AECON @ WORK

AECON

2012 ANNUAL REPORT

AECON INFRASTRUCTURE@WORK

From designing and constructing airport terminals, highways and hydroelectric dams, to excavating subway tunnels and utility corridors, **Aecon Infrastructure** is a trusted leader in developing critical infrastructure for both public and private sector clients.

AECON ENERGY@WORK

Aecon Energy offers a suite of unparalleled services to some of Canada's largest energy suppliers, providing best-in-class solutions to the oil and gas, nuclear, co-generation, and renewable sectors.

AECON MINING@WORK

Aecon Mining has been purpose-built to serve our clients across Canada offering turn-key services for both mine installations and contract mining with a reputation for safety, reliability and performance.

View Aecon's online integrated report at
aecon.com/2012annualreport

FINANCIAL HIGHLIGHTS

For the years ended December 31

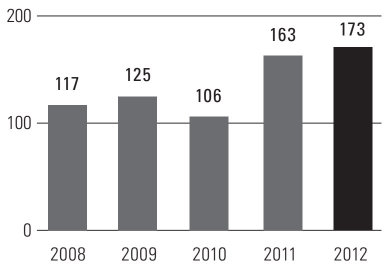
(in millions of Canadian dollars, except per share amounts)

	2012	2011
	$	$
Revenue	2,946.8	2,896.2
EBITDA*	173.3	163.1
Operating profit*	109.8	100.5
Profit attributable to shareholders	78.0	57.6
Adjusted profit attributable to shareholders*	74.8	54.5
Backlog revenue	2,428	2,390
Earnings per share		
Basic	1.47	1.07
Diluted	1.18	0.84
Adjusted earnings per share*		
Basic	1.41	1.01
Diluted	1.18	0.84
Dividends per share	0.28	0.20
Book value per share*		
Basic	10.25	9.20
Diluted	10.27	9.26
Weighted average number of shares outstanding (in millions)		
Basic	53.0	53.9
Diluted	79.0	86.3

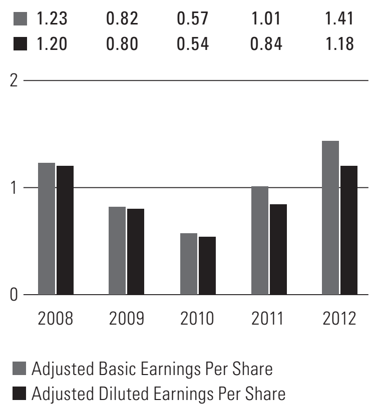
* The financial highlights and five-year financial performance section of the annual report present certain non-GAAP and additional GAAP financial measures to assist readers in understanding the Company's performance. Non-GAAP financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with GAAP. Additional GAAP financial measures are presented on the face of the Company's consolidated statements of income and are not meant to be a substitute for other subtotals or totals presented in accordance with IFRS, but rather should be evaluated in conjunction with such IFRS measures. These measures are defined in the notes to the five-year performance section.

FIVE-YEAR FINANCIAL PERFORMANCE[1]

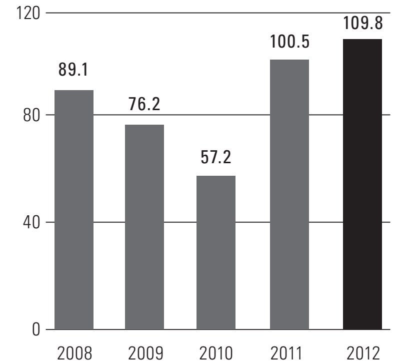
EBITDA[2]
($ MILLIONS)



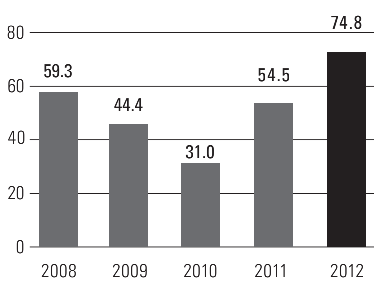
Adjusted Basic and Diluted Earnings Per Share[3]
($ PER SHARE)



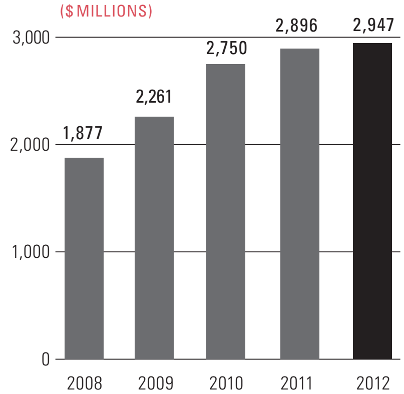
Operating Profit[4]
($ MILLIONS)



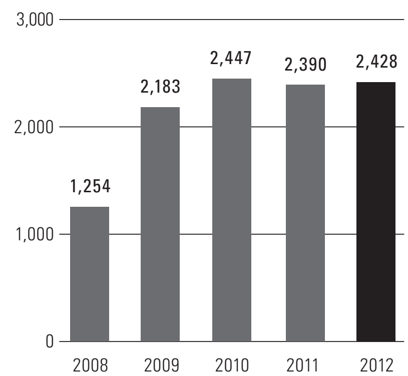
Adjusted Profit Attributable to Shareholders[5]
($ MILLIONS)



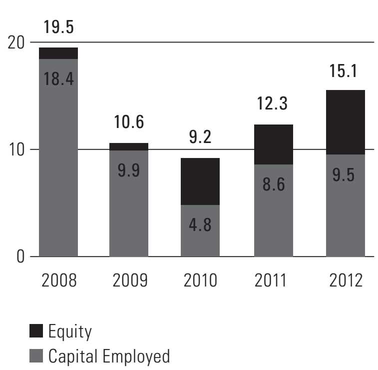
Revenue
($ MILLIONS)



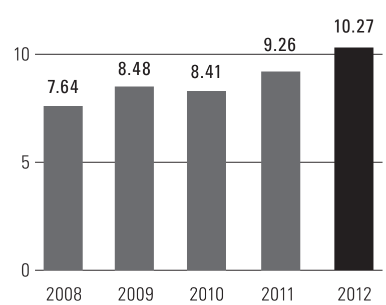
Backlog Revenue[6]
($ MILLIONS)



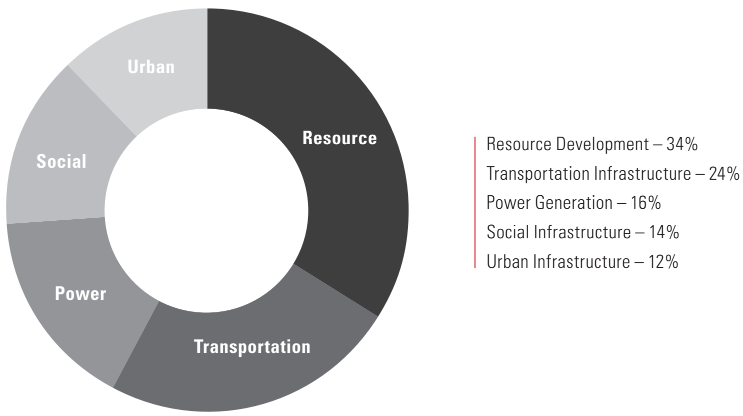
Return on Equity[7] and Return on Capital Employed[8] (%)



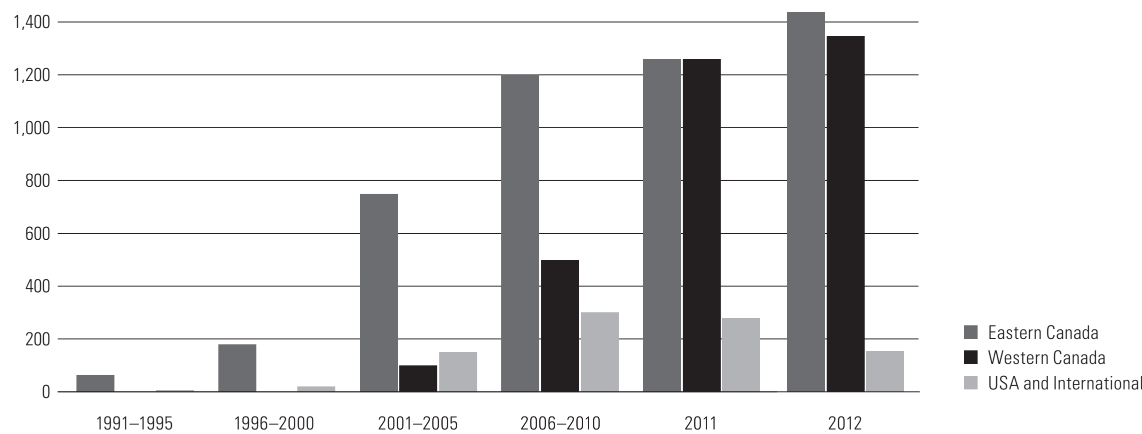
Book Value Per Share[9]
(DILUTED)
($ PER SHARE)



2012 Revenue by Sector (%)



Revenue by Geography (ANNUAL AVERAGE)
($ MILLIONS)



NOTES

(1) The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and to require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its consolidated financial statements at December 31, 2011. The term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. Amounts previously reported for 2010 have been restated to give effect to these changes in accordance with IFRS. Amounts reported for 2008 to 2009 reflect amounts reported previously in accordance with Canadian GAAP.

(2) EBITDA represents earnings or losses before net financing costs, income taxes, depreciation and amortization, and non-controlling interests. Net financing costs exclude interest on project specific debt which, under IFRS, is classified as a direct cost in the calculation of gross profit.

(3) Adjusted earnings per share represent earnings per share calculated using adjusted profit attributable to shareholders.

(4) Operating profit represents the profit from operations, before net financing costs, income taxes and non-controlling interests.

(5) Adjusted profit attributable to shareholders represents the profit attributable to shareholders adjusted to exclude the after-tax fair value gain on the embedded derivative portion of the Company's convertible debentures.

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

(7) Return on Equity is calculated as profit attributable to the Company divided by the average of shareholders' equity at the beginning and end of the fiscal year.

(8) Return on Capital Employed is calculated as operating profit divided by the average of shareholders' equity, convertible debentures and long-term debt, at the beginning and end of the fiscal year.

(9) 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, 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.

DEAR FELLOW SHAREHOLDERS,

Over the course of the last few years, we have been dedicated to two core objectives: delivering improved margins through our continued focus on execution and performance; and organic growth in our three core market sectors of Infrastructure, Energy and Mining.

To support these objectives, we have been building a high performance team – a team best suited to serve our clients in these diverse sectors. We further strengthened our management team with additional expertise and today we are focused on safety, operational excellence, project controls, and risk management – all within a disciplined framework towards reaching our target of a 9 per cent EBITDA margin in 2015.

Last year, I pledged to you that we planned to build on our 2011 achievements, and again, we delivered on that commitment in 2012. Aecon is at work…for you, our shareholders.

