

AECON GROUP INC. ANNUAL REPORT 2007

“I believe our children will look back on this period as a time when Canada invested in its future—when it built the foundations to support the growth of our nation for generations to come.”

JOHN M. BECK

Chairman & CEO

Aecon


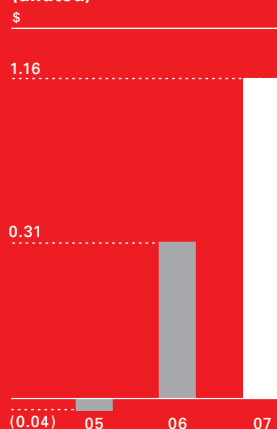


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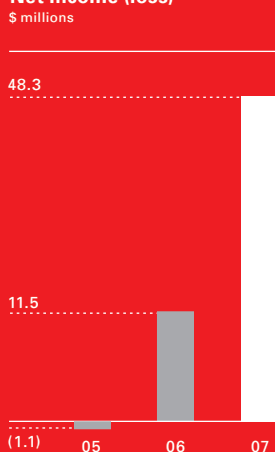
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THREE-YEAR FINANCIAL SUMMARY

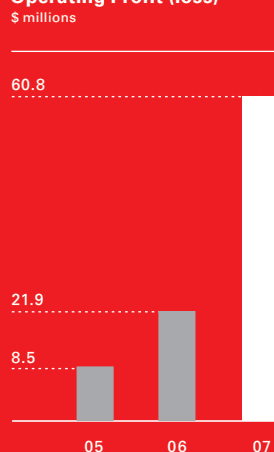
Earnings (loss) Per Share (diluted)



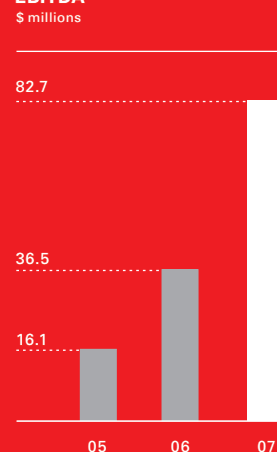
Net Income (loss)



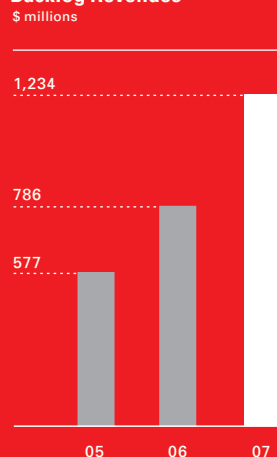
Operating Profit (loss)¹



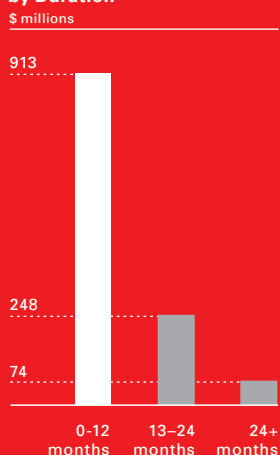
EBITDA²



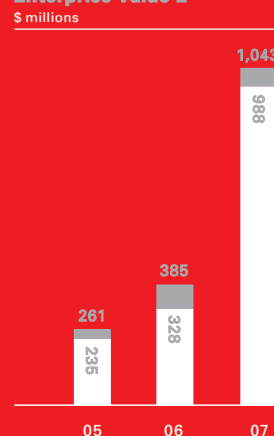
Backlog Revenues



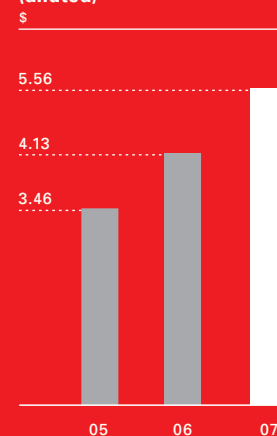
2007 Backlog Revenues by Duration



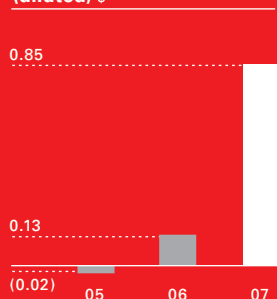
Enterprise Value 1^{5a}
Enterprise Value 2^{5b}



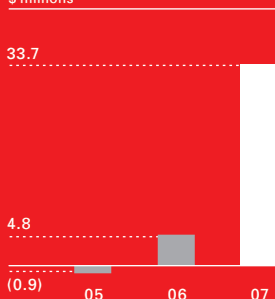
Book Value Per Share⁶ (diluted)



Pro-Forma Earnings (loss) Per Share (tax affected)¹⁰ (diluted)



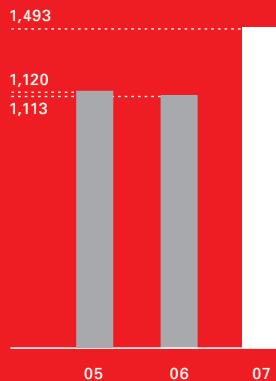
Pro-Forma Net Income (loss) (tax affected)¹¹



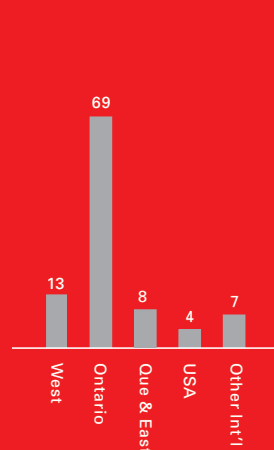
The displayed unaudited financial data has been derived from Aecon's Audited Consolidated Financial Statements, and should be read in conjunction with the Management Discussion and Analysis and Consolidated Financial Statements and Notes, as well as the notes highlighted here. Some comparative figures have been reclassified to conform to the presentation adopted in the current year.



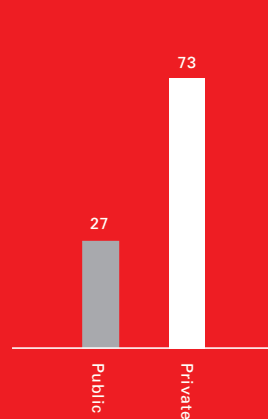
Revenues
\$ millions



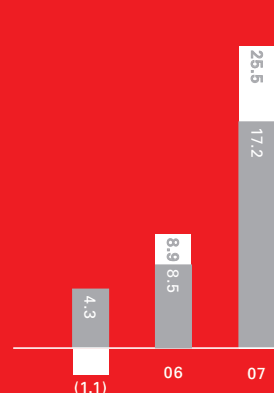
2007 Revenues by Geography
%



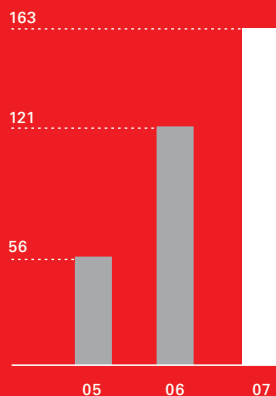
2007 Revenues by Sector
%



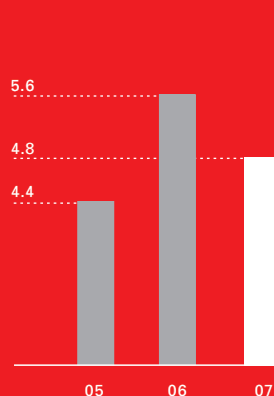
Return on Equity³
Return on Capital Employed⁴
%



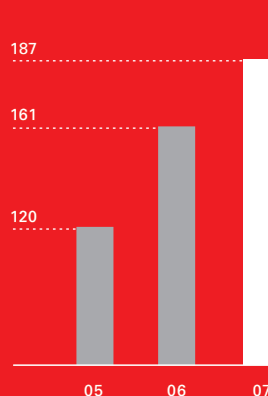
Working Capital⁷
\$ millions



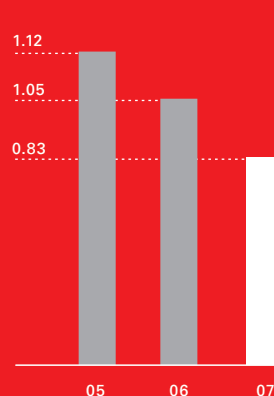
MG&A as % of Revenue
%



Total Debt (including convertible debentures)⁸
\$ millions



Debt to Equity Ratio⁹



Notes

- Operating Profit (loss) represents profit or loss from operations, before interest expense, income taxes, extraordinary gain and non-controlling interests.
- EBITDA represents earnings before interest expense, income taxes, depreciation and amortization.
- Return on Equity is calculated as net income divided by the average of shareholders' equity at the beginning and end of the fiscal year.
- Return on Capital Employed is calculated as EBIT divided by the average of shareholders' equity, convertible debentures, and long term debt, at the beginning and end of the fiscal year.
- Enterprise Value:
 - EV1 = market capitalization plus total debt less cash and cash equivalents less restricted cash and restricted marketable securities;
 - EV2 = market capitalization plus total debt less cash and cash equivalents not held within joint ventures, less restricted cash and restricted marketable securities not held within joint ventures.
- Book Value Per Share (diluted) is calculated as shareholders' equity plus the increase in shareholders' equity if options and convertible debentures in the money are exercised and/or converted plus officer share purchase loans plus the book value of LTIP shares which have vested, all divided by shares outstanding at year-end (diluted). Shares outstanding at year-end (diluted) represent the number of shares issued at the end of the year plus the number of shares issuable if options and convertible debentures in the money were exercised and/or converted plus the number of LTIP shares which have vested.
- Working Capital is calculated as current assets less current liabilities.
- Total Debt is defined as bank indebtedness, loans from a related party, the current portion of long term debt, long term debt including non-recourse debt where the debt is secured by the assets of the project and/or joint venture but is otherwise without recourse to the Company, and the short and long term debt components of convertible debentures.
- Debt to Equity Ratio is calculated as bank indebtedness, loans from a related party, the current portion of long term debt, long term debt including non-recourse debt where the debt is secured by the assets of the project and/or joint venture but is otherwise without recourse to the Company, and the short and long term debt components of convertible debentures all divided by shareholders' equity at the end of the year.
- Pro-Forma Earnings Per Share (diluted) represents earnings per share (diluted) adjusted to include Pro-Forma Net Income (loss) in the earnings per share calculation.
- Pro-Forma Net Income (loss) is calculated as net income adjusted to account for income taxes as if the Company did not record any increase or decrease in the valuation allowance in each of the years presented. This presentation is intended to demonstrate what the reported net income would have been if the Company was tax affecting earnings in each respective year absent the need for any adjustments in valuation allowances.



A TIME TO BUILD

“In thirty years or so, I believe our children will look back on this period in our history, as we now look back on the postwar era, as a time when Canada invested in its future—building roads, hospitals and schools, expanding our industrial facilities, power plants and utility networks, and developing the energy resources we need ... in short, building the pillars to support the growth of our nation for generations to come.”

JOHN M. BECK

*Chairman & CEO
Aecon Group Inc.*

A TIME TO INVEST

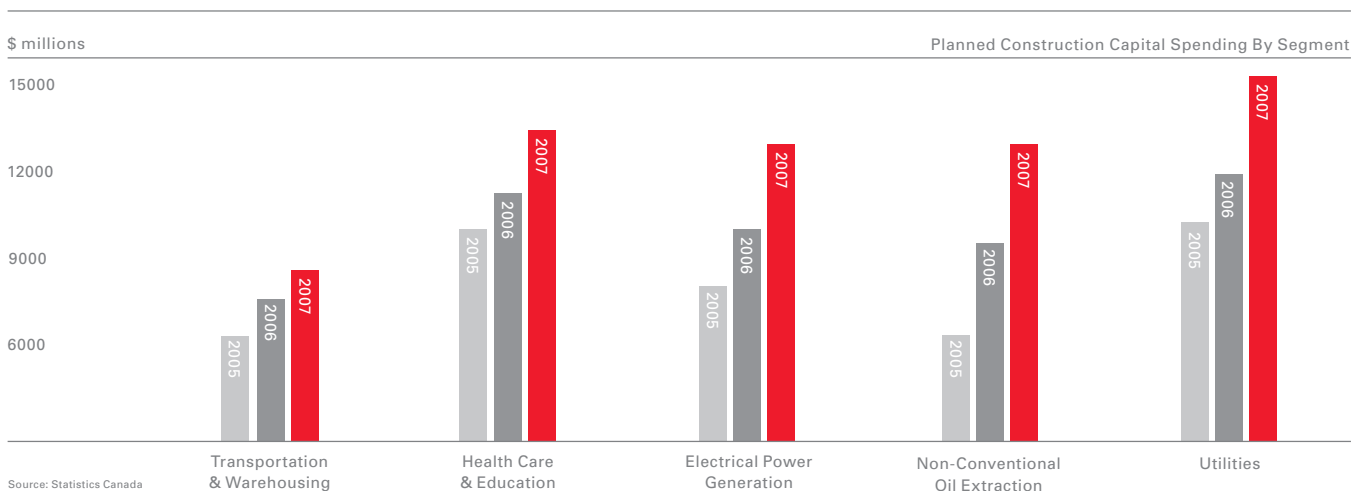
DISCIPLINED STRATEGY
STRONG MARKETS
SUSTAINABLE GROWTH

Aecon is positioned at the apex of a renaissance in Canadian construction and infrastructure development. We see sustainable demand for our services being driven by four independent forces:

- The need to renew and expand our aging transportation infrastructure
- Growing demand for environmentally sustainable electrical power in Ontario
- The long-term development of Western Canada's oilsands
- The expanded social infrastructure network required by our evolving demographics

The existing power plants, utility networks, hospitals, schools, roads, bridges and production facilities built by many of our customers in the middle of the last century are now in need of rehabilitation. At the same time, additional demands for capacity expansion are being placed on Canada's infrastructure network.

In Aecon's 100-year history, we have not seen these demand drivers converge with such impact on our industry. The result is a cycle of sustained investment that is enabling us to consistently win profitable mandates in these market segments, where our expertise, our resources and our reputation make us a supplier of choice.

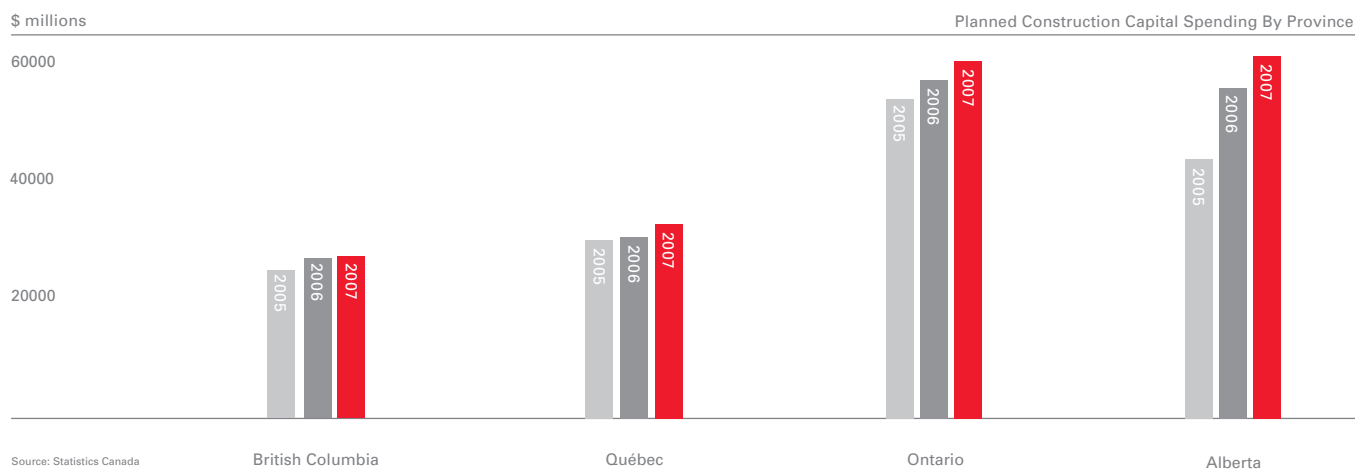


Financial Highlights

For the years ended December 31 (in millions of dollars except share and per share amounts)

	2007	2006
Revenues	1,493	1,113
EBITDA *	82.7	36.5
Income before income taxes and non-controlling interests	49.6	12.2
Net income	48.3	11.5
Backlog	1,234	786
Dividends per share	0.07	n/a
Earnings per share		
Basic	1.28	0.33
Diluted	1.16	0.31
Book value per share		
Basic	5.36	4.03
Diluted	5.56	4.13
Shares outstanding		
Basic	42,079,119	38,069,829
Diluted	47,538,732	39,375,998

* **Note:** EBITDA represents earnings before interest, income taxes, depreciation and amortization. EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Readers should be cautioned that EBITDA should not be construed as an alternative to net income (loss) determined in accordance with GAAP as an indicator of Aecon's performance or as an alternative to cash flow from operating, investing and financing activities as a measure of liquidity and cash flow. Aecon's methods of calculating EBITDA may differ from other companies and, accordingly, EBITDA may not be comparable to measures used by other companies.





“I’m pleased to report that Aecon achieved record financial results in 2007, and to share with you the very strong outlook management has for your company in 2008 and beyond.”

Dear Fellow Shareholders

Last year Aecon reached record revenue of nearly one and a half billion dollars. As planned we also achieved improved margins on this top line revenue, resulting in record net income of \$48 million and \$1.16 of earnings per share (versus \$0.31 per share in the previous year).

New contract awards of just under \$2 billion were booked in 2007, representing a 47 percent increase over the previous year and providing Aecon with a record year-end backlog of more than \$1.2 billion—an increase of 57 percent over the work under contract when the year began.

All four segments contributed to Aecon’s improved top line results. The Industrial, Infrastructure and Concessions segments each showed significant growth in operating profit, while the Buildings segment, which reported a small decline in operating profit in 2007, saw its backlog grow by more than 250 percent on the back of very strong contract awards in the second half of the year.

While the record financial results achieved in 2007 are encouraging and welcome, they were not entirely unexpected.

We signalled our positive outlook as early as our annual general meeting in June 2006 when Aecon began to see demand for our infrastructure and industrial services gaining momentum in Ontario and Alberta. At that time, I cited two factors that were contributing to this positive outlook—the disciplined execution of our then new strategic

plan; and our dominant or leading position in market segments that were poised to enter strong sustained growth cycles.

Both factors contributed to our record performance in 2007 and remain integral to our positive outlook for the current fiscal year and beyond.

Working the Plan

We review our strategic plan on a regular basis—testing it against our operating performance and our financial results.

Our plan has five fundamental elements:

1. **Strive to be the best by investing in our people and actively fostering a learning culture.** Recruiting, retaining and developing the industry’s best talent ensures that we have the right people in the right place to manage our growth.
2. **Focus on business opportunities that we know we can profitably manage.** Visible demand in each of the Canadian construction markets where we have core expertise—transportation infrastructure, power generation, oilsands development and social infrastructure—is more than sufficient to allow Aecon to profitably grow its business.
3. **Build deeper relationships with our customers based on trust, experience, safety and performance.** Alignment with our customers allows us to compete on more than

just price... resulting in less time spent submitting bids and chasing receivables.

4. **Capitalize on the unique strength of Aecon's vertical integration capabilities.** Vertical integration brings higher value to clients through schedule certainty, lower cost and reduced risk, while delivering increased revenues, reduced risk and higher margins for Aecon.
5. **Deliver increasing earnings by focusing on improved margins and lean thinking.** This is a competitive business, one where success means keeping our cost structure under tight control.

With the exception of selectively increasing the size of our "sweet spot" on some projects to make the most efficient use of our existing capacity, the core elements of this plan remain unchanged. It has served Aecon well over the last three years and the market circumstances that it was engineered to exploit have remained fundamentally strong.

