110)	40,636	(46,239)
Financing activities	3,825	81,599	(15,907)	69,517
Increase in cash and cash equivalents during the year	14,585	7,049	–	21,634
Effects of foreign exchange on cash balances	172	1,301	–	1,473
Cash and cash equivalents – beginning of year	27,002	–	–	27,002
Cash and cash equivalents – end of year	$ 41,759	$ 8,350	$ –	$ 50,109

24) Comparative figures

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

25) Subsequent event

On February 1, 2007, the Company acquired The Karson Group, one of the largest aggregate, asphalt and civil construction companies in eastern Ontario. The Karson Group is an integrated construction and materials company comprised of Karson Construction, Karson Asphalt Paving Inc. and Spratt Aggregates. Under the share purchase deal, the Company will assume The Karson Group's existing debt of approximately $5,000 and, subject to certain post closing adjustments, pay approximately $37,000, of which approximately $22,000 will be financed by the vendor and paid over a five-year term.

Corporate Information

Board of Directors

John M. Beck	Chairman and Chief Executive Officer, Aecon Group Inc.
Scott C. Balfour	President and Chief Financial Officer, Aecon Group Inc.
Austin Beutel	Chairman, Oakwest Corporation Limited
Michael A. Butt	President, Buttcon Limited
John DiCiurcio	Executive Vice President, Turner Construction Company
Rolf Kindbom	Officer and Director, Hochtief Canada Inc.
Hon. Brian Tobin	Senior Business Advisor, Fraser Milner Casgrain LLP
Robert P. Wildeboer	Executive Chairman, Martinrea International Inc.

Executive Committee

John M. Beck	Chairman and Chief Executive Officer
Scott C. Balfour	President and Chief Financial Officer
Paul P. Koenderman	Chief Executive Officer, Aecon Industrial Group
Terrance McKibbon	President, Aecon Civil and Utilities
L. Brian Swartz	Senior Vice President, Legal and Commercial Services and Secretary

Corporate Management Team

Mike Archambault	Vice President, Safety and Loss Control
Andy DeHaan	Vice President, Management Information Systems
Timothy L. Hutzul	Corporate Counsel and Assistant Corporate Secretary
Gerry Kelly	Senior Vice President, Finance
Mitch Patten	Vice President, Corporate Affairs
Gernot Wittig	Senior Vice President, Contract and Project Controls

Divisional Leadership

Jacob Berg	President, Aecon Industrial Central Canada
Réjean Dallaire	President, Aecon Buildings Quebec
R.D. (Bob) Dautovich	President, Innovative Steam Technologies
George Kramer	President, Aecon Buildings Seattle
Paul P. Koenderman	Chief Executive Officer, Aecon Industrial Group
Terrance McKibbon	President, Aecon Civil and Utilities
Robert McDonald	President, Aecon Buildings Group
Steven N. Nackan	President, Aecon Concessions
Frank Ross	President, Aecon Atlantic
Stan Shewchuk	President, Aecon Industrial Western Canada
Doug Steels	President, Aecon Constructors

Investor Relations

For further information about Aecon Group Inc. or any of its affiliated companies, please contact Mitch Patten, Vice President, Corporate Affairs or Shirley Duffy, Information Manager. They can be reached at 416-293-7004, 1-877-232-2677 or at aecon@aecon.com.

Registrar and Transfer Agent

The Registrar and Transfer Agent for Aecon Group Inc. shares is Computershare Trust Company of Canada. They can be reached at 514-982-7555, 1-800-564-6253 or at service@computershare.com.

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