The 'One Aecon' approach – providing comprehensive and integrated turnkey services to our clients – is now entrenched within the operations of the organization and has gone from an initial concept, to what is now the Aecon way of doing things. Under the leadership of our Chief Operating Officer, Teri McKibbon, we have fundamentally changed the way Aecon works. The ability to self-perform a vast array of services allows for cost savings for both Aecon and our clients through economies of scale and resource sharing.

In 2012, Aecon successfully completed an impressive number of projects including the Toronto Rehab Centre; the Bruce Nuclear Refurbishment project in Kincardine, Ontario; Autoroute 30 in Montreal, Quebec; the Picadilly Potash Mine in Sussex, New Brunswick; upgrades to Consumers' Co-operative Refinery in Regina, Saskatchewan; and most recently, the Quito International Airport in Ecuador. Moving forward, Aecon has a strong pipeline of work, reporting $2.4 billion of backlog at December 31, 2012, with an extended duration of work beyond the next twelve months representing 42 per cent of backlog versus 38 per cent in the prior year.

The focus on operational performance, paired with Aecon's turnkey capabilities, has resulted in significant growth in profitability and margins in our Industrial business, successful scaling of Aecon's Mining business, the expansion of our Utilities business in Western Canada, and completion of the redefined mandate of our Buildings operations.

With over 40 per cent of Aecon's revenue now coming from larger, more complex projects, the importance of building relationships, partnerships and alliances is more of a priority than ever before. We have positioned Aecon to be a partner our peers want to work with – a partner with the financial strength to take on substantial projects which require a unique blend of operational expertise, project management skills and long-term planning

“I BELIEVE THESE FINANCIAL RESULTS AND OPERATIONAL PERFORMANCE REFLECT A COMPELLING STORY OF AECON AT WORK WHICH HAS SET US ON A PATH TO STRONG, SUSTAINABLE EARNINGS GROWTH.”

capabilities. In the same vein, increasingly, Aecon is being chosen for multi-year operating and maintenance contracts, construction management advisory contracts and alliance agreements. This type of work – with recurring revenues of some $750 million annually – now accounts for approximately 25 per cent of Aecon’s business.

These deliberate steps to optimize our operational performance and be a partner and supplier of choice are making a meaningful contribution to Aecon’s financial performance, evident in the 2012 results.

Revenue for the year ended December 2012 grew two per cent over the year before, with additional progress reflected in the bottom line as adjusted EBITDA margins improved from 5.1 per cent to 5.9 per cent. Due to these higher margins, gross profit for the year increased by $41 million, or 15 per cent, to $315 million, compared to $274 million in 2011. Aecon delivered $172 million adjusted EBITDA (excluding gains on sale of assets and investments) on almost $3 billion in revenue compared to $147 million in the prior year – an increase of 17 per cent. Adjusted profit attributable to shareholders in 2012 of $75 million was a significant improvement over the $55 million recorded the year before. Additionally, the Board of Directors approved a 14 per cent increase in Aecon’s annual dividend, from $0.28 to $0.32 per share, to be paid in quarterly instalments of $0.08 per share.

I believe these financial results and operational performance reflect a compelling story of Aecon at work which has set us on a path to strong, sustainable earnings growth.

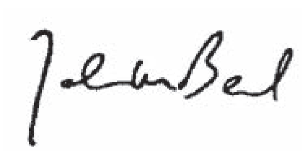
Aecon’s business strategy is focused on four key elements: best-in-class safety and training programs for our employees, leveraging Aecon’s diverse service offering and turnkey capabilities, building partnerships and alliances, and the overarching focus on profitability and operational discipline. Looking forward, we see opportunities to leverage our scope and scale to grow our business organically, based on our national capabilities.

As we enter 2013, we remain positive about Aecon’s outlook and financial performance with our diversified portfolio, focus on execution and improved margins. Aecon’s balance sheet, financial liquidity and substantial bonding capacity, each of which are among the strongest in the industry, continue to provide the financial resources to capitalize on the opportunities on the horizon.

Aecon has been built as a proudly Canadian company, and we are confident Aecon will be Canada’s *premier* construction and infrastructure development company.

Our employees across Canada are hard at work making Aecon the best company for our clients, our partners, and you, our valued shareholders.

Thank you for your continued support.



John M. Beck
Chairman and Chief Executive Officer
Aecon Group Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION ("MD&A")

DECEMBER 31, 2012

TABLE OF CONTENTS

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. ("Aecon" or the "Company") should be read in conjunction with the Company's December 31, 2012 consolidated financial statements and notes. This MD&A has been prepared as of March 12, 2013. 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

For the year ended December 31, 2012, Aecon operated in three principal segments within the construction and infrastructure development industry: Infrastructure, Industrial and Concessions.

The Infrastructure segment includes all aspects of the construction of both public and private infrastructure, including roads and highways, as well as toll highways, hydroelectric power projects and dams, tunnels, bridges, airports, marine facilities and transit systems, primarily in Canada, and on a selected basis, internationally. This segment includes the mining, manufacture and supply of asphalt and aggregate products and the construction and/or installation of utility distribution systems for natural gas, telecommunications and electrical networks, as well as water and sewer mains, traffic signals and highway lighting. The Infrastructure segment also includes the operations of Aecon Mining, a large mining and reclamation contractor operating in the oil sands and resource sectors, as well as the design and construction of the new Quito Airport project. Aecon Buildings, which specializes in the construction and renovation of commercial and institutional buildings is also included in the Infrastructure segment, and commencing in 2012 was combined with Lockerbie & Hole Contracting, which provides mechanical construction management and complete mechanical construction services including the design and build of water and waste water facilities as well as mechanical and electrical installations in hospitals, schools and institutional buildings, to serve the social infrastructure market sector. This realignment of Lockerbie & Hole Contracting, which was previously included in the Industrial segment, to the Infrastructure segment builds on the Company's "One Aecon" business strategy and is expected to more fully capitalize on the combined strengths and potential synergies of the Aecon Buildings and Lockerbie & Hole Contracting operations in the social infrastructure sector. In addition, commencing in 2012, the operating units within the Infrastructure segment were reorganized to align with Infrastructure's operating management structure into the following sub-categories: Transportation; Heavy Civil; Utilities; Mining; and Social Infrastructure. Prior year comparative figures have been restated to conform to the presentation adopted in the current year.

The Industrial segment encompasses all of Aecon's industrial construction and manufacturing activities including in-plant construction, site construction and module assembly in the energy, manufacturing, petrochemical, steel, automotive and commodities mining sectors. Activities in this segment include the construction of alternative, fossil fuel and cogeneration power plants, in-plant construction and refurbishment activities at nuclear power plants, the fabrication and module assembly of small diameter specialty pipe, mechanical construction at petrochemical plants and commodities mining facilities and the design and manufacture of "once-through" heat recovery steam generators ("HRSGs") for industrial and power plant applications and enhanced oil recovery boilers for use in the oil sands. 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, construction 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 is currently comprised of an investment in the Quito Airport concession company and also includes the operations of the Highway 104 toll plaza in Atlantic Canada. In addition, this segment has a development function whereby it monitors and, where appropriate, brings together the unique capabilities and strengths of Aecon where the Company can play a role beyond being a contractor, but rather as a developer, operator and investor in build finance and design build finance projects.

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

FORWARD-LOOKING INFORMATION

The information in this MD&A includes certain forward-looking statements. Although these forward-looking statements are based on currently available competitive, financial and economic data and operating plans, they are subject to risks and uncertainties. In addition to general global events outside Aecon's control, there are factors which could cause actual results, performance or achievements to vary from those expressed or inferred herein including risks associated with an investment in the common shares of Aecon and the risks related to Aecon's business, including large project risk and contractual factors. Risk factors are discussed in greater detail in the section on "Risk Factors" in this MD&A. Forward-looking statements include information concerning possible or assumed future results of Aecon's operations and financial position, as well as statements preceded by, followed by, or that include the words "believes," "expects," "anticipates," "estimates," "projects," "intends," "should" or similar expressions. Other important factors, in addition to those discussed in this document, could affect the future results of Aecon and could cause its results to differ materially from those expressed in any forward-looking statements.

FINANCIAL REPORTING STANDARDS

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES

The MD&A presents certain non-GAAP and additional GAAP (GAAP refers to Canadian Generally Accepted Accounting Principles) financial measures to assist readers in understanding the Company's performance.

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

NON-GAAP FINANCIAL MEASURES

Non-GAAP financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with GAAP in the Company's consolidated financial statements.

- **"EBITDA"** represents earnings or losses before net financing expense, the fair value gain (loss) on convertible debentures, income taxes, depreciation and amortization, and non-controlling interests.
- **"EBITDA margin"** represents EBITDA as a percentage of revenue.
- **"Adjusted EBITDA"** represents EBITDA adjusted to exclude the gain (loss) on sales of assets and investments.
- **"Adjusted EBITDA margin"** represents Adjusted EBITDA as a percentage of revenue.
- **"Adjusted profit (loss) attributable to shareholders"** represents the profit (loss) attributable to shareholders adjusted to exclude the after-tax fair value gain (loss) on the embedded derivative portion of Aecon's convertible debentures.
- **"Adjusted earnings (loss) per share"** represents earnings (loss) per share calculated using adjusted profit (loss) attributable to shareholders.
- **"Backlog"** means the total value of work that has not yet been completed that: (a) has a high certainty of being performed as a result of the existence of an executed contract or work order specifying job scope, value and timing; or (b) has been awarded to Aecon, as evidenced by an executed binding letter of intent or agreement, describing the general job scope, value and timing of such work, and where the finalization of a formal contract respecting such work is reasonably assured.

ADDITIONAL GAAP FINANCIAL MEASURES

Additional GAAP financial measures are presented on the face of the Company's consolidated statements of income and are not meant to be a substitute for other subtotals or totals presented in accordance with IFRS, but rather should be evaluated in conjunction with such IFRS measures.

- **"Gross profit"** represents revenue less direct costs and expenses. Not included in the calculation of gross profit are marketing, general and administrative expenses ("MG&A"), depreciation and amortization, income or losses from construction projects accounted for using the equity method, foreign exchange, interest, gains or losses on the sale of assets, income taxes, and non-controlling interests.
- **"Gross profit margin"** represents gross profit as a percentage of revenue.
- **"Operating profit (loss)"** represents the profit (loss) from operations, before net financing expense, income taxes and non-controlling interests.
- **"Operating margin"** represents operating profit (loss) as a percentage of revenue.
- **"Profit (loss) before taxes"** represents profit or loss before income taxes and non-controlling interests.

Aecon believes the above non-GAAP and additional GAAP financial measures, which are commonly used by the investment community for valuation purposes, are useful complementary measures of profitability. The most directly comparable measures calculated in accordance with GAAP are profit (loss) attributable to shareholders or earnings (loss) per share.

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

BUSINESS STRATEGY

Aecon's overall strategic goal is to be the premier construction and infrastructure development company in Canada.