Driving Growth

In our Infrastructure segment, the roadwork program that is being offered by the Ministry of Transportation of Ontario remains deep and full. Through our recent acquisitions, we now have resources in closer proximity to more of these contract opportunities. And, we are now exporting this expertise to the Alberta market, where transportation infrastructure spending has grown significantly in recent years.

Our Industrial segment is seeing continued strength in the Alberta energy sector where construction services companies have been trying to cope with unprecedented demand from the development of oilsands related infrastructure and production facilities. Constrained supplies of labour, fabrication capacity and equipment have produced a very robust market for those with the experience and ability to meet the exacting standards required. And forecasts of expected capital spending in the oilsands just keep increasing.

Similarly, the rising demand for electricity in the face of declining capacity forecasts in Ontario is creating opportunities for both our Industrial and Infrastructure segments. In fact, The Ontario Power Authority estimates that \$60 billion of new generation capacity and \$3 billion in additional transmission capacity will be required over the next 20 years.

These same trends are accelerating demand for the generators manufactured by our wholly-owned subsidiary, Innovative Steam Technologies, which is working through its second highest year-end backlog in history.

Our Buildings segment has not yet participated in the current growth cycle to the same extent as our other businesses. We see this beginning to change as Buildings enters the early stages of its own renaissance, driven by record levels of planned investment in social infrastructure across the country.

New management heading this segment has disciplined the bidding process—particularly in the Greater Toronto business unit—to deliver better margins with less risk. Aecon has strong established relationships through other segments with corporate customers like Bell Canada, Union Gas and various agencies of the Ontario government. The Buildings segment is winning project mandates such as the new Bell Canada Corporate Centre in Mississauga, various Union Gas offices and the TEDCO/Corus Entertainment building on Toronto's waterfront by leveraging the Aecon brand and extending these current customer relationships into new areas.

Charged with managing Aecon's 42 percent interest in the Quito airport concession in Ecuador and our 25 percent interest in the Cross Israel Highway all electronic toll road, the Concessions segment continues to perform in line with expectations. Traffic volume, which is the primary driver of the value of our investment in these assets, continued to increase at a healthy rate on both projects during 2007, and they continue to add value to Aecon shareholders.

Delivering Results

Aecon's continued strong results are indicative of its position in a Canadian construction industry that is experiencing substantial and durable growth. On the basis of this ongoing strength, your board of directors determined at its meeting in March of 2008, that Aecon is in a position to provide an additional return to our shareholders through an increased dividend. As such, Aecon's dividend has been increased to 20 cents per share (5 cents quarterly).

In a business where nothing happens unless there is an experienced hand controlling the machinery and a trained eye monitoring job safety, it should go without saying that we owe the success of 2007 to the people who wear the Aecon name proudly stamped on their truck, on their hard hat, or on their lapel.

We know that in our industry, access to qualified people is the key to growth, and that there is nothing more important than our ability to attract and retain the best employees.

That is why investing in our people is a principal element of our strategy. And it is why we were thrilled in December of last year to learn of our selection as one of Canada's 50 Best Employers—a recognition we intend to build on.

On behalf of all of our more than four thousand proud employees, I would like to thank you for your continued support of Aecon.

JOHN M. BECK

Chairman & Chief Executive Officer

May 5, 2008

Infrastructure

- Dominant road builder and largest utilities contractor in Ontario
- More than 1 billion tonnes of aggregate reserves
- Expanding presence in Alberta
- Includes heavy civil and international construction projects

2007 Achievements:

- Revenues increased 42 percent to \$689 million
- Operating profits reached \$23.5 million, a 42 percent increase
- Strong results attributable to roadbuilding, utilities, and heavy civil operations in Ontario and Alberta
- Backlog at year-end was \$372 million

2008 Outlook:

- Significant growth expected in civil construction in Alberta—particularly in the Transportation and Energy sectors
- Will build on growing energy demand and dominant position in the Ontario transportation infrastructure market
- Will begin booking construction profits from the development of the new Quito airport in 2008

Industrial

- Specialized construction, fabrication and module assembly services
- Primarily serving the oilsands sector in Alberta and the power generation industry in Ontario
- Largest specialty pipe fabricator in Canada
- Manufactures and installs “once through” steam generators

2007 Achievements:

- Revenues increased 37 percent to \$398 million
- Operating profits grew by 86 percent to \$36.2 million
- Higher volumes and improved margins contributed to the operating profit increases
- Backlog of \$384 million is more than double the backlog of previous year

2008 Outlook:

- IST is working off a near record backlog
- Fabrication, module assembly and construction demand in oilsands continues to grow, driving strong backlog
- Ontario power generation market expected to be very strong

Buildings

- Focused on the institutional and commercial markets in Canada
- Specialized expertise in social infrastructure (hospitals and universities), commercial office buildings and transportation facilities (airports)
- Includes interiors & renovations, multi-unit residential and, primarily in the Seattle region, gaming and entertainment facilities

2007 Achievements:

- Revenues increased 20 percent to \$386 million
- Operating profit of \$4.4 million
- Halifax, Montreal, Ottawa, Vancouver and Seattle business units all reporting strong results
- Year-end backlog of \$480 million is more than double the \$191 million of previous year

2008 Outlook:

- Largest component of Aecon's year-end backlog
- Segment and GTA margins growing
- Key opportunities in expansion of health and education infrastructure facilities

Concessions

- Develops, finances, designs, builds and operates concession assets in public-private partnerships
- Holds a 25 percent interest in the Cross Israel Highway
- Holds a 42 percent interest in the Quito International Airport in Ecuador

2007 Achievements:

- Revenues increased 61 percent to \$58 million
- Operating profit of \$4 million was an improvement of \$6.7 million
- Traffic growth and full year of operations at existing Quito Airport drove improved results

2008 Outlook:

- Traffic continuing to grow at Quito airport
- Cross Israel Highway traffic steadily growing
- Focus on growing concession opportunities in Canada

A photograph taken from underneath a large concrete highway bridge at night. Several thick concrete pillars support the bridge deck above. Warm, yellowish-orange lights are visible along the underside of the bridge, creating a series of bright spots. In the foreground, red and white light trails from moving vehicles are visible on the road surface. The overall atmosphere is dark and industrial.

TRANSPORTATION INFRASTRUCTURE

A photograph showing the silhouette of an industrial facility, likely an oil sands processing plant, against a bright orange and yellow sky at sunset or sunrise. The facility features numerous tall, vertical distillation columns and complex piping systems. The sun is positioned low on the horizon, partially obscured by the industrial structures, creating a strong backlighting effect and lens flare.

OILSANDS DEVELOPMENT



As the world's second largest country by geography, Canada's economic prosperity is directly tied to the capacity and efficiency of our transportation infrastructure. From highways and seaways to bridges and airports, Aecon has been in the business of building, maintaining and expanding that infrastructure for nearly a century.

- In 2007, Canada's \$170 billion worth of highways and roads were past the mid-point of their expected average life
- The nation's \$24 billion worth of bridges have used 57 percent of their expected life
- Ontario plans to increase its spending on highway construction by ten percent in the current fiscal year from the record \$1.35 billion spent in 2007

Source: Statistics Canada; 2008 Ontario Budget



The oilsands of northern Alberta and Saskatchewan are home to the world's second largest known reserves of recoverable hydrocarbons and one of the largest construction projects ever undertaken by mankind. Aecon is a leading provider of construction services in the region's \$125 billion capital expenditure program.

- In 2008, capital expenditures on construction and equipment for the development of the Canadian oilsands are expected to increase by 23 percent to \$19.7 billion
- Annual capital expenditure intentions for construction activity alone in the oilsands increased by 95 percent to \$8.2 billion in 2006 and by a further 36 percent to \$11.2 billion in 2007
- Aecon's expertise in oilsands development includes specialty pipe fabrication, module assembly and site construction services

Source: Statistics Canada; Department of Energy—Government of Alberta; National Energy Board

POWER GENERATION



Photo courtesy of Ontario Power Generation

SOCIAL INFRASTRUCTURE





While much is still to be gained by adopting improved conservation practices, Ontario's electrical generating and distribution capacity needs to keep pace with the growth in demand. Aecon is well poised to participate in adding to Ontario's electrical generating capacity—as recently demonstrated on a number of significant projects from the Portland Energy Centre in Toronto to the refurbishment of the Bruce Nuclear plant in Kincardine.

- Eighty percent of Ontario's existing generating capacity will need to be replaced over the next 20 years
- In just over 10 years, more than half of the electricity required to meet demand in the province of Ontario will come from generating capacity that is not in place today
- Refurbishing and expanding existing nuclear facilities accounts for 37 percent of this additional capacity
- 38 power generating projects, valued at \$12 billion are under development in Ontario and are expected to add more than eight thousand megawatts of power over the next 6 years

Source: Statistics Canada; 2008 Ontario Budget; Ontario Power Authority



Canada's growing urban centres are stretching the fabric of our social infrastructure, placing additional demands on our hospitals and education facilities. That's why expectations for annual capital expenditures on Health Care and Education have grown from \$8.4 billion in 2005 to nearly \$10 billion in 2007. Aecon is participating in the renewal and expansion of this vital social infrastructure with projects like the Rouge Valley Hospital expansion in Ajax and the IWK Hospital in Halifax.

- Ontario's Infrastructure Expenditure Plan has allocated expenditures of more than \$1 billion for hospitals and a further \$1 billion for education facilities in the Province in the current fiscal year
- Enrolment at Canada colleges and universities in 2006 hit a record high for the fifth straight year due to continued growth in the number of foreign students and young Canadian adults
- Per capita consumption of health care services is stretching available infrastructure availability as the average age of the population increases

Source: Statistics Canada; 2008 Ontario Budget

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION

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 December 31, 2007 Consolidated Financial Statements and Notes. This MD&A has been prepared as of March 4, 2008. 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 and infrastructure development industry—Infrastructure, Buildings, Industrial and Concessions.

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 but also in the Province of Alberta, as well as toll highways, dams, tunnels, bridges, airports, marine facilities, transit systems and hydro-electric power projects, domestically and, on a selected basis, internationally. This segment also 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. The design and construction of the new Quito airport project is included in the Infrastructure segment.

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

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

Activities within the Concessions segment include the development, financing and operation of infrastructure projects by way of build-operate-transfer, build-own-operate-transfer and other public-private partnership contract structures. This segment focuses primarily on the operation, management, maintenance and enhancement of investments held by Aecon in infrastructure concessions, which currently comprise investments in the Cross Israel Toll Highway and Quito airport project concession companies. This segment includes the operations of the Highway 104 Toll Plaza in Atlantic Canada. This segment also has a development function whereby it monitors and, where appropriate, brings together the unique capabilities and strengths of Aecon and its strategic partners for 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.

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Consolidated Financial Highlights

For the years ended December 31

\$ millions

	2007	2006
Revenues	\$ 1,492.7	\$ 1,113.3
Gross margin ⁽¹⁾	142.4	96.6
Operating profit ⁽²⁾	60.8	21.9
Interest expense	(11.2)	(9.7)
Income taxes	(0.4)	(0.7)
Non-controlling interests	(0.8)	–
Net income for the period	48.3	11.5
Return on revenue ⁽³⁾	4.1%	2.0%
Backlog – December 31	\$ 1,234	\$ 786

(1) Gross margin is calculated as revenues less direct costs and expenses.

Marketing, general and administrative expenses, depreciation and amortization, foreign exchange, interest, gains or losses on sale of assets, income taxes, and non-controlling interests are not included on the calculation of gross margin.

(2) Operating profit represents the profit from operations, before interest expense, income taxes and non-controlling interests.

(3) Return on revenue is calculated as operating profit as a percentage of revenues.

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.

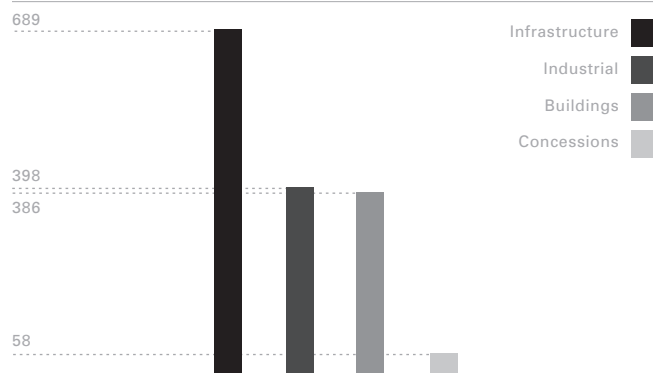
Revenues in 2007 were \$1,493 million, representing an increase of \$379 million, or 34%, over last year. Revenues increased in the Infrastructure, Buildings, Industrial and Concessions segments by \$205 million, \$63 million, \$108 million, and \$22 million, respectively, and Corporate revenue eliminations increased by \$19 million. Results for each of the four principal operating segments are discussed separately under Reporting Segments.

Gross margin increased from \$96.6 million or 8.7% of revenues in 2006 to \$142.4 million or 9.5% of revenues in 2007, as margin improvements were reported in all operating segments. Of the \$45.9 million increase in gross margin in 2007, the Infrastructure, Buildings, Industrial and Concessions segments reported improvements of \$10 million, \$0.3 million, \$22 million and \$13 million, respectively. These increases resulted from a combination of factors including higher volumes, improved pricing across most market segments, tighter cost controls and favourable weather conditions.

Marketing, general and administrative expenses (“MG&A”) amounted to \$71.9 million in 2007, which is \$9.4 million higher than the prior year. Higher volumes in all segments, the

2007 Revenues By Segment

\$ millions



expansion of operations in Western Canada, higher information technology costs and increased performance-related incentive costs contributed to the increase. However, while the dollar amount of MG&A increased, MG&A as a percentage of revenues decreased from 5.6% in 2006 to 4.8% in 2007. These improvements, combined with the increase in gross margin, contributed to a better overall return on revenues in 2007.

Depreciation and amortization expense of \$21.9 million in 2007 was \$7.3 million higher than last year. The increase resulted mainly from the amortization of concession rights related to the existing Quito airport, which amounted to \$13.6 million in 2007 compared to \$6.9 million in 2006. The 2006 results include six months of amortization expense compared to a full year's amortization in 2007.

The net gain on sales of assets in 2007 was \$7.8 million compared to a loss of \$0.1 million in 2006. The 2007 gain includes \$3.4 million from the sale by Aecon of its right to participate in the joint venture that is constructing an extension to the Cross Israel Highway and \$4.3 million which Aecon received in return for agreeing to amendments to a co-operation agreement negotiated with Hochtief (Aecon's former largest shareholder) in connection with the sale of their interest in Aecon in 2006, including a release from non-compete provisions which were set to expire in 2008.

Interest expense of \$11.2 million in 2007 was \$1.6 million higher than last year. The financing of The Karson Group acquisition in the first quarter of 2007, offset partially by the conversion to common shares of \$30.3 million of convertible debentures, mostly in the fourth quarter, was the primary reason for the higher interest costs.

Interest income of \$6.0 million earned in 2007 was \$3.8 million higher than in 2006. The higher interest income in 2007 was almost totally as a result of the significant build-up in cash balances that occurred throughout 2007. In addition to the much higher cash flow from operations, Aecon also benefited from higher advance payments from clients, particularly within joint ventures.

Set out in note 6 of the 2007 Consolidated Financial Statements is a reconciliation between the expected tax recovery (expense) in 2007 and 2006 based on statutory income tax rates and the actual reported tax expense for both these years. Income tax expense in 2007 amounted to \$0.4 million on

pre-tax income of \$49.6 million compared to income tax expense of \$0.7 million in 2006 on pre-tax income of \$12.2 million. The low tax expense in both years is due to the fact that income taxes that would normally have been recorded on income from Canadian controlled entities, has been offset by the reversal of tax valuation allowances recorded in prior periods. Without the benefit of these reversals, tax expense in 2007 and 2006 would have been higher by \$14.6 million and \$6.7 million, respectively. As at December 31, 2007, Aecon had a valuation allowance remaining of \$3.4 million, which the Company expects to reverse in 2008.

Net income for the year ended December 31, 2007 was \$48.3 million, representing a \$36.8 million improvement over 2006. The 2007 results represented record earnings for Aecon.

Backlog at December 31, 2007 was a near-record \$1,234 million and was \$448 million higher than at year-end 2006. New contract awards of \$1,941 million were booked in 2007, which compares with \$1,322 million in 2006. Further details for each of the segments are included in the discussion below under Reporting Segments.

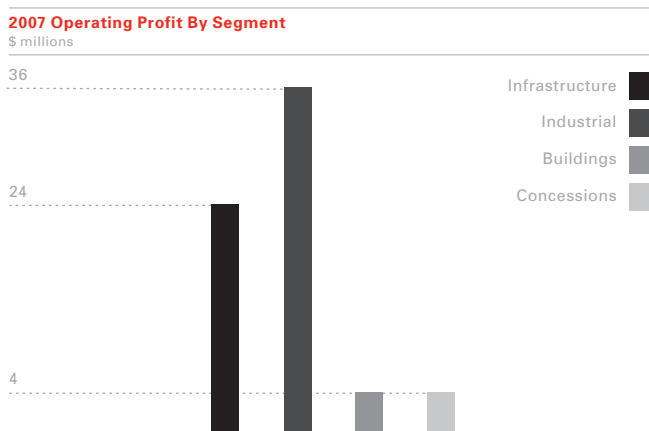
It is important to note that Aecon does not report as backlog the significant and increasing number of contracts and arrangements in hand where the exact quantity of work to be performed, although expected to be significant, is not quantified or guaranteed. Examples

include time and material, cost-plus, and some unit priced contracts where the number of units cannot be precisely defined. Other examples include construction management advisory contracts, concession agreements, multi-year operating and maintenance service contracts, general contracts where the client requests services on an as-needed basis, supplier of choice arrangements and alliance agreements. None of the expected revenues from these types of contracts and arrangements are included in backlog. Therefore, Aecon's effective backlog at any given time is greater than what is reported.

Reporting Segments

Infrastructure

For the year ended December 31, 2007, the Infrastructure segment reported revenues of \$689 million, representing an increase of \$205 million, or 42%, over revenues of \$484 million reported in



Infrastructure—Financial Highlights

For the years ended December 31

\$ millions

	2007	2006
Revenues	\$ 688.9	\$ 484.0
Segment operating profit ⁽¹⁾	23.5	16.6
Capital charges and allocations of corporate overheads ⁽⁴⁾	(18.6)	n/a
Segment profit before income taxes ⁽⁴⁾	4.9	n/a
Return on revenue ⁽²⁾	3.4%	3.4%
Backlog – December 31 ⁽³⁾	\$ 372	\$ 410

(1) Segment operating profit or loss represents the profit or loss from operations, before interest expense, income taxes, non-controlling interests, and corporate allocations of overhead costs and capital charges.

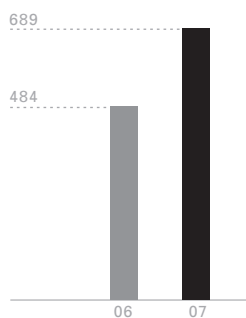
(2) Segment return on revenue is calculated as segment operating profit (loss) as a percentage of revenues.

(3) Included in backlog at December 31, 2007 is \$98 million (2006 – \$130 million) related to the new Quito airport project. Although Aecon's 50% share of the remaining construction revenues from this project are estimated at \$170 million (2006 – \$226 million), the amount reported as backlog has been reduced by \$72 million (2006 – \$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.