Over the course of the last few years, the Company has deliberately positioned itself in three key end markets: infrastructure, energy and mining. Today, Aecon has an unrivalled ability to provide a comprehensive suite of construction, contracting and infrastructure development services across Canada.

Having built this foundation and national footprint, the Company has been, and will continue to be, focused on operational execution, project controls, risk management and organic growth – all within a disciplined framework towards reaching a target of 9 per cent EBITDA margin in 2015.

Aecon has refined and simplified its organizational structure to better serve its clients who operate in specific market segments across Canada and to ensure that the 'One Aecon' approach is reflected in how it offers its capabilities in the most effective and efficient manner.

In addition to the focus on execution, the Company strengthened its management team in 2012 bringing in additional talent and expertise as well as building up bench strength throughout the ranks of our 12,000 employees.

There are four core elements that comprise the Aecon Advantage, its strategic path and focus on performance and health.

1. INVEST IN AECON'S PEOPLE AND THEIR SAFETY

The Company is committed to the development of its employees in order to build upon its leadership position in the sector and drive to be Canada's premier construction and infrastructure development company. This cornerstone is especially important as competition in Canada for skilled workers, engineers and project managers can be intense, and given the reality of the aging workforce within the sector, competition for skilled workers is unlikely to abate in the short or medium-term.

Initiatives are being undertaken to strengthen practices – at both the corporate and business segments – related to recruitment, training, leadership development, and building a 'performance and learning culture'. Aecon University is being introduced as an innovative vehicle for employees to access the full range of learning, technical and development opportunities across the Company.

Aecon's investment in its employees was recognized again in 2012 by Aon Hewitt as one of the 50 Best Employers in Canada for the sixth straight year, and was also ranked in the Globe and Mail 'Top 100 Employers'.

A company's ability to demonstrate that it has industry-leading safety programs and a culture that puts safety first, is an important differentiator for companies in the construction industry. For many clients, most notably in the resources sector, a contractor's demonstrated commitment to safety throughout the organization is as important to selecting a contractor as their commitment to schedule, quality and price. This focus on safety is one of the reasons that maintaining and strengthening its industry leading safety program and culture is a key element of Aecon's business strategy.

2012 was a record year in safety performance for Aecon and is the result of an ongoing emphasis on safety as a core value and strategy.

2. PROFITABILITY

Aecon is one of the most diverse companies in its industry, able to self-perform a wide variety of construction, contracting and infrastructure development services, and to offer clients a single solution to their needs – with turnkey capabilities embodied in the 'One Aecon' strategy. This approach allows Aecon to focus on enhancing client value and competing for business on the basis of more than just price.

A key component of Aecon's operational diversity strategy is the development of its vertical and horizontal integration capabilities. The ability to self-perform services required at virtually every stage of a project, from site clearing to final construction, often including complete procurement services, is a growing competitive advantage for Aecon.

The depth and breadth of Aecon's capabilities also allow it to participate in projects beyond the scope of any one discipline or division. Further, leveraging capabilities and ensuring collaboration across diverse businesses allows for synergies and cost savings for both Aecon and its clients through economies of scale and resource sharing.

The Company has set out a target of reaching a 9 per cent EBITDA margin in 2015 – which is guided by a focus on the bottom-line rather than just top-line growth, focus on cash management and on operational metrics to manage business performance in line with world-class margins – and thereby delivering shareholder value.

3. BUILDING PARTNERSHIPS AND ALLIANCES

The construction and infrastructure development industry in Canada has experienced several important changes in the competitive landscape in recent years as well as having a broad range of larger, multi-year, multi-disciplined project opportunities in both the public and private sectors. Aecon has developed a strategy of building strong partnerships and alliances, including joint ventures and public private partnerships. The resulting importance within the industry of a company's ability to develop and manage creative relationships and alliances has provided opportunities for innovative companies such as Aecon to grow their business. Over 40 per cent of Aecon's revenue comes from larger, more complex projects (over $100 million).

Aecon's partnering skills have enabled it to capitalize on a number of opportunities such as its participation in the Air Rail Link project in Toronto, the Lower Mattagami hydroelectric project in Northern Ontario, the Waneta Dam project in British Columbia, the Darlington refurbishment project in Ontario and the ring road project in Edmonton. These and other alliances have given Aecon access to projects that are beyond any one contractor's capabilities to deliver alone. These partnerships also provide Aecon and its partners with an opportunity for exchanging and optimizing best practices with others in the industry. As an example, the Company's joint venture in the mainline pipeline business has already met with success and, through another joint venture, is actively pursuing transmission opportunities in Western Canada.

4. FOCUS ON EXECUTION, PERFORMANCE, OPERATIONAL DISCIPLINE AND RISK MANAGEMENT

The ability to effectively identify, mitigate and manage the construction risk inherent in every project it undertakes, and the ability to deliver those projects in a manner that appropriately protects the safety of employees, stakeholders and the public, are key elements of success in the construction industry. Developing industry leading capabilities in these areas is a fundamental part of Aecon's strategy.

Aecon has established a detailed set of project criteria and risk management practices that are continuously reviewed, updated and improved. From the criteria set for selecting the projects it bids, to the evaluation of project risks and appropriate mitigation measures, to project pricing and the senior management approval processes a bid must go through, risk management is a strategic and operational priority for Aecon.

An important element of Aecon's risk management strategy is the ongoing monitoring of projects under construction to ensure that the risk management plan established at the bid stage of the project remains sufficient and is being effectively implemented. To assist in this effort, Aecon has established a 'project controls' team, consisting of some of Aecon's most experienced and knowledgeable staff, whose mandate is to ensure that complex projects are provided with state-of-the-art management controls for contract administration, cost control, scheduling and other best practices. This team also reviews the status of key projects against a set of pre-determined criteria, and ensures that the project is meeting its financial and risk management objectives.

Particular focus for 2013 – Within this context, the Company is pursuing a number of programs and key initiatives to fulfill this strategy this year including:

- Launch of Aecon University to train, develop and advance the careers of Aecon's employees, and implement retention and recruitment programs to ensure its capacity to effectively execute on the substantial pipeline of work;
- Further enhance and ensure Aecon's excellent safety track record in order to protect its employees, enhance client value and compete for business on the basis of more than just price;
- Deliver on improving EBITDA margins toward the 9 per cent target in 2015;
- Focus on organic growth, building partnerships and alliances for longer term project opportunities particularly in its three core target markets: infrastructure, energy and mining;
- Continuous improvement in project execution, performance, operational discipline and risk management and refine and consolidate best practices across the organization; and
- Realize synergies from the 'One Aecon' approach and shared services such as finance, procurement and business development.

CONSOLIDATED FINANCIAL HIGHLIGHTS

$ millions (except per share amounts)	Three months ended December 31		Year ended December 31	
	2012	2011	2012	2011
	$	$	$	$
Revenue	**948.7**	**790.3**	**2,946.8**	**2,896.2**
Gross profit	**110.4**	**112.7**	**315.0**	**274.1**
Marketing, general and administrative expenses	(38.5)	(41.6)	(157.2)	(138.8)
Income from construction projects accounted for using the equity method	5.8	3.7	14.4	14.1
Foreign exchange gains (losses)	0.3	0.2	0.2	0.3
Gain on sale of assets and investments	0.1	1.0	0.9	15.9
Other gains (losses)	–	(2.5)	–	(2.5)
EBITDA	**78.1**	**73.6**	**173.3**	**163.1**
Depreciation and amortization	(17.8)	(16.8)	(63.6)	(62.5)
Operating profit	**60.3**	**56.8**	**109.8**	**100.5**
Financing expense, net	(5.1)	(9.8)	(27.1)	(31.2)
Fair value gain on convertible debentures	3.9	(0.3)	4.3	4.3
Profit before income taxes	**59.1**	**46.7**	**86.9**	**73.6**
Income tax expense	(0.6)	(9.8)	(5.9)	(11.4)
Profit attributable to non-controlling interests	(2.1)	(0.3)	(3.0)	(4.6)
Profit attributable to shareholders	**56.4**	**36.7**	**78.0**	**57.6**
Profit attributable to shareholders	56.4	36.7	78.0	57.6
Exclude:				
Fair value gain on convertible debentures	(3.9)	0.3	(4.3)	(4.3)
Income tax on fair value gain	1.0	(0.1)	1.1	1.2
Adjusted profit attributable to shareholders	**53.5**	**36.9**	**74.8**	**54.5**
EBITDA	78.1	73.6	173.3	163.1
Exclude:				
Gain on sale of assets and investments	(0.1)	(1.0)	(0.9)	(15.9)
Adjusted EBITDA	**78.0**	**72.6**	**172.4**	**147.2**
Gross profit margin	**11.6%**	**14.3%**	**10.7%**	**9.5%**
MG&A as a percent of revenue	**4.1%**	**5.3%**	**5.3%**	**4.8%**
EBITDA margin	**8.2%**	**9.3%**	**5.9%**	**5.6%**
Adjusted EBITDA margin	**8.2%**	**9.2%**	**5.9%**	**5.1%**
Operating margin	**6.4%**	**7.2%**	**3.7%**	**3.5%**
Earnings per share – basic	**1.07**	**0.69**	**1.47**	**1.07**
Earnings per share – diluted	**0.72**	**0.49**	**1.18**	**0.84**
Adjusted earnings per share – basic	**1.01**	**0.69**	**1.41**	**1.01**
Adjusted earnings per share – diluted	**0.72**	**0.49**	**1.18**	**0.84**
Backlog			**2,428**	**2,390**

Revenue and operating profit (loss) by segment for the years ended December 31, 2012 and 2011 are set out in the table below and discussed in the section Reporting Segments:

	For the year ended December 31			
$ millions	Revenue		Operating profit (loss)	
	2012	2011	2012	2011
	$	$	$	$
Infrastructure	1,897.1	1,904.7	59.5	64.9
Industrial	1,014.0	918.3	57.9	30.2
Concessions	42.2	81.2	25.1	35.9
Other costs and eliminations[(1)]	(6.5)	(8.0)	(32.7)	(30.5)
Consolidated	2,946.8	2,896.2	109.8	100.5

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

Revenue for the year ended December 31, 2012 increased by $51 million compared to the same period in 2011. Strong growth in volume in Infrastructure's Mining operations and the ramp up of new Industrial projects were the main contributors to the increased revenue in 2012. These increases were partially offset by lower revenue in Social Infrastructure due to the refocusing of buildings operations, including reduced bidding activity on large stand alone commercial and social infrastructure buildings projects, and lower volume in Infrastructure's Transportation operations. Revenues also decreased in Concessions due to the sale of Aecon's interest in the operator of the Cross Israel Highway in the third quarter of 2011.

For the year ended December 31, 2012, operating profit increased by $9.3 million compared to the same period in 2011. However, the comparison of year-over-year results was significantly impacted by gains from the sale of assets and investments as well as operating profits from operations in Israel prior to the sale of those operations in September 2011. Included in the results for 2011 was operating profit of $6.8 million from operations in Israel and an $11.5 million gain from the sale of these operations. In addition, gains from the sale of assets in 2011 were $4.4 million compared to $0.9 million in 2012. After excluding gains from the sale of assets and investments and operating profits from operations in Israel in 2011, operating profit for 2012 was $31.1 million higher than last year.

Favourably impacting operating profits for the year ended December 31, 2012 was an increase in gross profit of $40.9 million compared to the same period in 2011. Gross profit for the year ended December 31, 2012 increased in both the Infrastructure and Industrial segments. In Infrastructure, the increase is due primarily to a significantly higher gross profit contribution from Mining operations, reflecting ongoing growth in the oil sands, as well as from improvements in Utilities operations, while the improvements in the Industrial segment resulted from improved margins in the resources and commodity mining sector and from its Western Canada operations. Partly offsetting these improvements was lower gross profit from Infrastructure's Transportation and Heavy Civil operations and from the Concessions segment where the release of certain contingencies related to the Quito airport project, following substantial completion of construction in the fourth quarter, were not sufficient to offset the reduction in gross profit due to the sale in the third quarter of 2011 of Aecon's interest in the operator of the Cross Israel Highway.

The overall improvement in gross profit was partially offset by an $18.4 million increase in MG&A in 2012 compared to 2011 as MG&A as a percentage of revenue increased from 4.8% to 5.3%. The increase in MG&A in 2012 is driven primarily by a number of significant initiatives to improve overall operating margins by investing in Aecon's risk management and project execution capabilities as well as increases in business development and bid costs, particularly in Western Canada, and higher information technology and incentive costs.

A reconciliation of the changes in operating profit (loss) by segment comparing the results for the three months and year ended December 31, 2012 is set out in the table below:

$ millions	Three months ended December 31	Year ended December 31
	$	$
Consolidated operating profit – 2011	**56.8**	**100.5**
Transportation	(0.4)	(12.8)
Heavy Civil	(12.1)	(16.5)
Utilities	2.4	(3.2)
Mining		
Ongoing operations	9.8	36.1
Gain on sale of equipment	(1.1)	(4.3)
Social Infrastructure	(13.4)	(4.7)
Decrease in Infrastructure operating profit	**(14.8)**	**(5.4)**
Heavy Industrial (Construction and Fabrication)	7.5	31.3
IST	0.9	(3.6)
Increase in Industrial operating profit	**8.4**	**27.7**
Quito Airport Concessionaire	8.2	7.5
Cross Israel Highway Operator (sold in Q3 2011)	–	(6.8)
Gain on sale of investment in operator of CIH in 2011	–	(11.5)
Increase/(decrease) in Concessions operating profit	**8.2**	**(10.8)**
(Increase)/decrease in Other costs and eliminations	**1.7**	**(2.2)**
Consolidated operating profit – 2012	**60.3**	**109.8**

Financing charges, net of interest income, of $27.1 million in 2012 were $4.1 million lower than in 2011. The decline in financing costs results primarily from the reversal of $5.7 million in accrued interest penalties following the settlement of a long outstanding income tax matter with Canada Revenue Agency. The settlement also resulted in the reversal in 2012 of previously expensed income taxes amounting to $2.9 million. Partly offsetting this decrease in financing charges was a decrease in notional interest income reported in Build Finance Special Purpose Vehicles as a number of these projects have now been completed and from higher debt levels, mostly equipment loans.

The terms of the Company's convertible debentures include an option for holders to convert prior to the maturity date and allow the Company the option to settle the conversion in cash (or a combination of cash and common shares) unless a holder expressly indicates in the conversion notice that they do not wish to receive cash. The holder's option to convert is treated as a derivative liability which must be measured at fair value at each reporting period, with gains and losses flowing through profit or loss.
In each of 2012 and 2011, the gain from fair valuing the embedded derivatives within Aecon's convertible debentures was $4.3 million. For more information, refer to Note 19 of the 2012 consolidated financial statements.

Set out in Note 21 of the 2012 consolidated financial statements is a reconciliation between the expected income tax expense in 2012 and 2011 based on statutory income tax rates and the actual income tax expense reported for both these periods. As noted above, included in the 2012 income tax expense is a $2.9 million reduction of previously accrued income taxes as a result of the settlement of a tax matter with Canada Revenue Agency. Also included in the 2012 income tax expense is a $13.7 million reduction of previously accrued income taxes related to the operation of the old Quito airport which, management now believes, are unlikely to be payable. Similarly, included in the prior year income tax expense was a $3 million reversal of previously accrued income taxes.

Aecon's non-controlling interests represents the share of profit or loss attributable to minority shareholders of non wholly-owned Aecon subsidiaries and joint ventures, primarily the Quito Airport concessionaire and, prior to its sale in the third quarter of 2011, the operator of the Cross Israel Highway.

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

Backlog

$ millions	As at December 31 2012	2011
	$	$
Infrastructure	1,677	1,516
Industrial	751	874
Consolidated	2,428	2,390

Estimated backlog duration

$ millions	As at December 31 2012		2011	
	$		$	
Next 12 months	1,409	58%	1,477	62%
Next 13–24 months	656	27%	625	26%
Beyond	363	15%	288	12%
	2,428	100%	2,390	100%

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

REPORTING SEGMENTS

INFRASTRUCTURE

Financial highlights

$ millions	Three months ended December 31 2012	2011	Year ended December 31 2012	2011
	$	$	$	$
Revenue	601.4	553.2	1,897.1	1,904.7
Gross profit	54.6	73.5	160.7	151.1
EBITDA	45.0	58.4	105.7	110.4
Adjusted EBITDA	44.8	57.4	104.7	105.8
Operating profit	31.0	45.8	59.5	64.9
EBITDA margin	7.5%	10.6%	5.6%	5.8%
Adjusted EBITDA margin	7.4%	10.4%	5.5%	5.6%
Operating margin	5.2%	8.3%	3.1%	3.4%
Backlog			1,677	1,516

For the year ended December 31, 2012, revenue in the Infrastructure segment of $1,897 million decreased slightly by $8 million over the prior year. Most of the decrease in 2012 revenues occurred in the Social Infrastructure sector, particularly in buildings operations in Quebec and Ontario, as Aecon re-focuses its operations in this market, and in mechanical operations in Western Canada where several large projects were completed during 2012. In the Transportation sector, lower demand in construction and related materials operations resulted in decreased revenues in Alberta and Ontario, primarily due to softer municipal markets in 2012. Offsetting these reductions to some extent was higher revenue in Mining operations due to an increased presence in the oil sands in Western Canada.

For the three months and year ended December 31, 2012, the operating profit in the Infrastructure segment increased/(decreased) over the same period last year as follows:

$ millions(1)	Three months ended December 31	Year ended December 31
	$	$
Transportation	(0.4)	(12.8)
Heavy Civil	(12.1)	(16.5)
Utilities	2.4	(3.2)
Mining		
Ongoing operations	9.8	36.1
Gain on sale of equipment	(1.1)	(4.3)
Social Infrastructure	(13.4)	(4.7)
Decrease in Infrastructure operating profit	(14.8)	(5.4)

(1) Refer to the Introduction section of this MD&A for a description of changes made to the Infrastructure sub-categories and the realignment of Lockerbie & Hole Contracting from the Industrial segment to the Infrastructure segment.

The decline in operating profit in the Infrastructure segment for the year ended December 31, 2012 was primarily due to lower profits in the Heavy Civil sector. A number of significant projects closed out in Heavy Civil during 2012, including construction of the New Quito Airport where a combination of lower revenue and lower margin on this project resulted in an approximate $24 million year-over-year decline in Heavy Civil operating profit. While this was largely offset by the release of certain project contingencies related to Quito in the Concessions segment and of income tax reserves related to the project, it had a negative impact on Infrastructure profit and margin in 2012. Lower volume and margin in Transportation and Social Infrastructure also contributed to the reduction in operating profit. The operating profit decline in these sectors was largely offset by increased profits in Mining operations in Western Canada as a result of higher volume and margin and improved equipment utilization.

Infrastructure backlog at December 31, 2012 was $1,677 million, which is $161 million higher than the same time last year with most of the increase occurring in Utilities, primarily as a result of obtaining a 50% share in $730 million of contracts to complete the expansion of the Cold Lake and Polaris pipelines in Alberta. Offsetting the improvement in Utilities backlog was lower backlog in Heavy Civil, due to significant project work-off in 2012, and in Social Infrastructure as that business continued to change the nature of its project portfolio. New contract awards totalled $2,058 million in 2012 compared to $1,391 million in the prior year. Utilities reported the largest increase in awards, primarily as a result of the above noted pipeline awards.

It should be noted that Infrastructure reported backlog includes the revenue value of backlog that relates to projects that are accounted for using the equity method. Consequently, since this method of accounting results in earnings (revenues less expenses) from equity accounted projects being reported as a single amount on Aecon's consolidated statement of income, the revenue component of backlog for these projects is not included in Aecon's reported revenues.

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 price, and supplier of choice and alliance agreements, which do not show up as reported backlog when the number of units or volume of work cannot be estimated with reasonable certainty. For example, reported backlog in Utilities and Aecon Mining only includes the value of specific work orders awarded to-date and, as a result, excludes the value of work managed under multi-year master service contracts where the client requests services on an as-needed basis and where no specific work order has yet been awarded. Therefore, the Infrastructure segment's effective backlog at any given time is greater than what is reported.

INDUSTRIAL

Financial highlights

$ millions	Three months ended December 31		Year ended December 31	
	2012	2011	2012	2011
	$	$	$	$
Revenue	339.4	230.1	1,014.0	918.3
Gross profit	42.8	32.7	122.6	91.2
EBITDA	25.8	17.4	65.4	38.4
Adjusted EBITDA	26.0	17.4	65.5	38.7
Operating profit	23.9	15.5	57.9	30.2
EBITDA margin	7.6%	7.6%	6.5%	4.2%
Adjusted EBITDA margin	7.6%	7.6%	6.5%	4.2%
Operating margin	7.0%	6.7%	5.7%	3.3%
Backlog			751	874

For the year ended December 31, 2012, the Industrial segment reported revenue of $1,014 million compared to revenue of $918 million in the previous year, representing a $96 million or 10% increase. Most of the revenue increase occurred in Heavy Industrial operations, primarily from higher volumes in the commodities mining sector as well as from increased pipe fabrication and module assembly work in Western Canada. These revenue increases were offset in part by lower site construction work in Central Canada and lower revenue in IST.

For the three months and year ended December 31, 2012, the operating profit in the Industrial segment increased/(decreased) over the same periods last year as follows:

$ millions	Three months ended December 31	Year ended December 31
	$	$
Heavy Industrial (Construction and Fabrication)	7.5	31.3
IST	0.9	(3.6)
Increase in Industrial operating profit	8.4	27.7

For the year ended December 31, 2012, the majority of the year-over-year increase in Heavy Industrial operating profit was due to higher volume in the commodity mining sector and improved margins from module assembly and site construction operations in Western Canada. In addition, higher operating profit was also attributable to increased volume from Central Canada's fabrication operations. Partially offsetting these increases was a decline in IST operating profit, driven by the year-over-year reduction in revenue.