(4) Commencing in 2007, management prospectively began measuring divisional performance based on segment operating profit or loss after capital charges and corporate allocations (i.e. segment profit (loss) before income taxes). Corporate allocations represent charges from the Corporate segment to each division for Corporate overhead costs and capital charges related to the cash, working capital and long-term capital invested in each segment. Because the information required to restate prior period comparatives is not available, no comparative figures have been reported for 2006.

Infrastructure Revenue
\$ millions



2006. Compared to 2006, revenues from roadbuilding, utilities and heavy civil operations increased by \$109 million, \$29 million and \$67 million, respectively.

Revenues from roadbuilding operations increased by \$109 million, led by contributions of \$72 million from The Karson Group, a major aggregate, asphalt and civil construction company in Eastern Ontario, which was acquired in the first quarter of 2007, as well as from the segment's Alberta unit, which commenced roadbuilding operations in 2006. Also, revenues from

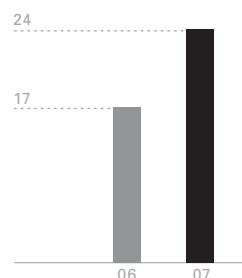
Ontario roadbuilding operations increased in 2007 as construction work progressed on a number of large projects and better than normal weather conditions earlier in the year contributed to favourable worksite conditions.

Revenues from utilities increased by \$29 million, with the increase spread across most operating units, but particularly in highway lighting work, communications and gas pipeline installation work, and utilities engineering and utilities locate work. Similar to roadbuilding operations in Ontario, utilities operations also benefited from favourable weather conditions.

Revenues from heavy civil operations also increased, by \$67 million, and were driven primarily by power generation and tunneling projects in Ontario and from the expansion of heavy civil operations in Alberta.

The Infrastructure segment operating profit of \$23.5 million in 2007 represents a \$6.9 million, or 42%, increase over 2006. A large portion of the year-over-year profit improvement relates to roadbuilding and heavy civil operations, where both

Infrastructure Operating Profit
\$ millions



the volume of work performed and the margin levels attained grew significantly. The previously noted \$3.4 million gain on the sale of Aecon's right to participate in the joint venture building an extension to the Cross Israel Highway also contributed to the improved results. Partially offsetting these increases were risk reserves taken on a few previously completed large projects and a small decline in utilities operating profits.

It should be noted that, thus far, construction profits have not been recorded on the new Quito airport project. Under Aecon's accounting policy for large multi-year contracts, profit is recognized only when construction reaches a stage of completion, generally 20%, that is sufficient to reasonably determine a project's probable results. Because of uncertainty around the profit impact on the project of a large unresolved change order, one which will significantly affect the scope and design of the project, and that is driven primarily by the impacts

Buildings—Financial Highlights

For the years ended December 31

\$ millions

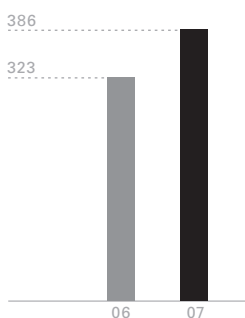
	2007	2006
Revenues	\$ 385.9	\$ 322.7
Segment operating profit	4.4	4.6
Capital charges and allocations of corporate overheads	(1.2)	n/a
Segment profit before income taxes	3.2	n/a
Return on revenue	1.1%	1.4%
Backlog – December 31	\$ 480	\$ 191

of better than originally planned traffic forecasts for the new airport, management believes that, notwithstanding the fact that the project had achieved 22% completion at the end of 2007, profit recognition should be deferred until the impact of this change order can be better measured.

Backlog at December 31, 2007 was \$372 million, which represents a \$38 million decrease from the same time in the prior year. The year-over-year decline results primarily from backlog associated with the Quito airport project which declined by \$33 million as a result of work performed and the impact of foreign exchange conversion. New contract awards totaled \$640 million for 2007, compared to \$771 million in the prior year. The higher value of awards during 2006 resulted primarily from the award last year of the Quito airport construction project.

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

Buildings Revenue
\$ million

**Buildings**

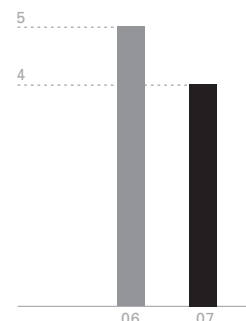
Revenues in the Buildings segment of \$386 million were \$63 million, or 20%, higher than in 2006. Most of the increase in revenues came from the segment's operations in Ottawa and Montreal, where 2007 revenues increased by \$82 million and \$35 million, respectively. The majority of the increase in Ottawa arose from two large project awards in 2006 that came into full produc-

tion in 2007, while the Montreal increase reflects continuing efforts to expand the business in the Quebec marketplace. Partly offsetting these increases was a decline of \$61 million from Toronto operations which experienced reduced new work awards during 2006 and the first half of 2007. Recent awards received in the second half of 2007 will improve the future revenue outlook of Toronto operations.

Segment operating profit of \$4.4 million in 2007 was \$0.2 million, or 5% lower than in 2006 as disappointing results from Toronto operations offset the year-over-year growth in operating profit from all other business units. In addition to the impact of lower revenue levels, Toronto's results were negatively impacted by \$0.8 million in restructuring costs incurred earlier in the year as part of the ongoing implementation of the strategic plan to improve this unit's operating results. Reflective of the higher volumes noted above, significant operating profit gains were reported by the Ottawa operations. Strong market conditions in the Vancouver area assisted Scott Management Limited, in which Aecon has a 49% interest, to achieve exceptional performance and to improve its financial contributions to Aecon in 2007. Impacting the 2006 operating results was a \$1.4 million unfavourable adjustment on an investment in a joint venture.

Backlog of \$480 million at the end of 2007 was \$289 million higher than at the same time in 2006. Significant new contract awards totaling \$675 million were recorded in 2007, which compares with awards of \$225 million in 2006. Toronto and Seattle operations reported the largest award increases, with new awards in 2007 of \$323 million and \$106 million, respectively. Included in the 2007 Toronto awards are such major projects as the Phase 1 redevelopment of

Buildings Operating Profit
\$ million



Industrial—Financial Highlights

For the years ended December 31

\$ millions

	2007	2006
Revenues	\$ 398.1	\$ 290.2
Segment operating profit	36.2	19.5
Capital charges and allocations of corporate overheads	(7.5)	n/a
Segment profit before income taxes	28.7	n/a
Return on revenue	9.1%	6.7%
Backlog – December 31	\$ 384	\$ 186

the Rouge Valley Health System in Ajax, the Toronto Economic Development Corporation (TEDCO) project to build the Corus Entertainment office building and broadcast centre located on Toronto's waterfront, and the construction management contract for a new five-storey corporate office building for Bell Canada at its existing Creekbank campus in Mississauga.

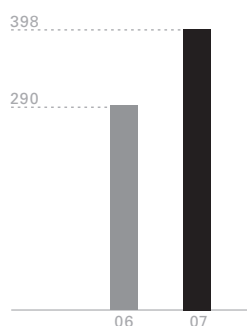
As discussed in the Consolidated Financial Highlights section, contracts awarded to Aecon based on construction management advisory agreements, supplier of choice and alliance agreements do not necessarily show up as firm backlog. Therefore, the Buildings segment's effective backlog at any given time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

operations in Ontario were up \$4.2 million, Western Canada operations were up \$4.7 million, and IST was up \$7.9 million. Higher volumes and generally improved margins contributed to most of the operating profit increases. Fabrication operating results were down \$0.3 million from last year.

Backlog at December 31, 2007 of \$384 million was \$198 million higher than at the same time last year. Ontario Construction backlog remained strong at \$194 million, which represents an increase of \$88 million over 2006. The major contributor to the higher Ontario Construction backlog was the recently awarded project for the East Windsor Cogeneration LP, which is valued at approximately \$105 million. In Western Canada operations, backlog of \$105 million was up \$65 million from 2006 primarily because of new module assembly and pipe fabrication awards. IST's backlog of \$49 million, which is at its highest level since 2001, was up \$26 million with the receipt of several new contract awards in 2007. Overall, new contract awards of \$596 million in 2007 were \$292 million higher than in 2006 with most of the increase occurring in Western Canada and in Ontario Construction operations.

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

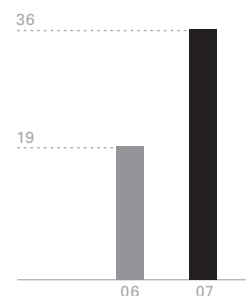
Industrial Revenue
\$ million



IST, which sells and licenses the technology for "once through" heat recovery steam generators ("HRSGs"), were up \$27 million from the prior year, reflecting the impact of new orders received in late 2006 and in the first half of 2007.

In 2007, the Industrial segment generated an operating profit of \$36.2 million compared to \$19.5 million in 2006. Of the \$16.7 million, or 86% improvement, construction

Industrial Operating Profit
\$ million



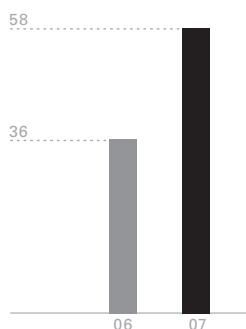
Concessions—Financial Highlights

For the years ended December 31

\$ millions

	2007	2006
Revenues	\$ 57.5	\$ 35.7
Segment operating profit (loss)	4.0	(2.7)
Capital charges and allocations of corporate overheads	(7.9)	n/a
Segment profit (loss) before income taxes	(4.0)	n/a
Return on revenue	6.9%	(7.6)%

Concessions Revenue
\$ millions

**Concessions**

Revenues of \$58 million in the Concessions segment for 2007 were up \$22 million, or 61%, compared to 2006. The majority of the revenue increase came from Aecon's proportionate share of concessionaire operations at the existing Quito airport, which generated revenues of \$32 million in 2007 compared to \$13 million in 2006. Most of this increase results from Aecon reporting revenues

from the Quito airport for the full year in 2007 compared to a half year (the last two quarters) in 2006. Higher traffic volumes at the airport also contributed to the increase in revenues.

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 sold. As such, even though the Cross Israel Highway is performing well and is generating strong operating cash flow, Aecon has not reported any revenues and profits from this investment. Average weekday traffic on the highway in December 2007 surpassed 93,000 vehicles, a 15% increase over December 2006, and the project remains on track to deliver an expected 15% after-tax internal rate of return ("IRR") on Aecon's investment. In July 2007, Derech Eretz redeemed a portion of its subordinated debt of which Aecon's share was approximately US\$10 million. For accounting purposes, this repayment was treated as a return of capital and, as such, had no impact on Aecon's reported earnings. After

reducing the carrying value of Aecon's investment in Derech Eretz by the US\$10 million, the carrying value of this investment is now approximately CAD\$32.7 million and Aecon's ownership interest remains at 25%.

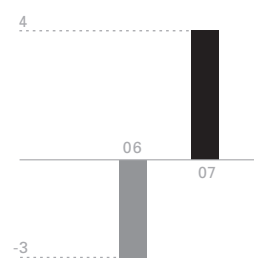
The segment operating profit of \$4.0 million in 2007 represents an improvement of \$6.7 million compared to 2006. The Quito airport concessionaire, which includes the results from operating the existing airport while the new airport is being constructed, as well as continued growth and improvement of results from Aecon's interest in the Operator of the Cross Israel Highway, were the main contributors to the improvement in Operating Profit.

A total of more than 4.2 million passengers passed through the existing Quito airport in 2007, including over 1 million in the fourth quarter, a 4.1% increase over the same quarter in 2006. It should be noted that all of the operating profit from operations of the existing Quito airport are being invested to finance the development and construction costs of the new airport. As noted above, results from the Quito airport concessionaire were not included in Aecon's results in the first half of 2006.

Aecon does not include in its reported backlog expected revenues from operations management contracts and concession agreements. As such, while Aecon expects future revenues from its concession assets, no concession backlog is reported at December 31. Therefore, the Concession segment 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 2007 Consolidated Financial Statements.

Concessions Operating Profit
\$ million



Corporate and Other—Financial Highlights

For the years ended December 31

\$ millions

	2007	2006
MG&A	\$ (16.3)	\$ (16.7)
Other income (expense) ⁽¹⁾	3.1	(1.5)
Interest income	6.0	2.1
Segment operating loss	(7.2)	(16.1)
Capital charges and allocations of corporate overheads	35.2	n/a
Segment profit before income taxes	28.0	n/a

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

Corporate and Other

Marketing, general and administrative expenses (“MG&A”) in 2007 were \$0.4 million lower than in 2006. Contributing to the decrease was a reduction in pension expense in 2007, which offset higher 2007 salaries and performance-related incentive costs. Pension expense was lower in 2007 because of a \$1.5 million non-recurring cost in 2006 associated with the termination of one of Acon’s defined benefit pension plans.

Included in other income (expense) in 2007 was a \$4.3 million gain reported by Acon as part of a current year amendment to a 2006 co-operation agreement signed between Acon and Hochtief which is discussed in the Consolidated Financial Highlights section above.

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

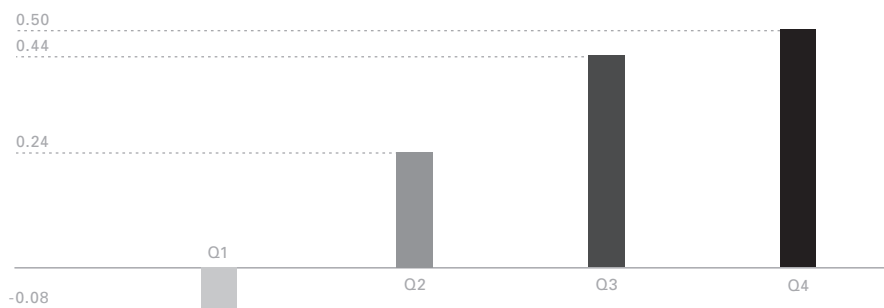
Quarterly Financial Data

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

	2007				2006			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Revenues	\$482.3	\$430.4	\$338.3	\$241.8	\$338.0	\$316.0	\$258.7	\$200.6
Net income (loss)	22.5	19.0	9.7	(3.0)	10.6	12.8	(1.0)	(10.9)
Earnings (loss) per share:								
Basic	0.56	0.51	0.26	(0.08)	0.29	0.35	(0.03)	(0.36)
Diluted	0.50	0.44	0.24	(0.08)	0.28	0.34	(0.03)	(0.36)

2007 Earnings per Share—Diluted



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, is as follows:

	2007		2006	
	Quarterly Total	Annual Amount	Quarterly Total	Annual Amount
Earnings per share:				
Basic	\$1.25	\$1.28	\$0.25	\$0.33
Diluted	1.10	1.16	0.23	0.31

Revenue and Operating Profit by Segment

The analysis of operating results for each of the first three quarters of 2007 is included in the Management Discussion and Analysis incorporated in the Interim Reports to Shareholders for each quarter.

For the fourth quarter of 2007, revenues amounted to \$482 million, which is \$144 million, or 43%, higher than the same period in 2006, as revenues increased in the Infrastructure, Buildings, Industrial and Concessions operating segments by \$60 million, \$47 million, \$41 million and \$2 million, respectively, and decreased in the Corporate segment by \$6 million.

Gross margin of \$49 million in the last quarter of 2007 was \$9 million higher than the same quarter last year. Most segments generated increased operating margins,

generally as a result of strong industry conditions. In addition, the Industrial segment benefitted from higher than normal margins.

MG&A increased to \$25 million in the quarter, compared to \$22 million in the same period last year, primarily as a result of higher performance-related incentive costs.

Operating profit in the fourth quarter of 2007 was \$26.2 million compared to \$13.5 million during the same period in 2006. The 94% improvement was primarily a function of the higher operating margins noted above and the previously noted \$4.3 million fee received in connection with an amendment to a co-operation agreement with Hochtief.

Revenues and operating profit (loss) by segment for the fourth quarters of 2007 and 2006 are set out in the table below.

	\$ millions			
	Quarter 4		Quarter 4	
	2007		2006	
	Revenue	Operating profit (loss)*	Revenue	Operating profit (loss)*
Infrastructure	\$ 207	\$ 4.8	\$ 146	\$ 7.2
Buildings	131	3.2	84	2.6
Industrial	146	18.5	105	12.6
Concessions	15	0.2	13	(0.4)
Corporate	(16)	(0.6)	(10)	(8.6)
Consolidated	\$ 482	\$ 26.2	\$ 338	\$ 13.5

* Operating profit or loss represents the profit or loss from operations, before interest expense, income taxes, non-controlling interests, and corporate allocations of overhead costs and capital charges.

In the Infrastructure segment, fourth quarter revenues were \$60 million higher than in 2006. Revenues from roadbuilding, utilities and heavy civil operations increased in the fourth quarter by \$47 million, \$7 million and \$6 million, respectively, compared to the corresponding three months of 2006. Similar to the year-to-date results, the largest contributor to the increase in roadbuilding revenues was The Karson Group as well as higher revenues in Ontario and Alberta construction operations.

The Infrastructure segment earned an operating profit in the fourth quarter of 2007 of \$4.8 million compared to \$7.2 million in the prior year. Despite an increase in revenues, the segment's operating results were negatively impacted by risk reserves taken in 2007 (similar in amount to those reported in 2006) on a few previously completed large projects, margin reductions on a few ongoing projects, higher performance-related incentive costs, unfavourable quarter-over-quarter foreign exchange rate impacts on international projects, and higher operating costs incurred as a result of the ongoing arbitration proceedings on the India project.

Revenues in the Buildings segment of \$131 million were \$47 million higher than in the fourth quarter of 2006. While revenues increased in all operating units including Toronto, the largest quarterly increases occurred in Ottawa for reasons similar to the 2007 year-over-year increase, and also in Seattle where a large mid-year project award came into full production.

The Buildings segment produced an operating profit of \$3.2 million in the fourth quarter of 2007, which is an increase of \$0.6 million over the prior year. The majority of the operating profit increase was generated by higher volumes in Seattle and the growth in the segment's Vancouver operations.

The Industrial segment's revenues in the fourth quarter of 2007 were \$146 million or \$41 million higher than in 2006. Volume increases occurred in all operations with the largest increases in the Ontario Construction and IST units. The reasons for the increases in revenues from these units are similar to those cited above in the section on the Industrial segment's results for all of 2007.

The Industrial segment recorded an operating profit of \$18.5 million in the fourth quarter, which compares with an operating profit of \$12.6 million in the last quarter of 2006. A combination of increased volumes and improved gross margin percentages in the fourth quarter of 2007, particularly in IST operations, produced the improved results in this segment.

Revenues in the Concessions segment of \$15 million in the last quarter of 2007 were up \$2 million from the same quarter in 2006, while operating profit of \$0.2 million for the fourth quarter of 2007 represents a \$0.6 million improvement over the same quarter in the previous year. Most of the revenue and operating profit improvements relate to the Quito airport concessionaire and the operator of the Cross Israel Highway.

Overall, net income for the fourth quarter of 2007 amounted to \$22.5 million or \$0.50 per share on a fully diluted basis, which compares with \$10.6 million or \$0.28 per share in the fourth quarter of 2006.

Selected Annual Information

Set out is selected annual information for each of the last three years (in millions of dollars, except per share amounts).

	2007	2006	2005
Total revenues	\$1,492.7	\$1,113.3	\$1,120.2
Earnings (loss) before extraordinary items and discontinued operations	48.3	11.5	(4.6)
Per share:			
Basic	1.28	0.33	(0.16)
Diluted	1.16	0.31	(0.16)
Net earnings (loss)	48.3	11.5	(1.1)
Per share:			
Basic	1.28	0.33	(0.04)
Diluted	1.16	0.31	(0.04)
Total assets	910.7	716.3	504.4
Total long-term financial liabilities	180.6	158.2	111.4
Cash dividends declared per common share*	0.07	—	—

*Paid in the following year.

Financial Condition, Liquidity and Capital Resources

Aecon holds a 42.3% economic interest in Corporacion Quiport S.A. ("Quiport JV"), an Ecuadorian company, whose main operations consist of managing and operating the Existing Quito Airport, and the development, construction, operations and maintenance of the new Quito Airport under a concession arrangement. Aecon's investment in 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 and other joint ventures on Aecon's Consolidated Financial Statements, Aecon provides supplemental financial information in note 27 to the 2007 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, 2007 were \$134.6 million, which compares with \$50.1 million at December 31, 2006. Of these amounts, \$42.7 million and \$42.2 million, respectively, were on deposit in joint venture bank accounts, which Aecon cannot access directly.

Restricted cash of \$34.6 million at December 31, 2007 (December 31, 2006 – \$13.2 million) represents cash that was deposited as collateral for borrowings and letters of credit issued by Aecon. As such, this cash was not available for general operating purposes. Restricted marketable securities and term deposits of \$15.2 million at December 31, 2006 were all held within joint ventures and, similar to cash held by joint ventures, these securities could not be accessed directly by Aecon. The net increase of \$6.2 million in all of the restricted balances arose primarily from advance payments received on certain joint venture projects where such payments have, in turn, been secured by letters of credit which are, at least in part, collateralized by this restricted cash.

Interest bearing debt amounted to \$187.3 million at December 31, 2007, compared to \$160.9 million at December 31, 2006, the composition of which is as follows (\$ millions):

	Dec. 31 2007	Dec. 31 2006
Bank indebtedness	\$ 7.0	\$ 15.0
Current portion of long-term debt	17.5	4.8
Long-term debt — recourse	64.1	14.9
Long-term debt — non-recourse	68.6	66.3
Convertible debentures	30.1	60.0
Total interest bearing debt	\$ 187.3	\$ 160.9
Interest bearing debt held directly	\$ 110.6	\$ 86.3
Interest bearing debt of joint ventures	76.7	74.6
Total	\$ 187.3	\$ 160.9

Bank indebtedness of \$7.0 million at the end of December 31, 2007 represents Aecon's 45% share of funds borrowed by the Nathpa Jhakri hydro-electric project joint venture in India. Bank indebtedness of \$15.0 million at the end of December 2006 included \$8.2 million of borrowings on the India project and \$6.8 million from Aecon's operating line of credit.

At December 31, 2007, long-term debt, including the current portion, and convertible debentures totalled \$180.4 million compared to \$145.9 million at the end of 2006. The \$34.5 million net increase resulted from a number of factors including \$34 million of additional year-end debt resulting from the acquisition of The Karson Group in the first quarter of 2007 and \$16 million of additional year-end debt resulting from the purchase of the assets of Leo Alarie and Sons Limited in the fourth quarter of 2007 (see note 19 to the 2007 Consolidated Financial Statements). In addition, changes in long-term debt included a year-end increase of \$13.4 million in term loans, which resulted from a new 3-year loan agreement (original value \$15 million) with a syndicate of lenders that was signed in June 2007, and an increase of \$7 million in borrowings which are non-recourse to Aecon. The increase in non-recourse borrowings resulted as to \$4 million from the proportionate consolidation of Aecon's share of non-recourse borrowings to finance the Quito Airport Project and as to \$3 million from non-recourse project financing for the Phase I Rouge Valley Health System project. Partially offsetting the various increases in long-term debt was a net decrease of \$29.9 million in the carrying value of convertible debentures and by the repayment in June 2007 of an equipment loan that had a total carrying value of \$6.1 million at December 31, 2006. In 2007, convertible debentures with a face value of approximately \$30.3 million (carrying value of \$28.9 million) were converted into 4,041,804 common shares and \$0.5 million of convertible debentures (carrying value of \$0.5 million) were redeemed for cash (see note 12 to the 2007 Consolidated Financial Statements).

In the second quarter, Aecon signed a new three-year credit agreement that replaced a number of existing credit facilities. The credit facility provided by a syndicate of lenders includes a three-year term loan facility for \$15 million, which is fully drawn, and a three-year committed revolving operating line of \$50 million to fund working capital and operating requirements. In the third quarter, the term loan was converted into a U.S. dollar denominated loan. This U.S. dollar term loan has an outstanding balance of CAD\$13.4 million at December 31, 2007. This was done in order to provide a partial hedge of Aecon's U.S. dollar denominated investment in Quito concession operations. As a result, exchange gains or losses on this debt are not recorded in income, but are instead included in shareholders' equity as part of the foreign currency translation component of accumulated other comprehensive income. At December 31, 2007, approximately \$15 million of the operating line facility

was utilized to secure letters of credit. In addition to the term loan and operating line, a special letter of credit facility was provided to enable Aecon to replace guarantees related to a completed project in India. This additional facility increases the effective credit provided to \$90 million. Further details relating to Aecon's operating lines are described in note 10 to the 2007 Consolidated Financial Statements.

In February 2008, Aecon announced its intention to redeem, effective March 18, 2008, all of its 8.25% subordinated convertible debentures due March 9, 2010 (the "2010 Debentures"). At December 31, 2007, the face value of these convertible debentures which remained outstanding was approximately \$31.7 million. Until redeemed, the 2010 Debentures will remain convertible to common shares at the option of the holders at a conversion price of \$7.60 per share at any time on or prior to the close of business on March 17, 2008. In light of the current trading price of Aecon's common shares, it is anticipated that all of the 2010 Debentures will be converted, in which case up to 4.2 million common shares of Aecon will be issued.

The anticipated conversion of the debentures will reduce interest costs and improve profitability going forward, thus partly mitigating the dilutive effect of the conversions. For accounting purposes, the anticipated conversion of the debentures will result in an increase in shareholders' equity equal to the carrying value of the debentures.

Aecon's liquidity position and capital resources continue to strengthen and are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future. Of note, Aecon's cash flow from operations in fiscal 2006 was approximately \$26 million higher than in fiscal 2005, and continued to improve in 2007 with cash flow from operations being approximately \$99 million higher than in 2006.

In the fourth quarter of 2007, Aecon announced that its Board of Directors had approved a policy to commence semi-annual dividend payments in the amount of \$0.07 per share (\$0.14 annually) to holders of Aecon common shares. The first dividend payment was paid on January 2, 2008 to shareholders of record on November 30, 2007.

Future equity investments of US\$15.3 million by Aecon in the Quito airport concessionaire are expected to be generated from profits from construction of the new Quito airport. To date, Aecon has invested US\$18.4 million as equity in the concessionaire. Aecon has also deposited \$3.6 million with Export Development Canada ("EDC") to support letters of credit issued by EDC on the Quito airport project. Also, in accordance with an agreement with EDC, Aecon has \$1.5 million in a segregated account to secure future equity investment requirements in the Quito airport concessionaire. These EDC deposits are included in restricted cash on the Consolidated Balance Sheet at December 31, 2007.

Summary Of Cash Flows

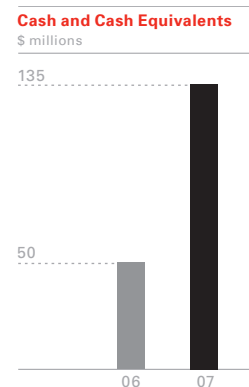
Years Ended Dec. 31	\$ millions	
	Consolidated Cash Flows	
	2007	2006
Cash provided by (used in):		
Operating activities	\$ 97.5	\$ (1.6)
Investing activities	(52.0)	(46.2)
Financing activities	43.6	69.5
Increase in cash and cash equivalents	89.0	21.6
Effects of foreign exchange on cash balances	(4.5)	1.5
Cash and cash equivalents — beginning of period	50.1	27.0
Cash and cash equivalents — end of period	\$ 134.6	\$ 50.1

Operating Activities

Cash provided by operating activities of \$98 million in 2007 was \$99 million better than last year. The large year-over-year improvement is due to higher net income in 2007 (an improvement of approximately \$37 million over last year) and lower investments in working capital (an improvement of approximately \$59 million year-over-year).

Investing Activities

In 2007, investing activities resulted in a use of cash of \$52 million, which compares with cash used of \$46 million in 2006. Of the \$52 million, \$22 million represents Aecon's proportionate share of the cash used by Quiport JV for the construction of the new Quito airport. These cash outlays were, for the most part, financed by non-recourse project debt (see Financing Activities below). Also, during 2007, Aecon used \$33 million of cash to partially fund the acquisition of The Karson Group and to purchase the assets of Leo Alarie and Sons Limited (see note 19 to the 2007 Consolidated Financial Statements). Investments in restricted cash and marketable securities balances, primarily held in connection with the Quito project, increased by \$8 million during 2007. Partially



offsetting these cash outflows was a partial redemption of subordinated debt by Derech Eretz of which Aecon's share was approximately \$10 million (see the Concessions Segment commentary above for additional details). In 2006, the largest use of cash, \$37.5 million, arose from construction of the new Quito airport. Construction costs related to the Quito airport project are reported as concession rights on Aecon's Consolidated Balance Sheet.

Financing Activities

In 2007, cash provided by financing activities amounted to \$44 million, compared to \$70 million provided in 2006. During 2007, issuances of long-term debt amounted to \$76 million while repayments totalled \$25 million, for a net change of \$51 million. Of the increase in long-term debt, \$15 million relates to Aecon's proportionate share of the 2007 financing for the new Quito airport project. In addition, \$15 million was borrowed in the second quarter under Aecon's new term debt facility, of which \$6 million was used to repay existing debt. Also, debt of \$13 million was borrowed in the first quarter to finance the acquisition of The Karson Group and additional debt of \$16 million was borrowed in the fourth quarter to finance the acquisition of the assets of Leo Alarie and Sons Limited. During 2006, Aecon issued common shares for net proceeds of approximately \$28 million, plus an additional \$1 million in proceeds were received upon the exercise of stock options. In 2006, increases in long-term debt included the financing for the new Quito airport project of \$66 million less a net repayment of \$23 million of long-term debt outstanding on the Company's revolving term facility.

New Accounting Standards

Several new Canadian accounting standards adopted in 2007 and 2006 are described in note 2 to the 2007 Consolidated Financial Statements.

In addition, note 2 to the 2007 Consolidated Financial Statements also includes new CICA Handbook sections which became effective on January 1, 2008 for Aecon. Aecon does not anticipate any significant impact on the Company's financial position or on the results of its operations from adoption of these new standards.

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, 2007. 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, 2007 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, 2007, 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, 2007 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, 2007 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 and has principal repayment obligations under long-term debt (including the convertible debentures described in note 15 to the 2007 Consolidated Financial Statements) as follows (in thousands of dollars):

	Lease Payments	Long-term Debt Repayments
2008	\$ 17,592	\$ 17,573
2009	15,073	13,431
2010	10,301	55,044
2011	6,780	22,363
2012	3,791	21,742
Beyond	9,721	50,204
	\$ 63,258	\$ 180,357

At December 31, 2007, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was \$1,306 million. This consists of the reported backlog of \$1,234 million plus an additional \$72 million representing Aecon's share of the Quito project revenues not included in reported backlog revenues.

Off-Balance Sheet Arrangements

In connection with its joint venture operations in Quito, India and Israel, Aecon has provided various financial and performance guarantees and letters of credit, which are described in note 11 to the 2007 Consolidated Financial Statements.

Aecon's defined benefit pension plans had a combined deficit of \$0.7 million at December 31, 2007 (2006 – \$4.0 million). These deficits include experience and other actuarial gains and losses which, in accordance with Canadian GAAP, are not immediately recognized in the accounts of the Company but are amortized over the average remaining service life of employees. At December 31, 2007, unrecognized liabilities amounted to \$2.8 million (2006 – \$5.8 million). Details relating to Aecon's defined benefit plans are set out in note 20 to the 2007 Consolidated Financial Statements.

From time to time, Aecon enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. At December 31, 2007, the Company had net outstanding contracts to sell EURO 6.7 million, sell US\$24.0 million and buy US\$12.0 million (December 31, 2006 – sell US\$0.8 million) on which there was a net unrealized exchange gain of \$1.0 million (December 31, 2006 – net loss of \$0.03 million). The net unrealized exchange gain (loss) represents the estimated amount the Company would have received (paid) if it terminated the contracts at the end of the respective periods. Financial instruments are discussed in note 22 to the 2007 Consolidated Financial Statements.

In connection with a U.S. dollar denominated term loan facility, Aecon entered into an interest rate swap with a financial institution on October 1, 2007 to help manage its exposure to interest rate volatility. By entering into the interest rate swap, the Company agreed to receive interest at a variable rate and pay interest at a fixed rate. The unrealized gain resulting from fair valuing this contract as of December 31, 2007 was \$201, net of taxes.

Related Party Transactions

During 2007, \$0.5 million of loans receivable from employees were repaid. Refer to note 21 to the 2007 Consolidated Financial Statements for details of related party transactions and balances.

In January 2008, an additional \$0.4 million of loans receivable from employees were also repaid.

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 of costs incurred or, if lower, to the extent to which recovery is probable. 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 possible 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 2007 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 21 to the 2007 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)

	Dec 31, 2007	Mar 4, 2008
Number of common shares outstanding ⁽¹⁾	42,079,119	42,514,329
Paid-up capital of common shares outstanding ⁽²⁾	\$ 162,691	\$ 166,428
Outstanding securities exchangeable or convertible into common shares:		
Number of stock options outstanding	1,044,484	1,043,484
Number of common shares issuable on exercise of stock options	1,044,484	1,043,484
Increase in paid-up capital on exercise of stock options	\$6,356	\$ 6,349
Principal amount of convertible debentures outstanding (see note 12 to the 2007 Consolidated Financial Statements)	\$ 30,114	\$ 26,966
Number of common shares issuable on conversion of convertible debentures	4,167,763	3,733,553
Increase in paid-up capital on conversion of convertible debentures	\$ 30,114	\$ 26,966

(1) Number of common shares outstanding excludes shares held by the trustee of Aecon's LTIP plan (see note 16 to the 2007 Consolidated Financial Statements).

(2) As described in note 16 to the 2007 Consolidated Financial Statements, and in accordance with the recommendations of The Canadian Institute of Chartered Accountants, share capital at December 31, 2007 has been reduced by \$0.6 million on account of share purchase loans receivable from employees and by \$3.5 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.

Joint ventures are typically formed to undertake a specific project, jointly controlled by the partners, and are dissolved upon completion of the project. Aecon selects its joint venture partners based on a variety of criteria including relevant expertise, past working relationships as well as an analysis of the prospective partners' financial and construction capabilities. Joint venture agreements spread risk between the partners and they generally state that companies supply their proportionate share of operating funds and that they share profits and losses in accordance with specified percentages. Nevertheless, each participant in a joint venture is usually liable to the client for completion of the entire project in the event of a default by any of its partners. Therefore, in the event that a joint venture

partner fails to perform their obligations due to financial or other difficulties, Aecon may be required to make additional investments or provide additional services which may reduce or eliminate profit, or even subject Aecon to significant losses with respect to the joint venture.

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 the 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 11 and 15 to the 2007 Consolidated Financial Statements, Aecon has a number of com-

mitments 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 \$92 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 \$29 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 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 2008. For further information, refer to note 15 to the 2007 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, 2007, the Company had outstanding guarantees and letters of credit totalling approximately \$24 million in support of financial and performance related obligations for the Nathpa Jhakri project. If such guarantees were to be called upon and/or if Aecon was not able to collect its undistributed 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 \$40) 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.

Aecon is a partner with Hochtief Construction AG in a joint venture 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"). The Eastmain Project although complete, incurred extra costs, primarily because of customer changes to the original contract scope. The Company is currently negotiating with Hydro Quebec for a full recovery of these extra costs 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.

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. These unpriced change orders are included on Aecon's Consolidated Balance Sheet as "deferred contract costs and unbilled revenue." Should the recovery of the unpriced change orders related to this project no longer be considered probable and the Company 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 included on Aecon's balance sheet with respect to such non-recovered amounts. 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 is the managing partner of the Construction JV.

More specifically as it relates to the Quito airport concessionaire, in the latter part of 2007, as with other private concessions in Ecuador, the Quito airport project came under heightened scrutiny by the new Federal administration. Along with this scrutiny came a series of public criticisms by the administration against the Municipality of Quito, primarily directed at the lack of contribution by the Municipality, through the airport project, towards a national airport modernization program. Additionally in 2007, a National Assembly was installed to draft a new Ecuadorian constitution which is expected to re-centralize competencies for services relating to national infrastructure. While there is no indication thus far that the administration intends to take any unilateral action that would run contrary to the contracts that Aecon and its partners have in place, the political environment and concurrent constitutional process reconfirm that the project and related investments are occurring in a country in which there is elevated political risk and uncertainty generally. Therefore, political risk may adversely impact the project’s financial performance and its overall financial viability, and the value of Aecon’s investment in the Quito airport concessionaire (Quiport JV) could ultimately be impaired.

In connection with the Quito 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 which case the Company’s share is 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 note 5 to the 2007 Consolidated Financial Statements.

During the past two years, 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 certain 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 ultimately be impaired.

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 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, some of which are 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 value of these foreign currencies.

Contractual Factors

Aecon performs construction activities under a variety of contract including lump sum, fixed price, guaranteed maximum price, cost reimbursable and design build. Some forms of construction contracts carry more risk than others.

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, infla-

tion 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. Although Aecon attempts to negotiate waivers of consequential or liquidated damages, on some contracts the Company is required to undertake such damages for failure to meet certain contractual provisions. Such penalties may be significant and could impact Aecon's financial position or results of future operations. Furthermore, schedule delays may also reduce profitability because staff may be prevented from pursuing and working on new projects. Project delays may also reduce customer satisfaction which could impact future awards.

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, or if lower, to the extent to which recovery is probable. 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 sector's 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. The surety industry has undergone significant consolidation in recent years, which has constrained overall industry capacity. Furthermore, the issuance of bonds under surety facilities is at the sole discretion of the surety company. Although the Company believes it will be able to continue to maintain surety capacity adequate to satisfy its requirements, should those requirements be materially greater than anticipated, or should sufficient surety capacity not be

available or should the cost of bonding rise substantially, this may have a material adverse effect on the ability of Aecon to operate its business or take advantage of all market opportunities.

Insurance Risk

Aecon maintains insurance in order to both satisfy the requirements of its various construction contracts as well as a corporate risk management strategy. Insurance products from time to time experience market fluctuations that can impact pricing and availability. Therefore, senior management, through Aecon's insurance broker, monitor developments in the insurance markets to ensure that the Company's insurance needs are met. Although Aecon has been able to meet its insurance needs, there can be no assurances that Aecon will be able to secure all necessary or appropriate insurance on a going forward basis. Failure to do so could lead to uninsured losses or limit Aecon's ability to pursue some construction contracts both of which could impact results.

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

Disputes are common in the construction industry and as such, 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.

Internal and Disclosure Controls

Inadequate disclosure controls or internal controls over financial reporting could result in material misstatements in the financial reporting or public disclosure record of Aecon. Inadequate controls could also result in system downtime, give rise to litigation or regulatory investigation, fraud or the inability of Aecon to continue its business as presently constituted. Aecon has implemented procedures (including the formation of an internal audit department) and a variety of policies to evaluate and maintain adequate disclosure and internal controls.

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.

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.

Cyclical Nature of the Construction Business

Fluctuating demand cycles are common in the construction industry and can have a significant impact on the degree of competition for available projects. As such, fluctuations in the demand for construction services could adversely affect backlog and margin and thus Aecon's results.

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, change in government 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.