Backlog at December 31, 2012 of $751 million was $123 million lower than last year primarily due to lower backlog in Heavy Industrial operations. New contract awards of $891 million in 2012 were $483 million lower than in 2011. Most of the decrease in new awards occurred in the commodities mining sector and in Western Canada. This reduction reflects the year-over-year impact of several large multi-year project awards received in the second half of 2011. Most of the new awards for 2012 occurred in Heavy Industrial operations, with the largest awards related to site construction projects in Central Canada's power sector.

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

CONCESSIONS

Financial highlights

$ millions	Three months ended December 31		Year ended December 31	
	2012	2011	2012	2011
	$	$	$	$
Revenue	10.6	10.6	42.2	81.2
Gross profit	13.0	6.3	31.7	31.8
EBITDA	12.3	5.0	28.1	39.3
Adjusted EBITDA	12.3	5.0	28.1	27.8
Operating profit	12.3	4.1	25.1	35.9
EBITDA margin	116.3%	47.4%	66.5%	48.4%
Adjusted EBITDA margin	116.3%	47.4%	66.5%	34.2%
Operating margin	116.3%	39.0%	59.5%	44.2%

For the three months and year ended December 31, 2012, the operating profit in the Concessions segment increased/(decreased) over the same periods last year as follows:

$ millions	Three months ended December 31	Year ended December 31
	$	$
Quito Airport Concessionaire	8.2	7.5
Cross Israel Highway Operator (sold in Q3 2011)	–	(6.8)
Gain on sale of investment in operator of CIH in 2011	–	(11.5)
Increase/(decrease) in Concessions operating profit	8.2	(10.8)

The majority of the decrease in revenue and operating profit in the Concessions segment during the year ended December 31, 2012 is a result of the sale at the end of the third quarter of 2011 of Aecon's interest in the operator of the Cross Israel Highway. As a result of this sale, the segment's revenue and operating profit for 2012 excludes any amounts for the Cross Israel Highway operator, whereas its results in 2011 include Aecon's interest in these operations for nine months. Also, the segment's results in 2011 include an $11.5 million gain from the sale of Aecon's interest in the operator of the Cross Israel Highway. Although, as noted above, the segment benefitted in 2012 from the release of contingencies related to the Quito airport project, this was not sufficient to offset the year-over-year impact from the 2011 sale of the segment's interest in the operator of the Cross Israel Highway.

The operating profit from the Quito Airport concessionaire includes the results from operating the existing Quito Airport while the new Quito Airport is being constructed. Substantial completion of construction of the new Quito Airport was achieved in October 2012 as scheduled. The airport officially opened to air traffic on February 20, 2013.

Approximately 5.4 million passengers departed through the existing Quito airport in 2012, a 1.1% increase over 2011.

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.

QUARTERLY FINANCIAL DATA

Set out below is quarterly financial data for the most recent eight quarters:

	2012				2011			
$ millions (except per share amounts)	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	$	$	$	$	$	$	$	$
Revenues	948.7	834.3	661.7	502.2	790.3	835.4	758.4	512.0
EBITDA	78.1	69.0	25.9	0.4	73.6	74.5	29.0	(14.0)
Adjusted EBITDA	78.0	68.7	25.9	(0.2)	72.6	60.2	28.7	(14.2)
Earnings (loss) before income taxes	59.1	49.0	5.7	(27.0)	46.7	52.0	2.2	(27.4)
Profit (loss) attributable to shareholders	56.4	35.9	5.1	(19.5)	36.7	41.7	0.7	(21.5)
Adjusted profit (loss) attributable to shareholders	53.5	34.6	4.1	(17.4)	36.9	40.5	4.1	(27.0)
Earnings (loss) per share:								
Basic	1.07	0.68	0.10	(0.37)	0.69	0.76	0.01	(0.39)
Diluted	0.72	0.50	0.09	(0.37)	0.49	0.49	0.01	(0.39)
Adjusted earnings (loss) per share:								
Basic	1.01	0.66	0.08	(0.33)	0.69	0.74	0.07	(0.49)
Diluted	0.72	0.50	0.07	(0.33)	0.49	0.49	0.07	(0.49)

Earnings (loss) per share for each quarter has been computed using the weighted average number of shares issued and outstanding during the respective quarter. Any dilutive securities, which increase the earnings per share or decrease the loss per share, are excluded for purposes of calculating diluted earnings per share. Due to the impacts of dilutive securities, such as convertible debentures, and share issuances throughout the periods, the sum of the quarterly earnings (losses) per share will not equal the total for the year.

	Three months ended December 31			
	Revenue		Operating profit (loss)	
$ millions	2012	2011	2012	2011
	$	$	$	$
Infrastructure	601.4	553.2	31.0	45.8
Industrial	339.4	230.1	23.9	15.5
Concessions	10.6	10.6	12.3	4.1
Other costs and eliminations	(2.7)	(3.6)	(6.9)	(8.6)
Consolidated	948.7	790.3	60.3	56.9

The analysis of operating results for each of the first three quarters of 2012 is included in Management's Discussion and Analysis incorporated in the Interim Reports to Shareholders for each respective quarter.

In the Infrastructure segment, the increase in revenue of $48 million in the fourth quarter of 2012 compared to the same period in 2011 was primarily due to higher volumes in the Mining sector as well as from higher volumes in Utilities operations, especially from its involvement in several joint venture projects in Western Canada. These increases were partially offset by a decline in revenue in Heavy Civil operations following the completion of several large projects during the quarter and in Social Infrastructure following the completion of projects in its buildings operations in Ottawa and Quebec as well as in its mechanical operations in Western Canada.

The decline in operating profit in the Infrastructure segment in the fourth quarter came primarily from Heavy Civil operations and was due to the reduction in revenue and margin as noted in the full year discussion above. Operating results were also impacted by lower volume in the fourth quarter in Social Infrastructure and from lower margin in the sector's mechanical operations in Western Canada. Partly offsetting these reductions were increases in operating profits in Mining primarily due to higher volume and improved equipment utilization. Utilities also contributed higher operating profit due to increased volume and margin, both in Ontario and Western Canada.

Industrial segment revenue in the fourth quarter of 2012 was $109 million, or 48%, higher than in the fourth quarter of 2011. Most of the revenue increase occurred in Heavy Industrial operations, primarily from pipe fabrication, module assembly and site construction work in Western Canada. In addition, revenue also increased in the commodity mining sector, and from construction and fabrication operations in Central Canada.

Operating profit in the Industrial segment of $23.9 million in the fourth quarter of 2012 increased by $8.4 million compared to the fourth quarter of 2011. The majority of the period-over-period increase in operating profit from Heavy Industrial operations resulted from the higher revenue noted above.

Operating profit in the Concessions segment of $12.3 million for the fourth quarter of 2012 represents an $8.2 million increase over the same quarter in the previous year. This resulted primarily from the release of contingencies related to the Quito Airport project as previously noted in the Concessions segment commentary for the full year.

MG&A expense decreased by $3.0 million in the fourth quarter of 2012 compared to 2011 and MG&A as a percent of revenues decreased from 5.2% to 4.1%. The lower MG&A is primarily attributable to lower bid costs, professional fees and incentive costs.

Other losses of $2.5 million in the fourth quarter of 2011 resulted from the settlement of a long outstanding legal dispute related to Aecon's prior involvement in the construction of a grain terminal in Gdansk, Poland.

SELECTED ANNUAL INFORMATION

Set out below is selected annual information for each of the last three years.

$ millions (except per share amounts)	2012	2011	2010
	$	$	$
Total revenues	2,946.8	2,896.2	2,749.8
EBITDA	173.3	163.1	105.6
Adjusted EBITDA	172.4	147.2	60.5
Operating profit	109.8	100.5	57.2
Profit attributable to shareholders	78.0	57.6	41.8
Per share:			
Basic	1.47	1.07	0.76
Diluted	1.18	0.84	0.57
Adjusted profit attributable to shareholders	74.8	54.5	31.0
Per share:			
Adjusted earnings	1.41	1.01	0.57
Adjusted diluted earnings	1.18	0.84	0.54
Total assets	2,129.3	1,984.1	2,121.4
Total long-term financial liabilities	705.8	702.4	586.8
Cash dividends declared per common share	0.28	0.20	0.20

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Aecon's investments in joint ventures where it has joint control, including the Quito Airport concessionaire ("Quiport JV"), are accounted for by the proportionate consolidation method, whereby the consolidated financial statements reflect, line by line, Aecon's pro rata share of each of the assets, liabilities, revenue, expenses and cash flows of these joint ventures. Aecon is also involved in build finance and design build finance projects with Infrastructure Ontario. Each of these Infrastructure Ontario projects is financed by non-recourse project debt during the construction period through the use of individual design build finance or build finance special purpose vehicles (both described hereafter as "Build Finance SPVs"). Aecon's participation in construction project entities where Aecon exercises significant influence over the entity, but does not control or jointly control the entity, is accounted for using the equity method. For further information, see Notes 12 and 26 in the 2012 consolidated financial statements.

CASH AND DEBT BALANCES

Cash balances at December 31, 2012 and December 31, 2011 are as follows:

$ millions		Balances excluding joint ventures and build finance SPVs	Joint ventures	Build finance SPVs	Consolidated total
		December 31, 2012			
		$	$	$	$
Cash and cash equivalents	(1)	–	67	–	67
Restricted cash	(2)	3	36	–	39
Bank indebtedness	(3)	(10)	–	–	(10)

$ millions		Balances excluding joint ventures and build finance SPVs	Joint ventures	Build finance SPVs	Consolidated total
		December 31, 2011			
		$	$	$	$
Cash and cash equivalents	(1)	123	50	2	175
Restricted cash	(2)	6	40	–	46
Marketable securities	(4)	–	1	–	1

(1) Cash and cash equivalents includes cash on deposit in joint venture bank accounts (other than cash in Quiport JV as noted in (2) below) which Aecon cannot access directly, as well as cash held by Build Finance SPVs.

(2) Restricted cash includes cash that was deposited as collateral for letters of credit issued by Aecon as well as cash held in Quiport JV.

(3) Bank indebtedness includes borrowings on Aecon's revolving credit facility.

(4) Marketable securities held by joint ventures consisted of highly liquid interest bearing securities.