Loss of Key Management; Inability to Attract and Retain Key Staff

The Company's future prospects depend to a significant extent on the continued service of its key executives and staff. Furthermore, the Company's continued growth and future success depends on its ability to identify, recruit, assimilate and retain key management, technical, project and business development personnel. The competition for such employees, particularly during periods of high demand in certain sectors, is intense and there can be no assurance that the Company will be successful in identifying, recruiting or retaining such personnel.

Adjustments in Backlog

There can be no assurance that the revenues projected in Aecon's backlog at any given time will be realized, or if realized, that they will perform as expected with respect to margin. Projects may from time to time remain in backlog for an extended period of time prior to contract commencement, and after commencement may occur unevenly over current and future earnings periods. Project suspensions, terminations or reductions in scope do occur from time to time in the construction industry due to considerations beyond the control of a contractor such as Aecon and may have a material impact on the amount of reported backlog with a corresponding impact on future revenues and profitability.

Risk of Non-Payment

Credit risk of non-payment with private owners under construction contracts is to a certain degree minimized by statutory lien rights which give contractors a high priority in the event of foreclosures as well as progress payments based on percentage completion. However, there is no guarantee that these measures will in all circumstances mitigate the risk of non-payment from private owners and a significant default or bankruptcy by a private owner may impact results.

Credit risk is typically less with public (government) owners who generally account for a significant portion of Aecon's business as funds have generally been appropriated prior to the award or commencement of the project. See "Dependence on the Public Sector" for additional discussion of the risks associated with this type of contract.

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 \$10.6 million at December 31, 2007. Provincial income tax reassessments related to the disallowed CDE and received to date amount to \$0.8 million. 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, 2007, the Company had paid \$5.4 million 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 \$18.5 million. The Company believes it has adequate income tax provisions to cover the ultimate outcome of these reassessments.

Reputation in the Construction Industry

Reputation and goodwill play an important role in the long-term success of any company in the construction industry. Negative opinion may impact long-term results and can arise from a number of factors including competence, questions concerning business ethics and integrity, corporate governance, the accuracy and quality of financial reporting and public disclosure as well as the quality and timing of the delivery of key products and services. Aecon has implemented various procedures and policies to help mitigate this risk including the adoption of a comprehensive Code of Conduct which all employees are expected to review and abide by.

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. Aecon competes with other major contractors as well as many mid-size and smaller companies across a range of industry segments. Each has its own advantages and disadvantages relative to Aecon. New contract awards and contract margin are dependent on the level of competition and the general state of the markets in which we operate. Fluctuations in demand in the segments in which we operate may impact the degree of competition for work. Competitive position is based on a multitude of factors including pricing, ability to obtain adequate bonding, backlog, financial strength, appetite for risk, and reputation for quality, timeliness and experience. Aecon has little control over and cannot otherwise affect these competitive factors. If the Com-

pany 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.

Increases in the Cost of Raw Materials

The cost of raw materials represents a significant component of Aecon's operating expenses. As contractors are not always able to pass such risks on to their customers, unexpected increases in the cost of raw materials may negatively impact the results of the Company's operations. The global availability of basic construction materials such as cement and steel have been impacted by the massive requirements of the Asian market which has resulted in price fluctuations, price escalation and periodic supply shortages. This has added a significant risk to many vendors and subcontractors, some of whom have responded by no longer guaranteeing price or availability on long-term contracts which has in turn increased the risk for contractors who are not always able to pass this risk to its customers.

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.

Protection of Intellectual Property and Proprietary Rights

The Company, particularly through its subsidiary 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.

Outlook

In 2008, Aecon expects to see a continuation of most of the key trends that drove its improved results in 2007.

Government investment in transportation infrastructure, which has risen to unprecedented levels in recent years, is expected to remain very strong as governments continue to address Canada's substantial 'infrastructure deficit'.

Similarly, the drive for increased electrical generation capacity in Ontario continues to strengthen. The Ontario Power Authority, created by the Ontario government to address the capacity challenge, estimates that \$60 billion in new generation capacity and \$3 billion in additional transmission capacity will be needed over the next 20 years to meet the province's needs.

Fueled by record oil prices and strong demand forecasts, the substantial investment in Alberta's oilsands continues unabated, as the number of medium and long-term investment announcements continues to build.

These three markets, which together account for most of Aecon's 'self-perform' construction revenues, are expected to remain strong at least through the end of the decade, and are not likely to be materially affected by a housing crisis in the United States, a prolonged 'credit crunch', the high Canadian dollar, or an economic downturn in Canada or the United States.

In addition, the substantial build-out taking place in education and healthcare infrastructure, a key focus within Aecon's Building segment, is expected to continue as governments address changing demographic needs and past underfunding in these areas.

These strong external trends are complemented by a number of company-specific factors that impact Aecon's outlook for 2008.

Aecon expects to begin recognition of construction profits from the new Quito International Airport in 2008. Under Aecon's accounting policy for large multi-year contracts, construction profit is recognized only when progress reaches a stage of completion sufficient to reasonably determine the probable results. This milestone is likely to be reached on the Quito project in the first half of 2008.

In addition, Aecon will have the benefit of a full year of revenues and profits from Leo Alarie and Sons in 2008, following Aecon's acquisition of this company in December of 2007.

Also of note is the significant increase in Aecon's backlog. On a consolidated basis, Aecon ended 2007 with backlog revenue of over \$1.2 billion, an increase of more than 50% from the \$786 million in place at the beginning of the year. This increase was the result of strong backlog growth in the Buildings and Industrial segments (\$289 million and \$198 million respec-

tively), offset somewhat by a small decline in the Infrastructure segment (\$38 million), due largely to work-off on the Quito International Airport project.

While the Buildings segment saw year-over-year backlog growth in virtually every business unit, almost three quarters of the growth came from the segment's Greater Toronto Area ("GTA") business unit. The backlog growth within the GTA business was due in large part to three significant project awards in the second half of 2007: the expansion of Bell Canada's corporate centre in Mississauga; the Toronto Economic Development Corporation's new commercial building on the city's waterfront; and the expansion of the Rouge Valley Health Centre in Ajax. The increased backlog resulting from these awards bodes well for Buildings segment results in 2008.

The increased backlog in Aecon's Industrial segment includes strong backlog growth in both Western and Central Canada, due primarily to the strength of the oilsands and power generation markets noted above. Innovative Steam Technologies ("IST") also saw significant backlog growth for the second straight year, giving it the second highest year-end backlog in its history. This strong backlog, as well as the potential of IST's new enhanced oil recovery steam generator currently being marketed to the oil and gas industry, position IST for a strong year in 2008.

Overall, although Aecon will be required to begin tax effecting earnings once again in 2008, management continues to believe that Aecon's healthy backlog and the ongoing strength of its core markets, especially in the energy and transportation infrastructure sectors, bode well for continued strong financial performance in 2008 and 2009.

Forward-Looking Information

In various places in Management's Discussion and Analysis and in other sections of this document, management's expectations regarding future performance of Aecon were discussed. These "forward-looking" statements are based on currently available competitive, financial and economic data and operating plans, but are subject to risks and uncertainties. Many factors could cause Aecon's actual results, performance or achievements to vary from those expressed or inferred herein, including without limitation, the ability of the Eastmain Joint Venture to recover the full value of unpriced change orders, and failure to achieve the targets associated with the construction of the new Quito Airport or operation of the existing Quito airport. Risk factors are discussed in greater detail in the section on "Risk Factors" in the Annual Information Form filed on March 30, 2007 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.

CONSOLIDATED FINANCIAL STATEMENTS

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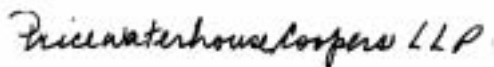
Auditors' Report

To the Shareholders of Aecon Group Inc.

We have audited the consolidated balance sheets of Aecon Group Inc. (the "Company") as at December 31, 2007 and 2006 and the consolidated statements of income, comprehensive income, retained earnings, accumulated other comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in dark ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

CHARTERED ACCOUNTANTS, LICENSED PUBLIC ACCOUNTANTS
TORONTO, ONTARIO
MARCH 5, 2008

Consolidated Balance Sheets

As at December 31

(in thousands of dollars)

	2007	2006
Assets		
Current assets		
Cash and cash equivalents (note 3)	\$ 134,606	\$ 50,109
Restricted cash (note 3)	34,628	13,195
Restricted marketable securities and term deposits (note 3)	–	15,224
Accounts receivable	228,438	208,689
Holdbacks receivable	71,523	58,282
Deferred contract costs and unbilled revenue	111,937	90,312
Inventories	15,702	9,045
Prepaid expenses	6,415	6,511
	603,249	451,367
Property, plant and equipment (note 7)	97,105	53,348
Future income tax assets (note 6)	36,140	19,046
Concession rights (note 5)	109,283	120,088
Long-term investment (note 8)	32,685	42,733
Other assets (note 9)	32,190	29,705
	\$ 910,652	\$ 716,287

Consolidated Balance Sheets (continued)

As at December 31

(in thousands of dollars)

	2007	2006
Liabilities		
Current liabilities		
Bank indebtedness (notes 3 and 10(e))	\$ 6,986	\$ 15,036
Accounts payable and accrued liabilities	266,693	190,020
Holdbacks payable	38,499	30,666
Deferred revenue	68,175	64,444
Income taxes payable	1,191	2,044
Future income tax liabilities (note 6)	40,907	23,160
Current portion of long-term debt (note 10)	17,533	4,797
	439,984	330,167
Non-recourse project debt (note 10)	68,622	66,252
Other long-term debt (note 10)	64,088	14,868
Other liabilities (note 13)	3,077	3,062
Other income tax liabilities (note 6)	14,733	13,994
Concession related deferred revenue (note 14)	63,692	74,353
Convertible debentures (note 12)	30,114	59,988
	684,310	562,684
Non-controlling interests	933	—
Commitments and contingencies (note 15)		
Shareholders' Equity		
Capital stock (note 16)	162,691	131,975
Contributed surplus (note 16)	1,592	1,329
Convertible debentures (note 12)	2,101	4,146
Retained earnings	61,525	16,543
Accumulated other comprehensive loss (note 2)	(2,500)	(390)
	225,409	153,603
	\$ 910,652	\$ 716,287

Approved by the Board of Directors



JOHN M. BECK, *Director*



MICHAEL A. BUTT, *Director*

Consolidated Statements of Income

For the years ended December 31

(in thousands of dollars, except per share amounts)

	2007	2006
Revenues	\$ 1,492,747	\$ 1,113,306
Direct costs and expenses	(1,350,311)	(1,016,744)
	142,436	96,562
Marketing, general and administrative expenses	(71,896)	(62,458)
Foreign exchange (losses) gains	(1,646)	324
Gain (loss) on sale of assets (note 24)	7,840	(68)
Depreciation and amortization	(21,915)	(14,613)
Interest expense (note 17)	(11,234)	(9,660)
Interest income (note 17)	5,972	2,144
	(92,879)	(84,331)
Income before income taxes and non-controlling interests	49,557	12,231
Income tax expense (recovery) (note 6)		
Current	223	(2,790)
Future	(653)	2,061
	(430)	(729)
Income before non-controlling interests	49,127	11,502
Non-controlling interests	(824)	—
Net income for the year	\$ 48,303	\$ 11,502
Net earnings per share (note 16)		
Basic	\$ 1.28	\$ 0.33
Diluted	\$ 1.16	\$ 0.31
Average number of shares outstanding (note 16)		
Basic	37,673,208	35,157,471
Diluted	46,922,459	37,116,872

Consolidated Statements of Comprehensive Income

For the years ended December 31

(in thousands of dollars)

	2007	2006
Net income for the year	\$ 48,303	\$ 11,502
Other comprehensive income (loss), net of tax:		
Currency translation adjustments	(2,311)	(390)
Cash flow hedges		
Net change in fair value of derivatives	201	—
Comprehensive income for the year	\$ 46,193	\$ 11,112

Consolidated Statements of Retained Earnings

For the years ended December 31

(in thousands of dollars)

	2007	2006
Retained earnings—beginning of year	\$ 16,543	\$ 5,000
Net income for the year	48,303	11,502
Change in accounting treatment for financial instruments (note 2)	(400)	—
Dividends (note 16)	(2,977)	—
Redemption of convertible debentures (note 12)	18	—
Interest received on share purchase loans (note 16)	38	41
Retained earnings—end of year	\$ 61,525	\$ 16,543

Consolidated Statements of Accumulated Other Comprehensive Loss

For the years ended December 31

(in thousands of dollars)

	2007	2006
Accumulated other comprehensive loss—beginning of year	\$ (390)	\$ —
Currency translation adjustments	(2,311)	(390)
Cash flow hedges (note 22)	201	—
Accumulated other comprehensive loss—end of year	\$ (2,500)	\$ (390)

Consolidated Statements of Cash Flows

For the years ended December 31

(in thousands of dollars)

	2007	2006
Cash provided by (used in)		
Operating activities		
Net income for the year	\$ 48,303	\$ 11,502
Items not affecting cash:		
Depreciation and amortization	21,915	14,613
(Gain) loss on sale of assets	(7,840)	68
Amortization of deferred financing charges	—	680
Amortization of commitment fees	462	—
Unrealized loss (gain) on foreign exchange	218	(405)
Non-cash interest on other income tax liabilities	739	360
Notional interest representing accretion (notes 12 and 13)	2,632	897
Defined benefit pension (note 20)	(339)	454
Future income taxes	653	(2,061)
Stock-based compensation	454	968
Others	8	—
	67,205	27,076
Change in other balances relating to operations (note 18)	30,277	(28,720)
	97,482	(1,644)
Investing activities		
Increase in restricted cash balances (note 3)	(23,509)	(5,695)
Decrease in restricted marketable securities and term deposits	15,257	338
Purchase of property, plant and equipment	(6,273)	(4,059)
Proceeds on sale of property, plant and equipment	8,025	1,331
Acquisitions (note 19)	(33,229)	(901)
Concession rights (note 5)	(21,721)	(37,474)
Repayment of long-term investment (note 8)	10,048	—
(Increase) decrease in other assets (note 9)	(1,575)	221
Non-controlling interests	973	—
	(52,004)	(46,239)
Financing activities		
(Decrease) increase in bank indebtedness	(6,823)	6,708
Repayment of other loan payable (note 21(c))	—	(2,500)
Issuance of long-term debt	75,784	73,043
Repayments of long-term debt	(24,533)	(42,444)
Increase in concession related deferred revenue (note 14)	—	7,246
Issuance of capital stock (note 16)	1,261	28,689
Repurchase of capital stock (note 16)	(2,204)	(1,266)
Repayment of share purchase loans (note 16)	532	—
Redemption of convertible debentures	(500)	—
Interest received on share purchase loans (note 16)	38	41
	43,555	69,517
Increase in cash and cash equivalents during the year	89,033	21,634
Effects of foreign exchange on cash balances	(4,536)	1,473
Cash and cash equivalents—beginning of year	50,109	27,002
Cash and cash equivalents—end of year	\$ 134,606	\$ 50,109
Supplementary disclosures (note 18)		

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.

Accounting for operations of the Existing Quito Airport and the Quito Construction Joint Venture

The Company holds a 42.3% effective interest in Corporacion Quiport S.A. ("Quiport JV") which holds the concession contract for the Quito airport, and the Company also holds a 50% interest in the joint venture ("Construction JV") constructing the new Quito airport. The Company accounts for these investments using the proportionate consolidation method, whereby the Company recognizes on its consolidated balance sheets its share of the assets and liabilities of both Quiport JV and Construction JV, and in its consolidated statements of income, 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. As at December 31, 2007, this threshold has not yet been achieved for the new Quito airport construction project.

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 Company's share of income or loss to date less dividends received.

Other investments, where the Company exercises neither significant influence nor control or joint 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 quarries 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 16. 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 foreign 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 for the year.

The assets and liabilities of the Company's self-sustaining foreign operations that have 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 accumulated other comprehensive loss.

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

Earnings per share

Basic earnings 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 year (or at time of issuance, if later).

2) Change in accounting policies

Effective January 1, 2007, the Company adopted five new accounting standards that were issued by The Canadian Institute of Chartered Accountants ("CICA"): Handbook Section

1530 "Comprehensive Income," Handbook Section 3251 "Equity," Handbook Section 3855 "Financial Instruments—Recognition and Measurement," Handbook Section 3865 "Hedges," and Handbook Section 1506 "Accounting Changes." The Company adopted these standards prospectively and, accordingly, comparative amounts for prior years have not been restated.

Comprehensive Income

Section 1530 introduces the concept of Comprehensive Income, which consists of Net Income and Other Comprehensive Income ("OCI"). OCI represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation gains and losses arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The consolidated financial statements include a consolidated statement of comprehensive income, which includes the current year changes in OCI. The cumulative changes in OCI are included in Accumulated Other Comprehensive Income (Loss) ("AOCI"), which is presented as a new category of shareholders' equity in the consolidated balance sheets.

Equity

Section 3251 "Equity," replaces Section 3250 "Surplus," and describes how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530 "Comprehensive Income." As a result of adoption of this section, the consolidated financial statements include a Consolidated Statement of Accumulated Other Comprehensive Income and a Consolidated Statement of Comprehensive Income.

Financial Instruments—Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the consolidated balance sheets when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition. Financial assets

and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses, including the impact of changes in foreign exchange rates, being recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. Derivative instruments are recorded on the consolidated balance sheets at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in net income with the exception of derivatives designated as effective cash flow hedges or hedges of foreign currency exposure of a net investment in a self-sustaining foreign operation.

Other significant accounting implications arising upon the adoption of Section 3855 include the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost, and the recognition of the inception fair value of the obligation undertaken in issuing a guarantee that meets the definition of a guarantee pursuant to Accounting Guideline 14 “Disclosure of Guarantees” (AcG-14). No subsequent remeasurement at fair value is required unless the financial guarantee qualifies as a derivative. If the financial guarantee meets the definition of a derivative, it is remeasured at fair value at each balance sheet date and reported as a derivative in other assets or other liabilities, as appropriate.

Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item. In a fair value hedging relationship, the carrying value of the hedged item is adjusted for unrealized gains or losses attributable to the hedged risk and recognized in net income. Changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which is also recorded in net income. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the

carrying value of the hedged item are amortized to net income over the remaining term of the original hedging relationship. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in OCI while the ineffective portion is recognized in net income. When hedge accounting is discontinued, the amounts previously recognized in AOCI are reclassified to net income during the periods when the variability in the cash flows of the hedged item affects net income. Gains and losses on derivatives are reclassified immediately to net income when the hedged item is sold or terminated early. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments is recognized in OCI and the ineffective portion is recognized in net income. Amounts previously recognized in AOCI are recognized in net income when there is a reduction in the hedged net investment as a result of a dilution or sale of the net investment or there is a reduction in equity of the foreign operation as a result of dividend distributions.

The Company has recorded the following transition adjustments effective January 1, 2007 in the consolidated financial statements: (i) \$390 of net foreign currency losses that were previously presented as a separate item in shareholders' equity have been reclassified to AOCI; (ii) \$1,767 of deferred financing charges previously classified as other assets on the consolidated balance sheets have been reclassified to convertible debentures; and (iii) accounts receivable holdbacks and accounts payable holdbacks have been fair valued with a resulting net charge after tax to retained earnings of \$400.

Accounting Changes

On January 1, 2007, the Company adopted CICA Handbook Section 1506 “Accounting Changes,” which prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors. This standard did not affect the Company's consolidated financial position, results of operations or cash flows in 2007. This standard also requires that any new CICA Handbook standards adopted in future periods and the impact of those new standards need to be disclosed in the consolidated financial statements.

Future accounting changes

The CICA has issued the following new Handbook sections, which will become effective on January 1, 2008 for the Company:

Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535 “Capital Disclosures.” This section establishes criteria for disclosure of: (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements to which it is subject; and (iv) if it has not complied, the consequences of such non-compliance. Section 1535 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2007.