Total long-term debt of $629 million at December 31, 2012 compares to $654 million at December 31, 2011, the composition of which is as follows:

$ millions	December 31, 2012	December 31, 2011
	$	$
Current portion of long-term debt – non-recourse	11.9	56.7
Current portion of long-term debt – recourse	61.9	65.7
Long-term debt – non-recourse	156.0	137.1
Long-term debt – recourse	146.0	142.6
Convertible debentures	253.2	251.4
Total long-term debt	629.0	653.5
Debt held directly	461.0	459.6
Debt held by Build Finance SPVs	19.2	52.5
Debt of joint ventures (1)	148.8	141.4
Total long-term debt	629.0	653.5
Long-term debt – non-recourse	167.9	193.8
Long-term debt – recourse	207.9	208.3
Convertible debentures	253.2	251.4
Total long-term debt	629.0	653.5

(1) All joint venture debt was held by Quiport JV.

Most of the $24 million net decrease in debt results from a decrease in Infrastructure Ontario Build Finance SPV project debt of $29 million following the completion of some of these projects.

Convertible debentures increased by $1.8 million during 2012. The increase resulted from a $6.1 million increase related to the accretion of notional interest on the debentures and a $4.3 million decrease in the fair value attributed to the embedded derivative component of the convertible debentures. The embedded derivative represents the value attributed to the holders' option to convert the debentures into common shares of Aecon.

Aecon's liquidity position and capital resources are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future. Aecon's liquidity position is strengthened by its ability to draw on a committed revolving credit facility of $300 million of which $233 million was unutilized as of December 31, 2012. As of December 31, 2012, Aecon was in compliance with all debt covenants related to this credit facility.

On August 3, 2012, Aecon amended its $262.5 million revolving credit facility, which was due to expire in May 2014. The committed facility was increased to $300 million and now expires on the earlier of August 3, 2016 or four months prior to the maturity date of any convertible debentures if certain conditions are not satisfied. Under the amended credit facility agreement, the Company has the right, subject to receiving additional lending commitments, to increase the amount available under the credit facility by $150 million. When combined with two letter of credit facilities provided by Export Development Canada ("EDC") (a $150 million domestic facility, increased in June 2012 from $75 million, and a US$15 million international facility), Aecon's current total committed credit availability for working capital and letter of credit requirements is approximately $465 million.

On March 14, 2011, Aecon announced a normal course issuer bid (the "NCIB") commencing on March 16, 2011 and expiring March 15, 2012. During this period, Aecon was permitted to acquire up to 5,527,277 common shares being approximately 10% of the issued and outstanding common shares at the time of announcement of the NCIB. The actual number of common shares acquired by Aecon under the NCIB was 1,424,900 for a total cost of $12.0 million, all of which were subsequently cancelled. No common shares were acquired in 2012 under the NCIB, which has now expired.

In the first quarter of 2012, Aecon's Board of Directors approved an increase in the dividend to be paid to all holders of Aecon common shares. Annual dividends increased to $0.28 per share, to be paid in four quarterly payments of $0.07 per share. Previously, Aecon paid an annual dividend of $0.20 per share ($0.05 each quarter). The first quarterly dividend payment under the new policy was paid on April 2, 2012.

As of December 31, 2012, Aecon's total investment in Quiport JV was approximately US$159 million. Of this amount, US$64 million was invested through direct equity contributions and the balance of US$95 million through the reinvestment of Aecon's share of the earnings of the existing airport. No further additional direct equity contributions are required. Aecon has also deposited US$4 million with EDC to support letters of credit issued by EDC on the Quito Airport project. These EDC deposits are included in restricted cash on the Consolidated Balance Sheet at December 31, 2012.

SUMMARY OF CASH FLOWS

	Consolidated cash flows	
$ millions	Year ended December 31	
	2012	2011
	$	$
Cash provided by (used in):		
Operating activities	68.9	197.0
Investing activities	(105.4)	(97.8)
Financing activities	(71.6)	(174.7)
(Decrease) in cash and cash equivalents	(108.1)	(75.5)
Effects of foreign exchange on cash balances	(0.2)	(0.2)
Cash and cash equivalents – beginning of year	175.2	250.9
Cash and cash equivalents – end of year	66.9	175.2

The construction industry in Canada is seasonal in nature for companies like Aecon who perform a significant portion of their work outdoors, particularly road construction and utilities work. As a result, a larger portion of this work is performed in the summer and fall months than in the winter and early spring months. Accordingly, Aecon has historically experienced a seasonal pattern in its operating cash flow, with cash balances typically being at their lowest levels in the middle of the year as investments in working capital increase. These seasonal impacts typically result in cash balances usually peaking near year end or in the first quarter of the year.

Operating Activities

Cash provided by operating activities of $69 million in 2012 compares with cash provided by operating activities of $197 million in the same period last year. Most of the $128 million year-over-year decrease in cash from operating activities resulted from changes in working capital balances related to build finance projects for Infrastructure Ontario, and also from higher working capital investments in the Industrial segment. During 2011, significant cash proceeds were generated as a result of large unbilled balances at the beginning of 2011, related to build finance projects, being billed and converted to cash during that period, whereas similar amounts billed and converted to cash in 2012 dropped significantly reflecting the substantial reduction in build finance projects. In addition, an increase in income taxes paid of $34 million contributed to the decrease in cash provided by operating activities year-over-year. Lower cash taxes were paid in 2011 primarily as a result of refunds of prior period overpayments and refunds resulting from income tax loss carrybacks to prior periods.

Investing Activities

In 2012, investing activities resulted in a use of cash of $105 million, which compares with cash used of $98 million in the same period of 2011. Of the cash used in 2012, $66 million represented Aecon's proportionate share of the investment made by Quiport JV in the construction of the new Quito Airport (i.e. increase in concession rights). Also, $46 million of cash was used for capital expenditures (net of disposals) on property, plant and equipment. Of the cash used in 2011, $83 million represented Aecon's proportionate share of the investment made by Quiport JV in the construction of the new Quito Airport, and $36 million represented capital expenditures (net of disposals), on property, plant and equipment.

In 2012, Aecon acquired, either through purchases or finance leases, property, plant and equipment totalling $87 million. Most of this investment in property, plant and equipment occurred in the Infrastructure segment. In 2011, investment in property, plant and equipment totalled $111 million, again with most of the spending occurring in the Infrastructure segment.

Financing Activities

In 2012, cash used by financing activities amounted to $72 million, compared to cash used of $175 million in the same period of the previous year. During 2012, issuances of long-term debt amounted to $82 million, while repayments totalled $141 million, for a net outflow related to debt movements of $59 million. The majority of the debt repayments related to non-recourse project financing for Build Finance SPVs associated with Infrastructure Ontario build finance projects and repayments on equipment financing arrangements. This compares to net repayments of long-term debt totalling $142 million in 2011. In addition, drawdowns from the revolving credit facility in 2012 provided $10 million of cash, and $8 million of cash was used in 2012 to purchase Aecon common shares for the Company's Long-Term Incentive Plan. In 2011, $8 million was used to purchase common shares for the Company's Long-Term Incentive Plan and $12 million for share purchases under the Company's normal course issuer bid. Dividends of $15 million were paid in 2012 compared to $11 million in 2011.

NEW ACCOUNTING STANDARDS

Note 5 to the 2012 consolidated financial statements includes new CICA Handbook sections which became effective on or after January 1, 2013 for Aecon.

SUPPLEMENTAL DISCLOSURES

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), together with management, evaluated the design and operating effectiveness of the Company's disclosure controls and procedures as at the financial year ended December 31, 2012. Based on that evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2012 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 and that information required to be disclosed by the Company in its annual and interim filings and other reports submitted under securities legislation was recorded, processed, summarized and reported within the periods specified in securities legislation.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and CFO, together with management, evaluated the design and operating effectiveness of the Company's internal controls over financial reporting as at the financial year ended December 31, 2012. Based on that evaluation, the CEO and the CFO concluded that the design and operation of internal controls over financial reporting were effective as at December 31, 2012 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. In designing and implementing such controls, it should be recognized that any system of internal control over financial reporting, no matter how well designed and operated, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect all misstatements due to error or fraud.

See also the section on "Internal and Disclosure Controls" in the Risk Factors section of this MD&A.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Company's internal controls over financial reporting during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

CONTRACTUAL OBLIGATIONS

Aecon has commitments for equipment and premises under operating leases and has principal repayment obligations under long-term debt as follows:

$ millions	Operating lease payments	Non-recourse project debt	Other long-term debt	Convertible debentures (1)
	$	$	$	$
2013	10.9	23.0	70.7	–
2014–2019	22.6	109.9	155.8	264.5
Beyond	7.8	93.9	1.4	–
	41.3	226.8	227.9	264.5

(1) Assumes all convertible debentures are redeemed at maturity for cash.

At December 31, 2012, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was $2,428 million.

OFF-BALANCE SHEET ARRANGEMENTS

In connection with its joint venture operations in Quito, Aecon has provided various financial and performance guarantees and letters of credit, which are described in Note 23 to the Company's 2012 consolidated financial statements.

Aecon's defined benefit pension plans (the "Pension Plans") had a combined deficit of $7.6 million at December 31, 2012 (2011 – $8.5 million). Details relating to Aecon's defined benefit plans are set out in Note 22 to the 2012 consolidated financial statements.

The latest actuarial valuation of the Pension Plans for statutory and contribution purposes was completed as at December 31, 2010. Under current pension benefits regulations, the next actuarial valuation of the Pension Plans must be performed with a valuation date of no later than December 31, 2013. Accordingly no change in contributions will be required before 2014 and any change thereafter will reflect December 31, 2013 market conditions.

The defined benefit obligations and benefit cost levels will change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future experience gains or losses, none of which have been anticipated at this time. Emerging experience, differing from the assumptions, will result in gains or losses that will be revealed in future accounting valuations. Consequently, the accounting for pension plans involves a number of assumptions including those that are disclosed in Note 22 to the consolidated financial statements. As a result of the uncertainty associated with these estimates, there is no assurance that the plans will be able to earn the assumed rate of return on plan assets, and furthermore, market driven changes may result in changes to discount rates and other variables which would result in Aecon being required to make contributions to the plans in the future that may differ significantly from estimates. As a result, there is a significant amount of measurement uncertainty involved in the actuarial valuation process. This measurement uncertainty may lead to potential fluctuations in financial results attributable to the selection of actuarial assumptions and other accounting estimates involved in the determination of pension expense and obligations. A significant actuarial and accounting assumption impacting the reporting of pension plans is the discount rate assumption. As at December 31, 2012, Aecon used a discount rate of 3.75% in its pension plan calculations for financial statement purposes. The impact of a 0.5% decrease in the discount rate assumption would have resulted in an increase in the Pension Benefit Obligation of approximately $2.4 million at December 31, 2012 and an increase in the estimated 2013 pension expense of approximately $0.1 million.

Further details of contingencies and guarantees are included in the Company's 2012 consolidated financial statements.

RELATED PARTY TRANSACTIONS

Included in trade and other receivables at December 31, 2012 is a $0.6 million non-interest bearing relocation loan due from an officer of the Company. The loan is expected to be repaid in 2013.