Financial Instruments—Disclosures and Presentation

In December 2006, the CICA issued Handbook Section 3862 “Financial Instruments—Disclosures” and Section 3863 “Financial Instruments—Presentation.” Section 3862 modifies the disclosure requirements of Section 3861 and requires entities to provide disclosures in their consolidated financial statements that enable users to evaluate the significance of financial instruments on the entity’s consolidated financial position and performance, and the nature and extent of risks arising from financial instruments and non-financial derivatives. Section 3863 “Financial Instruments—Presentation” carries forward unchanged the presentation requirements for financial instruments of Section 3861 “Financial Instruments—Disclosures and Presentation.” Sections 3862 and 3863 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2007.

Inventory

In June 2007, the CICA issued Handbook Section 3031 “Inventory,” which replaced Section 3030. The new section specifies the cost formula to be used in the valuation of inventories and defines the treatment of other costs eligible for inclusion in the calculation of inventory values. Section 3031 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2008.

The Company does not anticipate any significant impact on the Company’s financial position or on the results of its operations from adoption of the above new standards.

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

- (a) Cash and cash equivalents as at December 31, 2007 include \$42,658 (2006—\$42,212) on deposit in joint venture and affiliate bank accounts which the Company cannot access directly. Restricted cash of \$34,628 at December 31, 2007 (2006—\$13,195) 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. In 2006, restricted marketable securities and term deposits of \$15,224 represents marketable securities deposited as collateral for borrowings and letters of credit issued by the Company and, as such, these marketable securities were not available or directly accessible by the Company.
- (b) Bank indebtedness at December 31, 2007 includes \$6,986 (2006—\$8,213) 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 9.3% (2006—8.8%). The full amount of the joint venture operating line and borrowings, amounting to \$15,524 (2006—\$18,250), is secured by letters of credit that are guaranteed by the Company. Bank indebtedness at December 31, 2006 also included \$6,823 outstanding on the Company’s line of credit facility.

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 (loss) and cash flows of these joint ventures. Included in expenses in the determination of net income (loss) 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 a recovery of income tax of \$399 (2006—income tax expense of \$455).

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(in thousands of dollars, except per share amounts)

	2007	2006
Assets		
Current	\$ 118,594	\$ 138,931
Property, plant and equipment	2,643	2,233
Other	114,335	125,481
	\$ 235,572	\$ 266,645
Liabilities		
Current	\$ 66,572	\$ 73,031
Long-term	126,110	137,740
Venturers' equity	42,890	55,874
	\$ 235,572	\$ 266,645
Revenues	\$ 179,188	\$ 122,479
Expenses	183,510	118,532
Net (loss) income	\$ (4,322)	\$ 3,947
Cash provided by (used in)		
Operating activities	\$ 16,068	\$ 18,521
Investing activities	(15,894)	(25,564)
Financing activities	4,336	37,702
	\$ 4,510	\$ 30,659

- (b) The Company is either contingently or directly liable for obligations of its unincorporated joint ventures (notes 11 and 15). 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 \$42,130 (2006—\$9,715) from its joint venture partners. At December 31, 2007, the Company has included in accounts receivable \$4,275 (2006—\$5,000) owing from its joint ventures and has included in accounts payable and accrued liabilities \$2,359 (2006—\$1,445) owing to its joint ventures.
- (d) See note 27 for additional supplementary information.

5) Concession rights

The Company has recorded concession rights as follows:

	2007	2006
Concession rights to operate the Existing Quito Airport, net of accumulated amortization of \$18,704 (2006—\$7,105)	\$ 38,135	\$ 59,717
Concession rights to operate the new Quito Airport	71,148	60,371
	\$109,283	\$ 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 ("New Quito Airport") under a concession arrangement with Corporacion Aeropuerto y Zona Franca del Distrito Metropolitano de Quito ("CORPAQ"). The Company's 42.3% effective economic interest reflects a 45.5% investment in Quiport JV less the impact of the Company's share of a 7% carried interest given to one of the other partners for its participation in the project. Under the concession contract with CORPAQ, Quiport JV was 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 is being reinvested in the New Quito Airport.

(b) Accounting for operations of the Existing Quito Airport

As an inducement to develop and finance the New Quito 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 fair valued this right and recorded an intangible asset (being the "Concession Rights") on its consolidated balance sheet. As at the date of financial close in 2006, the Company's proportionate share of this asset was assigned a value of US\$57,337 or the Canadian equivalent of \$64,000 following a valuation of

the inducement by an independent international accounting firm. Quiport JV amortizes these Concession Rights over the remaining term of the right to operate the Existing Quito Airport, and amortization is based on usage (estimated traffic volumes). The offsetting concession related deferred revenue balance (which is the value of the 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.

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

At December 31, 2007, \$71,148 (2006—\$60,371) representing the Company's proportionate share of the costs to construct the New Quito Airport has been recorded as Concession Rights to operate the New Quito Airport. Amortization of these Concession Rights will commence after construction of the New Quito Airport is completed. As a result, there is no amortization expense recorded in the current or prior year results.

The Company's investment in the Quito Airport concession is accounted for by the proportionate consolidation method, whereby the consolidated financial statements reflect, line by line, the pro rata share of each of the assets, liabilities, revenues and expenses of the Quito Airport concession. As a result, the consolidated financial statements include the Company's proportionate share of the non-recourse project debt used to finance the construction of the new airport (see note 10).

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:

	2007	2006
Income before income taxes and non-controlling interests	\$ 49,557	\$ 12,231
Statutory income tax rate	36.1%	36.1%
Expected income tax expense	(17,900)	(4,418)
Effect on income tax of:		
Reduction in the valuation allowance	14,631	6,664
Impact of change in substantively enacted tax rates on future tax balances	3,958	(1,510)
Provincial and foreign rate differentials	1,310	215
Non-deductible expenses	(1,816)	(945)
Foreign exchange translation losses	(844)	(46)
Other	231	(689)
	17,470	3,689
Income tax expense	\$ (430)	\$ (729)

The Company and certain subsidiaries have accumulated non-capital income tax loss carry-forwards of approximately \$113,164 (2006—\$125,175), which may be used to reduce future taxable income and expire in the following years:

2008	\$ 67
2009	11,163
2010	19,099
2014	29,088
2015	24,763
2026	2,377
2027	26,607
	\$ 113,164

Notes to Consolidated Financial Statements
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(in thousands of dollars, except per share amounts)

The components of future income taxes are as follows:

	2007	2006
Canadian components:		
Net operating and capital losses carried forward	\$ 37,646	\$ 42,412
Reserves expensed for financial statement purposes and deducted for income tax purposes when paid	(2,361)	2,148
Property, plant and equipment:		
Net book value in excess of tax basis	(4,897)	(579)
Long-term contracts, including joint ventures ⁽¹⁾	(33,744)	(21,823)
Other temporary differences	46	729
Other long-term differences	6,794	3,423
Total future income tax assets, before valuation allowance	3,484	26,310
Valuation allowance:		
Balance beginning of year	(26,210)	(32,874)
Drawdown from current year operations	14,631	6,664
Drawdown to offset net future tax liability arising on the acquisition of a subsidiary company	8,175	–
Valuation allowance, end of year	(3,404)	(26,210)
Total Canadian future income tax assets	80	100
Foreign components:		
Long-term contracts, including joint ventures	(4,847)	(4,214)
Total foreign future income tax assets	(4,847)	(4,214)
Total future income tax liabilities, net	\$ (4,767)	\$ (4,114)
Classified as:		
Long-term future income tax assets	\$36,140	\$19,046
Current future income tax liabilities	(40,907)	(23,160)
Total future income tax liabilities	\$ (4,767)	\$ (4,114)

(1) Results from the difference between the use of the percentage of completion method of reporting for financial statement purposes and use of the 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 amounts reported as future income tax liabilities and as other income tax liabilities adequately reflect management's current best estimate of its income tax exposures (see also note 15(d)).

7) Property, plant and equipment

2007			
	Cost	Accumulated depreciation and amortization	Net
Land and improvements	\$ 6,106	\$ –	\$ 6,106
Buildings	18,223	4,823	13,400
Aggregate properties	36,950	5,095	31,855
Machinery and equipment	92,741	46,997	45,744
	\$ 154,020	\$ 56,915	\$ 97,105

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

Included in property, plant and equipment is equipment of \$10,755 (2006—\$10,192) held under capital leases, with accumulated depreciation of \$4,724 (2006—\$3,684).

8) Long-term investment

The long-term investment in the amount of \$32,685 at December 31, 2007 (2006—\$42,733) represents the Company's 25% investment, which is carried at cost, in Derech Eretz Highways (1997) Ltd. ("Derech Eretz"), the company that owns the concessionaire rights to the Cross Israel Highway. Under the terms of the concession contract with the State of Israel and lender agreements, the Company is required to obtain approvals in order to sell all or a portion of this investment. In addition, existing shareholders have a right of first refusal to acquire this investment in the event of a sale and also are entitled to participate on a pro rata basis in the event of a sale to a third party. Pursuant to an agreement with the State of Israel, the Company's interest in Derech Eretz would be diluted to approximately 12% if options granted to the State are exercised.

In July 2007, Derech Eretz redeemed a portion of its subordinated debt of which the Company's share was \$10,048. For accounting purposes, this repayment was treated as a return of capital and, as such, had no impact on the Company's reported earnings. After the partial redemption, the carrying value of this investment at December 31, 2007 was \$32,685 and the Company's ownership interest remained at 25%.

On February 16, 2006, pursuant to an agreement reached with the project lenders, the shareholders of Derech Eretz purchased certain options held by the 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).

Notes to Consolidated Financial Statements
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9) Other assets

		2007	2006
Goodwill	(a)	\$ 12,451	\$ 9,427
Long-term receivables	(b)	7,019	6,968
Income tax deposit (note 15(d))		5,414	5,414
Loans receivable	(c)	2,849	3,428
Pension assets (note 20)		2,127	1,788
Commitment fees	(d)	871	1,494
Other	(e)	1,459	1,186
		\$ 32,190	\$ 29,705

(a) During 2007, goodwill was increased by \$3,024 as a result of the acquisition of the assets of Leo Alarie and Sons Limited described in note 19.

(b) Long-term receivables of \$7,019 (2006—\$6,968) include \$5,877 (2006—\$5,706) representing an amount due from Derech Eretz. This receivable is collectible by June 30, 2029 and accrues interest at 8% per annum.

Also included in long-term receivables is \$1,142 (2006—\$1,262) 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 31 of each year and full payment must be made no later than December 31, 2009.

(c) Loans receivable include \$2,329 (2006—\$2,738) from Capital Projects Group Inc. (“CPGI”), and are 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 \$520 (2006—\$518). 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. Loans advanced to directors, senior officers and employees for the purchase of the Company’s shares are netted against capital stock (see note 16).

(d) Commitment fees of \$871 (2006—\$1,494) include \$231 that relates to the Company’s three-year revolving operating line facility described in note 10(e) and \$640 related to non-recourse project financing for the Rouge Valley Health System project described in note 10(c). These charges are being amortized as interest expense over the term of the respective facilities.

(e) Other includes definite life intangible assets of \$618 (2006—\$737).

10) Long-term debt

		2007	2006
Quiport JV project financing	(a)	\$ 64,490	\$ 60,763
Quiport JV CORPAQ debt	(b)	5,191	5,614
Rouge Valley Health System project debt	(c)	3,213	—
Non-recourse project debt		72,894	66,377
Capital leases and equipment loans	(d)	35,770	11,082
Term loan	(e)	13,402	—
Note payable	(f)	18,192	—
Mortgages	(g)	4,796	4,917
Loans from Derech Eretz partners	(h)	3,787	—
Derech Eretz investment loan		—	1,457
Investment loan	(i)	1,402	1,923
Other		—	161
Other long-term debt		77,349	19,540
Total long-term debt		150,243	85,917
Less: Amounts due within one year			
– Non-recourse project debt		4,272	125
– Other long-term debt		13,261	4,672
		\$ 132,710	\$ 81,120

The following describes the components of long-term debt:

- (a) The total financing commitment made by the Project Senior Lenders to Quiport JV is US\$376,388. As at December 31, 2007, senior project financing advanced to Quiport JV by the Project Senior Lenders at 100% was US\$148,490 (2006—US\$114,592). Included in the Company's consolidated balance sheets at December 31, 2007 is debt, net of transaction costs, of US\$65,055 (CAD\$64,490) (2006—US\$52,139 or 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 otherwise without recourse to the Company.

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

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

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

As at December 31, 2007, Quiport JV was in compliance with all covenants under the debt agreement with the Project Senior Lenders. Subsequent to year-end, Quiport JV had a non-financial covenant under the terms of this debt agreement that was not met, as required, by January 27, 2008. A waiver request has been submitted and, upon supplying certain additional information that the Project Senior Lenders have requested, and which Quiport JV is in the process of providing, the Project Senior Lenders have indicated that the waiver will be granted.

- (b) Quiport JV CORPAQ debt of \$5,191 (2006—\$5,614) 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 2008 to 2012. This non-interest bearing debt, which is denominated in United States dollars, has been discounted at the rate of 10.65%.
- (c) Project financing for the Rouge Valley Health System project at December 31, 2007 was \$3,213 (2006—\$nil). The total amount available to be borrowed over the construction period is \$57,034 and repayment of the loan is due at the end of the project. This debt is secured by the assets of the project and is otherwise non-recourse to the Company. Interest is payable monthly at an annual rate of 5.3%.

- (d) At December 31, 2007, capital leases and equipment loans bore interest at fixed and floating rates averaging 5.91% (2006—6.8%) per annum, with specific equipment provided as security. Included in these amounts are the following equipment loans:

On February 1, 2007, the Company entered into an equipment loan facility and borrowed \$12,699 which was used to partially finance its acquisition of The Karson Group (see note 19). The term loan is secured by certain equipment of The Karson Group and bears interest at a fixed rate of 6.4%. The term loan will be repaid over a period of seven years with monthly payments. At December 31, 2007, the balance outstanding under the term loan net of transaction costs was \$11,408.

On December 20, 2007, the Company entered into an equipment loan facility and borrowed \$15,535 which was used to partially finance the acquisition of the assets of Leo Alarie and Sons Limited (see note 19). The term loan is secured by certain of the acquired equipment and bears interest at a fixed rate of 6.5%. The term loan will be repaid over a period of seven years with monthly payments. At December 31, 2007, the balance outstanding under the term loan net of transaction costs was \$15,428.

- (e) On June 8, 2007, the Company signed a new three-year credit agreement with a syndicate of lenders. The new credit facility includes a three-year term loan for \$15,000 and a three-year revolving committed operating line for \$50,000. The new facility replaced a number of existing loans and credit lines which totalled approximately \$42,000. The new credit facility also includes a special letter of credit facility of approximately \$25,000 used in relation to the Nathpa Jhakri hydro-electric project in India (see note 11). The credit agreement is also secured by general security agreements over the assets of the Company including accounts receivable, hold-backs receivable, inventory, equipment, real estate assets and aggregate reserves on such properties. The facility has certain covenants to be calculated quarterly and, except as noted below, matures on June 15, 2010.

The full amount of the term loan was borrowed under the agreement and subsequently converted into a U.S. dollar denominated loan. This three-year U.S. dollar term loan bears interest at LIBOR plus 2.75% with interest payable monthly in arrears on the first day of each month. Commencing October 1, 2007, principal repayments of US\$500 are due quarterly with the remaining balance outstanding due on maturity. At December 31, 2007, the balance outstanding under the term loan facility net of transaction costs was US\$13,520 (CAD\$13,402).

In connection with the above U.S. dollar denominated term loan facility, the Company entered into an interest rate swap on October 1, 2007 with a financial institution to help manage its exposure to interest rate volatility. The interest rate swap is recorded at fair value and is further described in note 22.

(in thousands of dollars, except per share amounts)

The three-year revolving operating line of CAD\$50,000 bears interest at prime plus 1.35%. Amounts outstanding under the operating line are reported as bank indebtedness on the consolidated balance sheets (no amounts were drawn at December 31, 2007). At December 31, 2007, domestic letters of credit issued against the revolving operating line amounted to \$14,867. As a result, \$35,133 of the facility was available for drawdown by the Company.

The special letter of credit facility is being provided to replace guarantees in support of financial and performance related obligations of the Nathpa Jhakri hydro-electric project in India. Letters of credit issued under the special letter of credit facility total \$5,595 and US\$18,776 (CAD\$18,613) and expire on December 15, 2008.

- (f) As partial consideration for the acquisition of The Karson Group in 2007 (see note 19), the Company issued a note payable in the amount of \$21,225 to the vendor. This note payable, which is non-interest bearing and is secured by certain equipment of The Karson Group, was discounted at 8% to arrive at a fair value of \$16,949 at the date of the acquisition. Commencing January 31, 2008, the note is payable in equal annual installments over a five-year period. During 2007, the Company recorded interest expense of \$1,243 representing interest accretion on the note payable (2006—\$nil).
- (g) Mortgages are secured by certain of the Company's real estate assets. Amounts outstanding are at a fixed rate of interest of 7.6% (2006—7.6%) until January 1, 2011 and require monthly principal and interest payments amortized over 25 years.
- (h) At December 31, 2007, loans from the Company's partners in Derech Eretz totalled NIS14,777 (CAD\$3,787). These loans bear interest at 8% and are generally repayable as distributions from Derech Eretz are received.
- (i) In 2006, the Company borrowed US\$1,650 (CAD\$1,923) from Airport Development Corporation, a joint venture partner in the Quito 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. At December 31, 2007, the loan balance was US\$1,414 (CAD\$1,402).

The weighted average interest rate on long-term debt outstanding at the end of the year was 6.9% (2006—7.0%).

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

2008	\$ 17,573
2009	13,431
2010	55,044
2011	22,363
2012	21,742
Thereafter	50,204
	<hr/> \$ 180,357

11) Guarantees

The Company has outstanding guarantees amounting to \$24,208 (2006—\$25,905) in support of financial and performance related obligations for the Nathpa Jhakri hydro-electric project in India. These guarantees are backed by letters of credit issued by the Company as described in note 10(e).

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 (at 100%) is in the amount of US\$32,400 (CAD\$32,118) (2006—US\$32,400 or CAD\$37,759) and is renewed annually to its full amount, irrespective of any drawings made thereunder. The Company has issued a letter of credit in the amount of US\$8,100 (CAD\$8,030) (2006—US\$8,100 or CAD\$9,440) to support its share of the continuous guarantee, and its partners have similarly issued letters of credit to support their respective shares. The leakage guarantee (at 100%) came into effect when construction was completed and is renewable annually for the lesser of NIS33,000 plus escalation to-date (CAD\$11,990) (2006—NIS33,000 plus escalation or CAD\$12,470) or 6% of annual toll revenue.

In addition to the above, the Company has provided letters of credit in the amount NIS2,400 (CAD\$615) (2006—NIS2,400 or CAD\$663) to support a performance bond that was required of the concessionaire in connection with the construction of an extension to the Cross Israel Highway. This letter of credit is secured by cash.

(in thousands of dollars, except per share amounts)

In connection with the Quito airport project, the Company has provided letters of credit of US\$16,800 (CAD\$16,654) (2006—US\$22,000 or CAD\$25,639) in support of its remaining equity obligations and a letter of credit of US\$30,203 (CAD\$29,940) (2006—US\$30,203 or CAD\$35,199) for various project contingencies. These letters of credit are supported by guarantees issued on behalf of the Company to the issuing banks by Export Development Canada (“EDC”) and will remain in place until its equity obligations are fulfilled and the conditions giving rise to the contingencies are satisfied or cleared. As a result of EDC issuing these guarantees, the Company was required to place on deposit with EDC the sum of US\$1,500 (CAD\$1,487) (2006—US\$1,000 or CAD\$1,165), which is classified as restricted cash on the consolidated balance sheets.