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 resolution is probable. 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, employee benefit plans and the accounting for pension expense, the allocation of the purchase price to the fair value of assets acquired and liabilities assumed on acquisitions, budget-related estimates used in testing goodwill and other assets for impairment, and estimates relating to the valuation of derivatives and fair valuing of financial instruments. The Company's accounting for income taxes is described in Note 21 to the 2012 consolidated financial statements and under Tax Accrual Risks in the following section of the MD&A, entitled Risk Factors. The significant actuarial assumptions used in accounting for pension expense are set out in Note 22 to the 2012 consolidated financial statements and are discussed above in the Off-Balance Sheet Arrangements section of the MD&A.

RISK FACTORS

The following risk factors, and the information incorporated by reference herein, should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

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 significant revenue and profit contributions but, by their nature, carry significant risk and, as such, can and have occasionally resulted in significant losses. As a result of the existing infrastructure deficit throughout Canada a significant number of large projects are expected to be tendered over the next several years. In addition to a growing involvement in large projects in response to changing market conditions, Aecon is also active in the Public Private Partnership ("P3") market in Canada. The P3 procurement model typically involves a transfer of certain risks to a contractor beyond those contained in a conventional fixed price contract. As such, a failure to properly execute and complete a P3 project may subject Aecon to significant losses. In addition, previously announced or anticipated projects in the Alberta oil sands and commodities mining sector continue to grow in size, scope and complexity. The risks associated with such large scale infrastructure and industrial projects are often proportionate to their size and complexity thereby placing a premium on risk assessment and project execution.

Joint ventures are often 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 analysis of 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 its 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. As a result of the complexity and size of such projects that Aecon has pursued in recent years or is likely to pursue going forward, the failure of a joint venture partner on a larger, more complex project could have a more significant impact on Aecon's results.

The contract price on large projects is based on cost estimates using a number of assumptions. Given the size of these projects, if these assumptions prove incorrect, whether due to faulty estimates, unanticipated circumstances, or a failure to properly assess risk, profit may be materially lower than anticipated or, in a worst case scenario, result in a significant loss.

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. For greater detail of the potential impact of contractual factors, including unpriced change orders, please see "Contractual Factors" under "Risk Factors" herein.

Aecon has a number of commitments and contingencies. If Aecon was called upon to honour these contingent obligations, its financial results would be adversely affected. For additional details, see Note 23 "Contingencies" and Note 24 "Commitments Under Non-Cancellable Operating Leases" to the Company's 2012 consolidated financial statements filed on its SEDAR profile at www.sedar.com.

The failure to replace the revenue generated from these large projects on a going forward basis could adversely affect Aecon.

CONTRACTUAL FACTORS

Aecon performs construction activities under a variety of contracts 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. Such contracts, given their inherent risks, have from time to time resulted in significant losses. The failure to properly assess a wide variety of risks, appropriately execute such contracts or contractual disputes, may have an adverse impact on financial results.

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

In certain instances, Aecon guarantees to a customer that it will complete a project by a scheduled date or that the facility will achieve certain performance standards. If the project or facility subsequently fails to meet the schedule or performance standards, Aecon could incur additional costs or penalties commonly referred to as liquidated damages. 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 or certain contracts for owners such as Infrastructure Ontario and Partnerships British Columbia 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 on a going forward basis 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 working capital and bonding facilities will be adequate in order to issue the required letters of credit and performance bonds. See "Access to Bonding, Pre-qualification Rating and Letters of Credit" under "Risk Factors" herein.

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. As such, disputes regarding the quantum of unpriced change orders could impact Aecon's profitability on a particular project, its ability to recover costs or, in a worst case scenario, result in significant project losses. 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 to 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 resolution 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.

AECON OPERATES IN A HIGHLY COMPETITIVE INDUSTRY

Aecon operates 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. In addition, an increase in the number of international companies entering into the Canadian marketplace has also made the market more competitive. 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 the Company operates. Fluctuations in demand in the segments in which the Company operates 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 Company is unable to effectively respond to these competitive factors, results of operations and financial condition will be adversely impacted. In addition, a prolonged economic slump or slower than anticipated recovery may affect one or more of Aecon's competitors or the markets in which it operates, resulting in increased competition in certain market segments, price or margin reductions or decreased demand for services, which may adversely affect results.

CONCESSIONAIRE RISK

In addition to providing design, construction, procurement, operation and other services on a given project, Aecon will sometimes invest as a concessionaire in an infrastructure asset. 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 Quito Airport Project is a current example of such a project.

The financing arrangements on concession projects such as the Quito Airport Project 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, among others, political or legislative changes, traffic demand and thus operating revenues, collection success and operating cost levels.

While project concession agreements often provide a degree of risk mitigation, 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.

On a going forward basis, a slower than anticipated recovery or future economic downturn may directly or indirectly impact the ability of Aecon to make the necessary financing arrangements to pursue all of the concession opportunities it would otherwise be interested in.

RESOURCES AND COMMODITIES SECTOR

In recent years, delays, scope reductions and/or cancellations in previously announced or anticipated projects in the Alberta oil sands and commodities mining sector demonstrated that economic activity in the resources and commodities sector could be impacted by a variety of factors. General factors include: the pricing of oil, potash and other commodities; market volatility; the impact of global economic conditions affecting demand or the worldwide financial markets; cost overruns on announced projects; efforts by owners to contractually shift risk for cost overruns to contractors; fluctuations in the availability of skilled labour; lack of sufficient governmental infrastructure to support growth; the potential introduction of new "green" legislation; negative perception of the Alberta oil sands and their potential environmental impact; as well as a shortage of sufficient pipeline capacity to transport production to major markets. Given the volatility of world oil prices, a sustained period of low world oil prices on a going forward basis may result in material differences in previously projected oil sands development. Postponements or cancellations of investment in existing and new projects could have an adverse impact on Aecon's business and financial condition.

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, particularly in remote locations that require workers to live in temporary "camp" environments. The resulting competition for labour 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.

SUBCONTRACTOR PERFORMANCE

The profitable completion of some contracts, primarily within Aecon's buildings business unit, depends to a large degree on the satisfactory performance of the subcontractors as well as design and engineering consultants 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 impact schedule, add costs to a contract, impact profitability on a specific job and, in certain circumstances, lead to significant losses. A major subcontractor default or failure to properly manage subcontractor performance could materially impact results.

INTERNATIONAL/FOREIGN JURISDICTION FACTORS

Aecon is from time to time engaged in large international projects in foreign jurisdictions. International projects such as the Quito Airport Project 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 including the duration and severity of the impact of the recent global economic downturn. On a smaller scale, Aecon is also exposed to similar risks through its wholly-owned subsidiary, IST, which has projects in many countries around the world.

The Company holds a 42.3% effective economic interest in Corporacion Quiport S.A. ("Quiport JV"), an Ecuadorian company administering the Quito Airport Project concession, which includes: (a) managing and operating 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 Airport under a concession arrangement with the Municipality of Quito. 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 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. For additional details, see Note 23 "Contingencies" in the Company's 2012 consolidated financial statements for additional details. In addition, the Company and its joint venture partners have provided surety bonds, guaranteed joint and severally, to cover construction and concession related performance obligations, an advance payment bond and a retention release bond. In each case, the Company's share 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.

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.

Aecon's investment in the Quiport JV is denominated in U.S. dollars and, as such, the value of this investment fluctuates with the relationship between the Canadian dollar and the U.S. dollar. For further information on currency risk, see Note 32 "Financial Instruments" in the Company's 2012 consolidated financial statements.

MARKET VOLATILITY

The volatility created by the global financial and European sovereign debt crises damaged investor confidence in global equity markets and negatively impacted the value of publicly-traded securities of many companies. The duration and severity of these crises remain unpredictable and continue to pose risks beyond Aecon's control, including currency and foreign exchange rates, interest rates, inflation, liquidity, economic growth, trade flows, business investment and capital expenditures, corporate earnings, government spending, and commodity price risks.

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 (such as, among others, highways, airports, dams and hydroelectric plants) 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, a prolonged economic downturn in the markets in which Aecon operates or related constraints on public sector funding, including as a result of government deficits, may have a significant impact on Aecon's operations.

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 segment and Industrial segment, 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, given the expected demand for infrastructure services over the next several years and the size of many of these projects, Aecon may be constrained in its ability to capitalize on growth opportunities to the extent that financing is either insufficient or unavailable.

ACCESS TO BONDING, PRE-QUALIFICATION RATING AND LETTERS OF CREDIT

Many of Aecon's construction contracts require sufficient bonding, pre-qualification rating or letters of credit. The surety industry has endured a certain degree of instability and uncertainty arising from the recent economic downturn, the long-term effects of which may constrain overall industry capacity. Furthermore, the issuance of bonds under surety facilities is at the sole discretion of the surety company on a project by project basis. As such, even sizeable surety facilities are no guarantee of surety support on any specific individual project. 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 to Aecon or its joint venture partners (see "Large Project Risk" under "Risk Factors" herein) for reasons related to an economic downturn or otherwise, or should the cost of bonding rise substantially (whether Aecon specific or industry wide), this may have an adverse effect on the ability of Aecon to operate its business or take advantage of all market opportunities. The Company also believes that it has sufficient capacity with respect to letters of credit to satisfy its requirements, but should these requirements be materially greater than anticipated or should industry capacity be materially impacted by domestic or international conditions unrelated to Aecon, this may have an adverse effect on the ability of Aecon to operate its business.

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, monitors developments in the insurance markets to ensure that the Company's insurance needs are met. Insurance risk entails inherent unpredictability that can arise from assuming long-term policy liabilities or from uncertainty of future events. 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.

Although the Company believes that its current political risk insurance policy would provide sufficient coverage for any direct equity and/or contingent equity exposure of the Company in respect of the Quiport JV or other ongoing international projects arising from any future political instability or change in government, there can be no guarantee that the coverage would respond as anticipated to any future event.

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. Given its more than one hundred-year history in the construction industry, the large number of companies incorporated into its present structure, and the fact that environmental regulations tend not to have a statute of limitations, there can be no guarantee that a historical claim may not arise on a go forward basis. 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 (including without limitation the introduction of "green" legislation that may impact segments of Aecon's business such as work in Alberta's oil sands) will not be proposed and, if implemented, might have an 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 its workforce and the general public. Aecon has developed a comprehensive health and safety program. 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, taken as a whole, 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. Increasingly across the construction industry safety standards, records and culture are an integral component of winning new work. Should Aecon fail to maintain its safety standards, such failure may impact future job awards, or in a worst case scenario impact financial results.

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 are likely to have a material impact 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. Although as of the date hereof, Aecon has not seen a material shift, there can be no guarantee that one of the by-products of the recent economic crisis will not be a rise in litigation which, depending on the nature of the litigation, could impact Aecon's results.

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. A greater incidence of default (including cash flow problems) or corporate bankruptcy amongst clients, subcontractors or suppliers related to current or future economic conditions could also 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. Please see "Dependence on the Public Sector" under "Risk Factors" herein for additional discussion of the risks associated with this type of contract.