The Company has also issued letters of credit to secure advances received from the Quito construction joint venture in the sum of US\$16,150 (CAD\$16,009) (2006—US\$9,500 or CAD\$11,071). The cash received was used as collateral for the letters of credit.

In addition, the Company and its joint venture partner have provided surety bonds, guaranteed joint and severally, to cover construction and concession related performance obligations of US\$67,055 (CAD\$66,472) (2006—US\$67,055 or CAD\$78,146), an advance payment bond of US\$74,466 (CAD\$73,818) (2006—US\$74,466 or CAD\$86,783) and a retention release bond of US\$20,685 (CAD\$20,505) (2006—US\$20,685 or CAD\$24,106). In each case, the Company's share is supported by guarantees issued by EDC. As a result of EDC issuing these guarantees, the Company was required to place in deposit with EDC the sum of US\$2,000 (CAD\$1,983) (2006—\$nil), which is classified as restricted cash on the consolidated balance sheets.

The Company has also issued performance guarantees of \$7,640 (2006—\$1,041) 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 conduct of operations, letters of credit amounting to \$14,867 (2006—\$12,891) in support of financial and performance related obligations of its North American operations.

Under the terms of many of the Company's joint venture contracts with project owners, each of the partners is jointly and severally liable for performance under the contracts. At December 31, 2007, the value of uncompleted work for which the Company's joint venture partners are responsible, and which the Company could be responsible for assuming, amounted to approximately \$311,058 (2006—\$428,694), a substantial portion of which is supported by performance bonds. In the event the Company assumed this additional work, it would have the right to receive the partner's share of billings to the project owners pursuant to the joint venture contract.

The Company has, over time, sold portions of its business.

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

12) Convertible debentures

Convertible subordinated debentures consist of:

	2007	2006
Debt component:		
Debt maturing November 2, 2009	\$ —	\$ 28,872
Debt maturing March 17, 2010	30,114	31,116
	\$ 30,114	\$ 59,988
Reported as:		
Long-term liability	\$ 30,114	\$ 59,988
Equity component:		
Debt maturing November 2, 2009	\$ —	\$ 1,990
Debt maturing March 17, 2010	2,101	2,156
	\$ 2,101	\$ 4,146

In November 2004, the Company issued \$30,000 in unsecured, subordinated convertible debentures maturing November 2, 2009. The debentures bore interest at the rate of 8.25% per annum payable on a semi-annual basis. During 2007, \$29,500 of these convertible debentures were converted into 3,933,252 common shares and \$500 were redeemed for cash. At December 31, 2006, the face value of these convertible debentures, which remained outstanding, was \$30,000.

Notes to Consolidated Financial Statements
December 31, 2007 and 2006

(in thousands of dollars, except per share amounts)

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. During 2007, \$825 of convertible debentures were converted into 108,552 common shares. At December 31, 2007, the face value of these convertible debentures, which remains outstanding, is \$31,675 (2006—\$32,500). In February 2008, the Company announced its intention to redeem all of the remaining convertible debentures (see note 26).

Subject to specified conditions, the Company has the right to repay the outstanding principal amount of the convertible debentures, on maturity or redemption, through the issuance of common shares of the Company. The Company also has the option to satisfy its obligation to pay interest through the issuance and sale of additional common shares of the Company 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 March 2006, Hochtief AG ("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 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, and an annual notional interest representing the accretion of the carrying value of the debentures. For 2006, interest also included the amortization of deferred financing costs related to the debentures. On January 1, 2007, the unamortized portion of these costs was netted against the carrying value of the debentures. Interest recorded was as follows:

	2007	2006
Interest expense on face value	\$ 4,690	\$ 5,253
Notional interest representing accretion	1,295	852
Amortization of deferred financing costs	—	588
	\$ 5,985	\$ 6,693

The liability portion of the debentures is as follows:

	2007	2006
Financial liability component	\$ 29,574	\$ 58,354
Notional interest representing accretion	540	1,634
	\$ 30,114	\$ 59,988

Upon the adoption of the CICA Handbook Section 3855 on accounting for Financial Instruments, the balance of the financial liability component of the convertible debentures as at January 1, 2007 was reduced by \$1,767 (see note 2).

13) Other liabilities

	2007	2006
Leasehold inducements	\$ 1,900	\$ 2,080
Asset retirement obligations	1,177	982
	\$ 3,077	\$ 3,062

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.

	2007	2006
Asset retirement obligation liability, beginning of year	\$ 982	\$ 711
Increase in obligation	136	225
Accretion expense	59	46
Asset retirement obligation liability, end of year	\$ 1,177	\$ 982

The total undiscounted amount of the estimated cash flows required for rehabilitating the pits and quarry is approximately \$62,000. Rehabilitation costs are expected to be settled between 2016 and 2107. 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) Concession related deferred revenue

As part of acquiring, in 2006, the rights to operate the Existing Quito Airport (see note 5(b)), the Company recorded US\$57,337 or Canadian equivalent of \$56,838 at December 31, 2007 exchange rates (2006—US\$57,337 or CAD\$66,822) of concession related deferred revenue representing the estimated value of the “inducement” received by Quiport JV to develop, finance, and operate 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 US\$3,897 or Canadian equivalent of \$3,864 at December 31, 2007 exchange rates (2006—US\$3,897 or CAD\$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.

Concession related deferred revenue at December 31, 2007 also includes \$2,990 (2006—\$2,990) received in 2006 as development funds and cost reimbursements related to the Quito airport project. This deferred revenue balance will be amortized to earnings over the term of the New Quito Airport concession period.

15) Commitments and contingencies

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

2008	\$17,592
2009	15,073
2010	10,301
2011	6,780
2012	3,791
Beyond	9,721
	<hr/> \$63,258

- (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 consolidated financial position of the Company. Any settlements or awards will be reflected in the consolidated statements of income, 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, 2007. 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, 2007, 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 \$18,525. 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 \$28,931 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 \$91,534 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. 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 nearing completion and a decision is expected in 2008.

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, 2007.

- (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, CAD\$6,300. 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 CAD\$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 a partner with Hochtief Construction AG in a joint venture that constructed a hydro-electric facility in northern Québec for Société d'énergie de la Baie James, a subsidiary of Hydro-Québec (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-Québec 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 consolidated financial results and position would be adversely impacted.
- (h) In the latter part of 2007, as with other private concessions in Ecuador, the Quito Airport project came under heightened scrutiny by the new federal administration. Along with this scrutiny came a series of public criticisms by the administration against the Municipality of Quito, primarily directed at the lack of contribution by the municipality, through the airport project, towards a national airport modernization program. Additionally in 2007, a National Assembly was installed to draft a new Ecuadorian constitution, which is expected to re-centralize competencies for services relating to national infrastructure. While there is no indication thus far that the administration intends to take any unilateral action that would run contrary to the contracts the Company and its partners have in place, the political environment and concurrent constitutional process reconfirm that the project and related investments are occurring in a country in which there is elevated political risk and uncertainty generally. Therefore, political risk may adversely impact the project's financial performance and its overall financial viability, and the value of the Company's investment in the Quito Airport concessionaire (Quiport JV) could ultimately be impaired.

The Company is committed to investing US\$33,670 in the Quito Airport project with US\$18,382 having been invested as at December 31, 2007 (2006—US\$13,650).

During the past two years, 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 certain airlines. Should Quiport JV'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 Airport project, see notes 10 and 11.

16) Capital stock

	2007		2006	
	Number of shares issued	Amount	Number of shares issued	Amount
Balance – beginning of year	38,069,829	\$ 131,975	31,180,609	\$ 95,985
Common shares issued on exercise of options	205,516	1,451	275,000	990
Common shares issued on conversion of debentures (i)	4,041,804	30,937	2,147,566	8,567
Repayment of share purchase loans (ii)	–	532	–	–
Common shares issued, less expenses of \$1,551 (iii)	–	–	4,680,000	27,699
Common shares purchased by the Trust of the long-term incentive program (iv)	(238,030)	(2,204)	(213,346)	(1,266)
Balance – end of year (ii and iv)	42,079,119	\$ 162,691	38,069,829	\$ 131,975

(i) During 2007, convertible debentures with a face value of \$30,325 and a carrying value of \$28,926 were converted into 4,041,804 common shares at conversion prices ranging from \$7.50 to \$7.60 per share (see note 12). In addition, share capital was increased by \$2,009 representing the equity portion of the convertible debentures that was previously classified as a separate component of shareholders' equity.

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. 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.

(ii) In accordance with the recommendations of the CICA on accounting for share purchase loans receivable from employees, such loans, except in certain circumstances are required to be presented as deductions from shareholders' equity. Accordingly, loans totalling \$552 (2006—\$1,084) are presented as a deduction from capital stock. Interest received on such loans, after provision for income taxes, amounted to \$38 (2006—\$41) and is accounted for as a capital transaction in shareholders' equity. During 2007, \$532 of these loans was repaid.

(iii) On March 17, 2006, the Company issued 4,500,000 common shares at \$6.25 per share. Net proceeds, after deducting agents' fees and expenses of the issue, were approximately \$26,625. 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. The exercise of the Over-Allotment Option raised the aggregate net proceeds under the offering to \$27,699.

(iv) In accordance with the recommendations of the CICA Accounting Guideline No. 15 "Consolidation of Variable Interest Entities," share capital and shares outstanding have been reduced to reflect shares purchased by the Trust administering the Company's Long-Term Incentive Plan. As at December 31, 2007, the Trust held 451,376 shares (2006—213,346 shares) with a cost basis of \$3,470 (2006—\$1,266).

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

Stock option plans

On June 21, 2005, the Company's shareholders approved a new stock option plan (the "2005 Stock Option Plan") to replace the previous 1998 Stock Option Plan. However, this new plan did not affect the rights granted to the holders of options that were previously issued and remain outstanding under the

1998 Stock Option Plan. The aggregate number of common shares that can be issued under the 2005 Stock Option Plan shall not exceed 2,500,000. Similar to the 1998 Stock Option Plan, each option issuance under the 2005 Stock Option Plan specifies the period for which the option thereunder is exercisable (which in no event shall exceed ten years from the date of grant) and shall provide that the option shall expire at the end of such period. The Company's Board of Directors will determine the vesting period on the dates of option grants.

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

	2007		2006	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Balance outstanding at beginning of year	1,200,000	\$ 6.06	625,000	\$ 4.73
Granted	50,000	6.75	1,000,000	6.25
Exercised	(205,516)	6.13	(275,000)	3.60
Forfeited	—	—	(150,000)	6.25
Balance outstanding at end of year	1,044,484	\$ 6.08	1,200,000	\$ 6.06
Options exercisable at end of year	561,150	\$ 5.95	483,333	\$ 5.89

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	55,000	\$ 6.30	August 3, 2009
2004	16,667	\$ 6.20	November 30, 2009
2005	66,667	\$ 5.51	November 7, 2010
2006	756,150	\$ 6.25	March 27, 2011
2007	50,000	\$ 6.75	January 16, 2012
	1,044,484		

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All option grants, except for options granted in 2006, 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 vested 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 the following assumptions:

	2007	2006
Dividend yield	0%	0%
Expected volatility	29%	32%
Risk free interest rate	4%	4%
Weighted average expected life (years)	3.5	3.25

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

During the year, compensation expense and contributed surplus were increased by \$454 (2006—\$968) on account of options granted.

As options are exercised, the corresponding values previously charged to contributed surplus are reclassified to capital stock. In 2007, contributed surplus was decreased by \$191 (2006—\$nil) and capital stock was increased by the same amount upon the exercise of options under the 2005 Stock Option Plan. Proceeds arising from the exercise of these options are credited to capital stock.

Long-Term Incentive Plan

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

Awards to participants are based on the financial results of the Company and are made in the form of Deferred Share Units (“DSUs”) or in the form of restricted shares. Awards made in the form of DSUs will vest only upon the retirement or termination of the participant. Awards made in the form of restricted shares will vest annually over three years. Compensation charges related to the LTIP are expensed over the estimated vesting

period of the awards. Awards made to individuals who are eligible to retire are assumed for accounting purposes to vest immediately. In 2007, the Company recorded LTIP compensation charges of \$1,379 (2006—\$101).

The LTIP Trust (the “Trust”) currently holds 451,376 shares at December 31, 2007 (2006—213,346 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.” Accordingly, at December 31, 2007, share capital was reduced by \$3,470 (2006—\$1,266) and accrued liabilities increased by the same amount.

Earnings per share

Details of the calculations of earnings per share are set out below. For purposes of calculating basic earnings per share, the number of common shares has been reduced by 941,166 (2006—1,584,963) on account of share purchase loans receivable from employees. For purposes of calculating diluted earnings per share, these shares have been treated as options.

	2007	2006
Net income for the period	\$ 48,303	\$ 11,502
Interest on convertible debentures	5,985	77
Diluted net earnings	\$ 54,288	\$ 11,579
Average number of common shares outstanding	37,673,208	35,157,471
Effect of dilutive securities ⁽ⁱ⁾		
Options	1,474,444	1,411,951
Convertible debentures	7,527,441	441,281
Shares held in a trust account in respect of a long-term incentive plan	247,366	106,169
Average number of diluted common shares outstanding	46,922,459	37,116,872
Basic earnings per share	\$ 1.28	\$ 0.33
Diluted earnings per share	\$ 1.16	\$ 0.31

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

Contributed surplus

Changes in contributed surplus for the year ended December 31 were as follows:

	2007	2006
Balance—beginning of year	\$ 1,329	\$ 361
Increase (decrease) in contributed surplus resulting from:		
Granting of stock options	454	968
Exercise of stock options	(191)	—
Balance—end of year	\$ 1,592	\$ 1,329

Dividends

In the fourth quarter of 2007, the Company announced that its Board of Directors had approved a policy to commence semi-annual dividend payments in the amount of \$0.07 per share (\$0.14 annually) to holders of the Company's common shares. At December 31, 2007, the Company recorded dividends declared of \$2,977, which were paid on January 2, 2008 to shareholders of record as of November 30, 2007.

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

17) Interest

Interest expense (income) is comprised of:

	2007	2006
Interest on long-term debt and debentures	\$ 9,415	\$ 7,826
Interest on capital leases	286	391
Interest on short-term debt	1,533	1,443
Interest income	(5,972)	(2,144)
	\$ 5,262	\$ 7,516

18) Cash flow information

Change in other balances relating to operations:

	2007	2006
Decrease (increase) in:		
Accounts receivable	\$ (13,630)	\$ (73,133)
Holdbacks receivable	(16,198)	8,329
Deferred contract costs and unbilled revenue	(22,246)	(5,562)
Inventories	(1,108)	(1,695)
Prepaid expenses	(545)	(4,774)
(Decrease) increase in:		
Accounts payable and accrued liabilities	72,358	20,292
Holdbacks payable	10,259	(7,379)
Deferred revenue	3,946	35,138
Income taxes payable	(2,559)	64
	\$ 30,277	\$ (28,720)

Other supplementary information:

	2007	2006
Cash interest paid	\$ 8,196	\$ 8,091
Cash income taxes paid	1,039	2,852

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

Property, plant and equipment acquired and financed by means of capital leases amounted to \$1,398 in the year (2006—\$1,798).

During 2007, convertible debentures with a face value of \$30,325 and a carrying value of \$28,926 were converted into 4,041,804 common shares (see notes 12 and 16).

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 notes 5(b) and 14).

In June 2006, the Company was reimbursed by Quiport JV for deferred development costs. The resulting decrease in other assets of \$15,257 (i.e., decrease in deferred development costs) and increase in concession rights to operate the New Quito Airport were treated as non-cash items and are not reported in the consolidated statements of cash flows.

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. 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 (see notes 12 and 16).

On February 16, 2006, the shareholders of Derech Eretz purchased certain options held by project lenders. The Company's pro rata share of the purchase price was US\$1,250 (CAD\$1,460) and was financed by a loan from the other shareholders in Derech Eretz.

19) Acquisitions

On December 20, 2007, the Company acquired the assets of Leo Alarie and Sons Limited ("LAS"), a construction company in northern Ontario. The acquisition was accounted for using the purchase method and the results of operations are included from the date of the acquisition.

As part of the asset purchase deal, the Company paid \$18,811 and assumed \$1,050 of debt. The acquisition was partly financed by an equipment term loan facility as described in note 10(d). The allocation of the purchase price for the acquisition of this investment has not been finalized pending final determination of the fair values of assets acquired and liabilities assumed.

In the first quarter of 2007, the Company acquired The Karson Group, a major aggregate, asphalt and civil construction company in eastern Ontario. The acquisition was accounted for using the purchase method and the results of operations are included from the date of the acquisition.

Under the share purchase deal, the Company assumed The Karson Group's existing debt of \$4,663 and paid \$32,416, of which \$21,225 was financed by the vendor and payable over a five-year term. The vendor take-back note is non-interest bearing and has been discounted at 8% to arrive at a fair value of \$16,949 at the date of the acquisition.

The following is a summary of the above acquisitions:

Net assets acquired

Cash	\$ 1,520
Working capital	7,897
Property, plant and equipment	44,499
Goodwill	3,024
Current portion of long-term debt	(1,901)
Long-term debt	(3,812)
	\$ 51,227

Consideration

Cash	\$ 34,278
Note payable	16,949
	\$ 51,227

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
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In 2004, the Company acquired the assets and operations of Cegerco CCI Inc. ("Cegerco"), a general contracting company in the Montréal region, specializing in the construction and management of institutional, commercial and pharmaceutical building projects. In the second quarter of 2007, the Company paid \$471 representing the additional consideration payable as a result of the achievement of certain financial targets by the Cegerco operations. In the second quarter of 2006, the Company paid \$192 with respect to the short-term note payable recorded in connection with that acquisition. No further payments are required as part of this acquisition.

20) 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 as at December 31, 2004 and the next required actuarial valuation will be prepared as of 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) was 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.

	2007	2006
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	\$ 35,643	\$ 32,178
Actual return on plan assets	621	3,020
Company contributions	1,682	2,617
Plan participant contributions	141	152
Benefits paid	(5,109)	(2,324)
Fair value of plan assets at end of year	\$ 32,978	\$ 35,643
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 39,658	\$ 38,545
Current service cost	1,307	1,246
Interest cost	1,848	1,898
Benefits paid	(5,109)	(2,323)
Actuarial (gains) losses	(4,019)	292
Benefit obligation at end of year	\$ 33,685	\$ 39,658
Funded status		
Excess of benefit obligation over plan assets	\$ (707)	\$ (4,015)
Unrecognized net actuarial loss	2,780	5,733
Unrecognized transitional liability	54	70
Pension asset at December 31	\$ 2,127	\$ 1,788
Amounts recognized in consolidated balance sheets		
Other assets	\$ 2,127	\$ 1,788
Weighted average assumptions to calculate benefit obligation		
Discount rate	5.75%	5.0%
Rate of increase in future compensation	3.5%	3.5%
Asset categories of pension assets		
Cash and short-term notes	7.7%	13.3%
Debt securities	34.9%	33.8%
Equity securities	57.4%	52.9%

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Details of the pension expense are as follows:

	2007	2006
Pension benefit expense		
Current service cost, net of employee contributions	\$ 1,166	\$ 1,094
Interest cost	1,848	1,898
Amortization of actuarial loss ⁽¹⁾	225	491
Amortization of transitional liability	84	63
Expected return on plan assets	(1,980)	(1,940)
Settlement loss	-	1,464
Defined benefit pension expense	1,343	3,070
Defined contribution pension expense	2,155	1,962
Multi-employer pension plan expense	26,768	21,269
Pension benefit expense	\$ 30,266	\$ 26,301
Defined benefit pension expense incurred		
Defined benefit pension expense recognized, above	\$ 1,343	\$ 3,070
Difference between expected and actual return on plan assets	1,359	(1,080)
Difference between actuarial losses amortized and actuarial losses arising	(4,244)	(199)
Amortization of transitional liability	(84)	(63)
Defined benefit pension (income) expense incurred	\$ (1,626)	\$ 1,728
Weighted average assumptions to calculate pension benefit expense		
Discount rate	5.0%	5.0%
Assumed long-term rate of return on plan assets	6.25%	6.25%
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:

	2007	2006
Cash flows		
Total cash contributions for employee pension plans:		
Defined benefit plans	\$ 1,682	\$ 2,617
Defined contribution plans	2,155	1,962
Multi-employer pension plan	26,768	21,269
Total cash contributions	\$ 30,605	\$ 25,848

21) 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) During 2007, the Company paid professional fees in the amount of \$34 (2006—\$121) to a consulting company in which a director of the Company is a partner.
- (b) During 2006, the Company paid Hochtief guarantee fees in the amount of \$190.
- (c) 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. On January 13, 2006, the Company repaid the loan. Interest due was calculated on the amount outstanding at prime rate plus 1.5%. Interest expense recorded during 2006 amounted to \$39.
- (d) During 2006, the Company paid interest and fees of \$97 to Hochtief Canada Inc. on the convertible subordinated debentures described in note 12.
- (e) During 2006, the Company received \$21 from Hochtief PPP Solutions GmbH with respect to bid costs, pursuant to an arrangement in place for the sharing of such costs.
- (f) To the best of the Company's knowledge from information available to it and from public records, as at December 31, 2007, \$100 (2006—\$2,150) of the Company's convertible debentures maturing March 17, 2010 were held by officers and directors of the Company or parties related thereto.

22) 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 Company considers all highly liquid interest-earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. In general, investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. All cash equivalents and short-term investments are classified as available-for-sale and are recorded at market value;

unrealized gains and losses (excluding other-than-temporary impairments) are reflected in other comprehensive income.

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

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

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

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

From time to time, the Company enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar, but does not hold or issue such financial instruments for trading

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purposes. At December 31, 2007, the Company had net outstanding contracts to sell EURO6,652, sell US\$23,970, and buy US\$11,978 (2006—sell US\$802) on which there was a net unrealized exchange gain of \$951 (2006—net loss of \$31). The net unrealized exchange gain (loss) represents the estimated amount the Company would have received (paid) if it terminated the contracts at the end of the respective periods. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For a derivative instrument designated as a fair-value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and is subsequently recognized in earnings when the hedged exposure affects earnings. The ineffective portion of the gain or loss is recognized in earnings. For options designated either as fair value or cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings. Gains and losses from changes in fair values of derivatives that are not designated as hedges for accounting purposes are recognized in earnings. While the Company considers the above contracts to be economic hedges, none of the above contracts were designated as accounting hedges, and as such the unrealized gains (losses) were recognized in net income in the period.

The Company may use foreign currency debt to hedge its exposure to foreign currency volatility in connection with investments in certain foreign operations. The realized and unrealized fair value of these hedges is included in shareholders' equity in the foreign currency translation component of accumulated other comprehensive income and offset translation adjustments on the underlying net assets of foreign operations, which are also recorded in accumulated other comprehensive income. If the debt is no longer considered effective in offsetting changes in the value of the hedged item, or if management determines that designation of the debt as a hedge instrument is no longer appropriate, the fair value of these hedges is included in the consolidated statements of income in foreign exchange gains (losses). The Company has designated its U.S.

dollar denominated term loan, currently in the amount of US\$13,520, as a hedge of its net investment in certain foreign operations. The unrealized gain resulting from fair valuing this instrument as at December 31, 2007 of \$989 has been included in currency translation adjustments within accumulated other comprehensive loss in shareholders' equity.

The Company enters into cash flow hedges to reduce its exposure to variability in certain expected future cash flows. In connection with a U.S. dollar denominated term loan facility, the Company entered into an interest rate swap with a financial institution on October 1, 2007 to help manage its exposure to interest rate volatility. By entering into the interest rate swap, the Company converted the floating rate on its U.S. dollar term loan, which was based on LIBOR plus 2.75% to a fixed rate of 7.42%. The swap matures on June 15, 2010. The interest rate swap is considered to be an effective cash flow hedge. The unrealized gain resulting from fair valuing this contract as of December 31, 2007 of \$201, net of taxes, has been reported in the cash flow hedges component of accumulated other comprehensive income in shareholders' equity.

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

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

With respect to accounts receivable, deferred contract costs and unbilled revenue, concentration of credit risk is limited by the Company's diversified customer base and its dispersion across different business and geographic areas.

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

The Company is exposed to interest rate risk on its short-term deposits and its long-term debt to the extent that its investments or credit facilities are based on floating rates of interest.

23) Segmented information and business concentration

The Company operates in four principal segments within the construction and infrastructure development industry: Infrastructure, Buildings, Industrial and Concessions. However, with the achievement of financial close of a concession agreement to own and operate the existing and new airports in Quito, Ecuador, concession ownership and operations became a significant portion of the Company's overall operations. Consequently, the Quito concession operations as described above are reported as part of the 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 but also in the Province of Alberta, as well as toll highways, dams, tunnels, bridges, airports, marine facilities, transit systems and hydro-electric power projects, domestically, and on a selected basis, internationally. This segment includes the mining, manufacture, and supply of asphalt and aggregate products, and the construction and/or installation of utility distribution systems for natural gas, telecommunications and electrical networks, as well as water and sewer mains, traffic signals and highway lighting, also principally within the Province of Ontario. The design and construction of the new Quito airport project is included in the Infrastructure segment.

Buildings

The Buildings segment specializes in the construction and renovation of commercial, institutional and multi-family residential buildings, including hospitals, office buildings, industrial buildings, airport terminals, entertainment

facilities, schools, embassies, retail complexes, and highrise condominium buildings among others. Work in this segment is concentrated primarily in Canada and the northwestern United States. Services include general contracting, fee for service construction management, design build services, building renovation, tenant fit up and facilities management.

Industrial

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

Concessions

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

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(a) Industry segments

							2007
	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total	
Revenues	\$ 688,907	\$ 385,946	\$ 398,148	\$ 57,544	\$ (37,798)	\$ 1,492,747	
EBITDA ⁽ⁱ⁾	\$ 28,407	\$ 4,806	\$ 38,357	\$ 17,593	\$ (6,457)	\$ 82,706	
Depreciation and amortization	(4,949)	(422)	(2,165)	(13,631)	(748)	(21,915)	
Segment operating profit (loss) ⁽ⁱ⁾	23,458	4,384	36,192	3,962	(7,205)	60,791	
Capital charges and allocations of Corporate overheads ⁽ⁱⁱⁱ⁾	(18,574)	(1,187)	(7,518)	(7,947)	35,226	–	
Segment profit (loss) before income taxes	\$ 4,884	\$ 3,197	\$ 28,674	\$ (3,985)	\$ 28,021	60,791	
Interest expense, income taxes and non-controlling interests						(12,488)	
Net income						\$48,303	
Total assets	\$ 354,272	\$ 107,593	\$ 146,613	\$ 180,157	\$ 122,017	\$ 910,652	
Intangible assets and goodwill	\$ 5,767	\$ 2,949	\$ 3,750	\$ 109,448	\$ –	\$ 121,914	
Capital expenditures	\$ 3,335	\$ 524	\$ 1,997	\$ –	\$ 417	\$ 6,273	
Cash flow from (used in) operating activities ⁽ⁱ⁾	\$ 25,019	\$ 4,803	\$ 37,395	\$ 17,352	\$ (17,364)	\$ 67,205	

Notes to Consolidated Financial Statements
December 31, 2007 and 2006
(in thousands of dollars, except per share amounts)

	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	\$ (15,232)	\$ 36,504
Depreciation and amortization	4,350	413	2,101	6,900	849	14,613
Segment operating profit (loss) ⁽ⁱ⁾	\$ 16,581	\$ 4,589	\$ 19,503	\$ (2,701)	\$ (16,081)	21,891
Interest expense and income taxes						(10,389)
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

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

(ii) Commencing in 2007, management prospectively began measuring divisional performance based on segment operating profit or loss after capital charges and corporate allocations (i.e., segment profit (loss) before income taxes). Corporate allocations represent charges from the Corporate segment to each division for indirect Corporate marketing, general and administrative costs and capital charges relate to the cash, working capital, and long-term debt capital invested in each segment. Since this change was implemented in 2007, there are no comparative figures available for 2006 as the information required to restate prior period comparatives was not available.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(in thousands of dollars, except per share amounts)

(b) Geographic segments

	2007	2006
Revenues		
Canada	\$ 1,342,534	\$ 1,007,396
United States	55,348	52,337
Ecuador	46,769	21,649
Israel, India and others	48,096	31,924
	\$ 1,492,747	\$ 1,113,306
Property, plant and equipment, intangible assets and goodwill		
Canada	\$ 109,443	\$ 62,867
Ecuador	109,283	120,088
United States	293	141
	\$ 219,019	\$ 183,096

24) Gain on sale of assets

In the second quarter of 2007, the Company recorded a \$3,356 pre-tax gain as a result of a sale by the Company of its right to participate in the construction joint venture that is constructing an extension of the Cross Israel Highway.

In the fourth quarter of 2007, the Company recorded a \$4,250 pre-tax gain as a result of a fee received by the Company in return for agreeing to amendments to a cooperation agreement negotiated in 2006 with Hochtief in connection with the sale of its interest in the Company.

25) Comparative figures

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

26) Subsequent event

In February 2008, the Company announced its intention to redeem, effective March 18, 2008, all of its 8.25% subordinated convertible debentures due March 9, 2010 (the “2010 Debentures”). At December 31, 2007, the face value of these convertible debentures, which remained outstanding, was \$31,675. However, until redeemed, the 2010 Debentures will remain convertible at the option of the holders to acquire the Company’s common shares at a conversion price of \$7.60 per share at any time on or prior to the close of business on March 17, 2008. In light of the current trading price of the Company’s common shares, it is anticipated that all of the 2010 Debentures will be converted, in which case up to 4,167,763 common shares will be issued.

27) Joint ventures—additional information (unaudited)

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

Consolidating Balance Sheet

Unaudited
At December 31, 2007

	Consolidated Balance Sheet excluding joint ventures	Joint ventures	Consolidated Balance Sheet
Assets			
Current assets			
Cash and cash equivalents	\$ 91,948	\$ 42,658	\$ 134,606
Restricted cash	22,379	12,249	34,628
Accounts receivable	195,502	32,936	228,438
Holdbacks receivable	58,583	12,940	71,523
Deferred contract costs and unbilled revenue	96,984	14,953	111,937
Inventories	15,702	–	15,702
Prepaid expenses	3,557	2,858	6,415
	484,655	118,594	603,249
Property, plant and equipment	94,462	2,643	97,105
Future income tax assets	31,088	5,052	36,140
Concession rights	–	109,283	109,283
Long-term investment	32,685	–	32,685
Other assets	32,190	–	32,190
	\$ 675,080	\$ 235,572	\$ 910,652
Liabilities			
Current liabilities			
Bank indebtedness	\$ –	\$ 6,986	\$ 6,986
Accounts payable and accrued liabilities	236,957	29,736	266,693
Holdbacks payable	35,084	3,415	38,499
Deferred revenue	57,319	10,856	68,175
Income taxes payable (recoverable)	(4,411)	5,602	1,191
Future income tax liabilities	35,202	5,705	40,907
Current portion of long-term debt	13,261	4,272	17,533
	373,412	66,572	439,984
Non-recourse project debt	3,2136	5,409	68,622
Other long-term debt	64,088	–	64,088
Other liabilities	3,077	–	3,077
Other income tax liabilities	14,733	–	14,733
Concession related deferred revenue	2,991	60,701	63,692
Convertible debentures	30,114	–	30,114
	491,628	192,682	684,310
Non-controlling interests	933	–	933
Shareholders' equity	182,519	42,890	225,409
	\$ 675,080	\$ 235,572	\$ 910,652

Consolidating Statement of Income

Unaudited
At December 31, 2007

	Consolidated Statement of Income excluding joint ventures		Joint ventures	Consolidated Statement of Income	
Revenues	\$	1,313,559	\$	179,188	\$ 1,492,747
Direct costs and expenses		(1,191,137)		(159,174)	(1,350,311)
		122,422		20,014	142,436
Marketing, general and administrative expenses		(67,919)		(3,977)	(71,896)
Foreign exchange gains (losses)		3,799		(5,445)	(1,646)
Gain on sale of assets		7,840		–	7,840
Depreciation and amortization		(8,205)		(13,710)	(21,915)
Interest expense		(9,631)		(1,603)	(11,234)
Interest income		5,972		–	5,972
		(68,144)		(24,735)	(92,879)
Income (loss) before income taxes and non-controlling interests		54,278		(4,721)	49,557
Income tax expense (recovery)		(829)		399	(430)
Income (loss) before non-controlling interests		53,449		(4,322)	49,127
Non-controlling interests		(824)		–	(824)
Net income (loss) for the year	\$	52,625	\$	(4,322)	\$ 48,303

Notes to Consolidated Financial Statements, December 31, 2007 and 2006

(in thousands of dollars, except per share amounts)

Consolidating Statement of Cash Flows

Unaudited

For the year ended December 31, 2007

	Consolidated Statement of Cash Flows excluding joint ventures	Joint ventures	Consolidated Statement of Cash Flows
Cash provided by (used in):			
Operating activities			
Net income (loss) for the year	\$ 52,625	\$ (4,322)	\$ 48,303
Items not affecting cash			
Depreciation and amortization	8,205	13,710	21,915
Gain on sale of assets	(7,840)	—	(7,840)
Amortization of commitment fees	462	—	462
Unrealized (gain) loss on foreign exchange	(567)	785	218
Non-cash interest on other income tax liabilities	739	—	739
Notional interest representing accretion	2,632	—	2,632
Defined benefit pension	(339)	—	(339)
Future income taxes	5,713	(5,060)	653
Stock-based compensation	454	—	454
Others	8	—	8
	62,092	5,113	67,205
Change in other balances relating to operations	19,322	10,955	30,277
	81,414	16,068	97,482
Investing activities			
Increase in restricted cash	(9,184)	(14,325)	(23,509)
Decrease in restricted marketable securities and term deposits	—	15,257	15,257
Purchase of property, plant and equipment	(5,775)	(498)	(6,273)
Proceeds on sale of property, plant and equipment	8,025	—	8,025
Acquisitions	(33,229)	—	(33,229)
Concession rights	—	(21,721)	(21,721)
Long-term investment	10,048	—	10,048
(Increase) decrease in other assets	(6,968)	5,393	(1,575)
Non-controlling interests	973	—	973
	(36,110)	(15,894)	(52,004)
Financing activities			
Decrease in bank indebtedness	(6,823)	—	(6,823)
Issuance of long-term debt	60,373	15,411	75,784
Repayments of long-term debt	(24,533)	—	(24,533)
Issuance of capital stock	1,261	—	1,261
Repurchase of capital stock	(2,204)	—	(2,204)
Repayment of share purchase loans	532	—	532
Redemption of convertible debentures	(500)	—	(500)
Interest received on share purchase loans	38	—	38
Increase (decrease) in investment in joint ventures	11,075	(11,075)	—
	39,219	4,336	43,555
Increase in cash and cash equivalents during the year	84,523	4,510	89,033
Effects of foreign exchange on cash balances	(472)	(4,064)	(4,536)
Cash and cash equivalents—beginning of year	7,897	42,212	50,109
Cash and cash equivalents—end of year	\$ 91,948	\$ 42,658	\$ 134,606

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

Chairman and Chief Executive Officer, Buttcon Limited

John DiCiurcio

Executive Vice-President, Turner Construction Company

Rolf Kindbom

President, Kindbom Consulting Inc.

Hon. Brian V. Tobin

Senior Business Advisor, Fraser Milner Casgrain LLP

Robert P. Wildeboer

Executive Chairman, Martinrea International Inc.

Corporate Management Team

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Vice-President, Safety and Loss Control

Andy DeHaan

Vice-President, Information Technology

Gerry Kelly

Senior Vice-President, Finance

Mitch Patten

Vice-President, Corporate Affairs

Gernot Wittig

Senior Vice-President, Project Controls and Special Services

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 L. McKibbin

Chief Executive Officer, Aecon Infrastructure Group

L. Brian Swartz

Senior Vice-President, Legal and Commercial Services and Corporate Secretary

Divisional Leadership

Jacob Berg

President, Aecon Industrial Central Canada

Réjean Dallaire

President, Groupe Aecon Ltée

R.D. (Bob) Dautovich

President, Innovative Steam Technologies

George Davis

Chairman, Aecon Buildings

Paul P. Koenderman

Chief Executive Officer, Aecon Industrial Group

George Kramer

President, Aecon Buildings Seattle

Robert McDonald

President, Aecon Buildings Group

Terrance L. McKibbin

Chief Executive Officer, Aecon Infrastructure Group

Steven N. Nackan

President, Aecon Concessions

Frank Ross

President, Aecon Atlantic

Stan Shewchuk

President, Aecon Industrial Western Canada

Doug Steels

President, Aecon Constructors International

Annual Meeting

The Annual Meeting of Shareholders of Aecon Group Inc. will be held at The Design Exchange, 234 Bay Street, Toronto, Ontario, Canada on Tuesday, June 17, 2008 at 11:00 a.m. (Toronto time).

Investor Relations

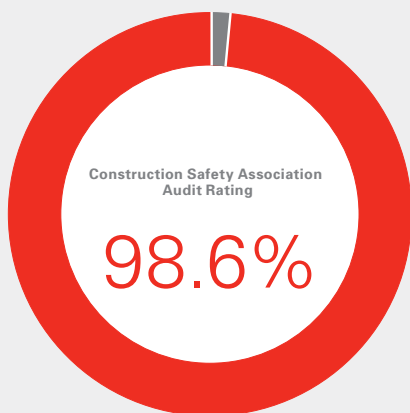
For further information about Aecon Group Inc. or any of its affiliated companies, please contact Mitch Patten, Vice-President, Corporate Affairs or Shirley Duffy, Information Manager.

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 Investor Services Inc.

They can be reached at 514-982-7555, 1-800-564-6253 or at service@computershare.com.



An Industry Leading Safety Program

At Aecon, we believe that positive results can only be achieved by providing safe, healthy working conditions and impeccably maintained equipment.

Our zero injury culture has a positive impact on everyone we work with and for—our employees, our subcontractors and our clients.

Safety. Every day, everywhere.



One Of Canada's Best Places To Work

Talented, passionate people are naturally drawn to Aecon because they want to be a part of the great projects we deliver.

Employees quickly learn they've joined a company that rewards achievement with opportunity in a culture that cares about them and their families.

Aecon is recognized as one of Canada's best employers by Report on Business magazine.

At Aecon, people matter.

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QX Technology

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Phone: 905-565-9615

A full-page background image showing a worker in a dark, patterned jumpsuit and a hard hat standing on a rusty metal bucket of a lift. The worker is positioned on the left side of the frame, facing right, and appears to be working on a large, blue-painted industrial structure. The structure has several large, dark, cylindrical components. In the background, a body of water is visible, with a city skyline and hills in the distance under a clear blue sky with some light clouds.

A TIME TO BUILD

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BUILDING THINGS THAT MATTER

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