INTERNAL AND DISCLOSURE CONTROLS

Inadequate disclosure controls or ineffective internal controls over financial reporting could result in an increased risk of material misstatements in the financial reporting and 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 designed and implemented a system of internal controls and a variety of policies and procedures to provide reasonable assurance that material misstatements in the financial reporting and public disclosures are prevented and detected on a timely basis and other business risks are mitigated. In accordance with the guidelines adopted in Canada, Aecon assesses the effectiveness of its internal and disclosure controls using a top-down, risk-based approach in which both qualitative and quantitative measures are considered. An internal control system, no matter how well conceived and operated, can provide only reasonable – not absolute – assurance to management and the Board of Directors regarding achievement of intended results. Aecon's current system of internal and disclosure controls places reliance on key personnel across the Company to perform a variety of control functions including key reviews, analysis, reconciliations and monitoring. The failure of individuals to perform such functions or properly implement the controls as designed could adversely impact results.

INTEGRATION AND ACQUISITION RISK

The integration of any acquisition raises a variety of issues including, without limitation, identification and execution of synergies, elimination of cost duplication, systems integration (including accounting and information technology), execution of the pre-deal business strategy in an uncertain economic market, development of common corporate culture and values, integration and retention of key staff, retention of current clients as well as a variety of issues that may be specific to Aecon and the industry in which it operates. There can be no assurance that Aecon will maximize or realize the full potential of any of its recent acquisitions. A failure to successfully integrate these acquisitions and execute a combined business plan could materially impact the future financial results of Aecon. A failure to expand the existing client base and achieve sufficient utilization of the assets acquired could also materially impact the future financial results of Aecon.

CYCLICAL NATURE OF THE CONSTRUCTION INDUSTRY

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 or the ability of the private and/or public sector to fund projects in the current economic climate could adversely affect backlog and margin and thus Aecon's results.

Given the cyclical nature of the construction industry, the financial results of Aecon, similar to others in the industry, may be impacted in any given period by a wide variety of factors beyond its control (as outlined herein) and, as a result, there may be from time to time, significant and unpredictable variations in Aecon's quarterly and annual financial 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 traditional funding constraints, the long-term impact of the recent economic crisis (including future budgetary constraints, concerns regarding deficits or an eroding tax base), 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.

LOSS OF KEY MANAGEMENT AND 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. A variety of factors outlined in these "Risk Factors" including, without limitation, conditions in the oil sands and the impact of the recent global economic downturn could lead to project delays, reductions in scope and/or cancellations which could, depending on severity, negatively affect the ability of the Company to replace its existing backlog which may adversely impact results.

TAX ACCRUAL RISKS

Aecon is subject to income taxes in both Canada and several 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 an adverse effect on the Company's current and future results and financial condition.

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, losses on specific projects, 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. Nevertheless, the adoption of corporate policies and training of employees cannot guarantee that a future breach or breaches of the Code of Conduct or other corporate policies will not occur which may or may not impact the financial results of the Company.

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 Company's results. At times during the last several years, the global availability of basic construction materials such as cement and steel has been impacted by the massive requirements of the Asian market which has resulted in price fluctuations, price escalation and periodic supply shortages. Periods of high demand or the failure to anticipate or mitigate demand fluctuations may add 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 on to their customers.

PROTECTION OF INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

The Company, particularly through its wholly-owned 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 HRSG 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.

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, 2012	Mar. 12, 2013
Number of common shares outstanding(1)	55,812,149	55,812,149
Paid-up capital of common shares outstanding(2)	$287,571	$287,571
Outstanding securities exchangeable or convertible into common shares:		
Number of stock options outstanding	1,910,000	1,910,000
Number of common shares issuable on exercise of stock options	1,910,000	1,910,000
Increase in paid-up capital on exercise of stock options	$24,634	$24,634
Principal amount of convertible debentures outstanding (see Note 19 to the 2012 consolidated financial statements)	$253,189	$253,189
Number of common shares issuable on conversion of convertible debentures	13,921,053	13,921,053
Increase in paid-up capital on conversion of convertible debentures	$253,189	$253,189

(1) The number of common shares outstanding as per the above table at December 31, 2012 includes 2,800,697 shares (March 12, 2013 – 2,800,697 shares) held by the trustee of Aecon's Long-Term Incentive Plan ("LTIP").

The number of common shares outstanding at December 31, 2012 for financial statement purposes, after deducting the above LTIP shares, was 53,011,452 shares (March 12, 2013 – 53,011,452 shares).

(2) As described in Note 25 to the December 31, 2012 consolidated financial statements, the LTIP Trust meets the criteria of a Special Purpose Entity that requires consolidation by the Company in accordance with SIC 12 "*Consolidation – Special Purpose Entities*". As a result, share capital at December 31, 2012 and March 12, 2013 has been reduced by $30.4 million to reflect shares held by the trustee of the LTIP plan.

OUTLOOK

Aecon's significantly improved financial and operating performance in 2012 provides a foundation to continued progress on all fronts.

We enter 2013 with a strategic focus on our three core target markets – infrastructure, energy and mining – and a solid $2.4 billion backlog with significant bidding activity underway.

Through the course of 2012, we made progress toward achieving our target of 9 percent EBITDA in 2015 including:

- Significant growth in profitability and margins in our Industrial segment;
- Successfully scaled our Mining business in the oil sands;
- Expanded our Utilities business in western Canada through a strategic joint venture related to mainline pipeline expansions for the oil sands;
- Redefined and refocused our buildings operations;
- Successfully completed the construction of the New Quito International Airport;
- Awarded major new projects and increased the duration and visibility of our backlog – with 42 percent representing work beyond the next 12 months (versus 38 percent at year end 2011); and
- Strengthened our management team and augmented our risk management practices.

The business environment in which we set our target of 9 percent EBITDA for 2015 has not fundamentally changed and the key trends that have shaped our outlook remain intact.

Our positive outlook going into 2013 is based on our business strategy which has four key elements:

1) Invest in our people and their safety;

2) Profitability through focus on margin expansion;

3) Building partnerships and alliances; and

4) Focus on execution, performance, operational discipline and risk management.

Looking forward, we still see opportunities to leverage our scope and scale to grow our business organically based on our national capabilities. With projections for Canada being the fifth largest construction market by aggregate volume in the world, trailing only China, India, the United States and Japan by 2020 (according to a study published by PricewaterhouseCoopers and Oxford Economics), Canada offers a host of opportunities.

The ongoing need and demand for investment in infrastructure remains as well as the trend toward larger, more complex projects – which provides an advantage to larger companies such as Aecon with the scope, scale and capabilities to self-perform the work either by ourselves or in concert with consortia in larger public private partnerships.

Specifically, we envision significant opportunities in multi-year transportation projects, heavy civil power projects including hydroelectric infrastructure, transmission opportunities in Western Canada to be sought in a strategic joint venture, co-generation plants and facilities, renewable energy, oil sands related contract mining work as well as mining facility and plant installations, and fabrication and module assembly work for the private sector in our facilities across Canada.

Today, the projects in our backlog have better margins embedded than a year ago and we are focused on delivering this margin to the bottom line for our shareholders. Aecon is at work every day to make continuous improvement in the way we operate for ourselves, our clients and our joint venture partners.

As usual, we expect the second half of 2013 to be stronger than the first half reflecting the typical seasonality of our work.

Our Company's balance sheet, financial liquidity and substantial bonding capacity – each of which are among the strongest in the Canadian construction industry – continue to provide the financial resources required to capitalize on the opportunities that are on the horizon. Capital expenditures are expected to remain relatively consistent with 2012 levels.

We believe that this position of strength, combined with Aecon's business strategy, will lead to ongoing strengthening of our financial performance in 2013 and beyond.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

March 12, 2013

Independent Auditor's Report

To the Shareholders of
Aecon Group Inc.

We have audited the accompanying consolidated financial statements of Aecon Group Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aecon Group Inc. and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2012 AND 2011

(in thousands of Canadian dollars)	Note	December 31, 2012 $	December 31, 2011 $
ASSETS			
Current assets			
Cash and cash equivalents	6	66,917	175,208
Restricted cash	7	39,293	46,082
Marketable securities		–	725
Trade and other receivables	8	624,469	533,235
Unbilled revenue	9	331,547	249,557
Inventories	10	31,018	30,499
Income taxes recoverable		11,931	9,695
Prepaid expenses		23,452	19,248
		1,128,627	1,064,249
Non-current assets			
Long-term financial assets	11	4,806	8,504
Construction projects accounted for using the equity method	12	27,371	17,931
Deferred income tax assets	21	34,231	40,222
Property, plant and equipment	13	508,849	482,148
Concession rights and other intangible assets	14	425,398	371,041
		1,000,655	919,846
TOTAL ASSETS		2,129,282	1,984,095
LIABILITIES			
Current liabilities			
Bank indebtedness	15	10,368	–
Trade and other payables	16	631,854	536,497
Provisions	17	4,144	11,120
Deferred revenue	9	141,599	108,096
Income taxes payable		12,161	13,688
Non-recourse project debt	18	11,926	56,745
Long-term debt	18	61,899	65,690
		873,951	791,836
Non-current liabilities			
Provisions	17	10,522	24,223
Non-recourse project debt	18	156,041	137,078
Long-term debt	18	146,048	142,581
Convertible debentures	19	253,189	251,429
Concession related deferred revenue	20	63,914	65,266
Deferred income tax liabilities	21	67,059	71,342
Other liabilities		8,990	10,463
		705,763	702,382
TOTAL LIABILITIES		1,579,714	1,494,218
EQUITY			
Capital stock	25	287,571	291,633
Contributed surplus		7,258	6,027
Retained earnings		255,162	192,808
Accumulated other comprehensive loss		(6,833)	(4,131)
Shareholders' equity		543,158	486,337
Non-controlling interests		6,410	3,540
TOTAL EQUITY		549,568	489,877
TOTAL LIABILITIES AND EQUITY		2,129,282	1,984,095

Approved by the Board of Directors John M. Beck, Director Michael A. Butt, Director

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(in thousands of Canadian dollars, except per share amounts)	Note	December 31, 2012 $	December 31, 2011 $
Revenue		2,946,796	2,896,167
Direct costs and expenses	27	(2,631,791)	(2,622,034)
Gross profit		315,005	274,133
Marketing, general and administrative expenses	27	(157,191)	(138,832)
Depreciation and amortization	27	(63,562)	(62,548)
Income from construction projects accounted for using the equity method	12	14,440	14,058
Other income	28	1,072	13,721
Operating profit		109,764	100,532
Finance income		2,135	5,679
Finance costs	29	(29,275)	(36,923)
Fair value gain on convertible debentures	19	4,260	4,269
Profit before income taxes		86,884	73,557
Income tax expense	21	(5,943)	(11,414)
Profit for the year		80,941	62,143
Attributable to:			
Shareholders		77,978	57,553
Non-controlling interests		2,963	4,590
		80,941	62,143
Basic earnings per share	30	1.47	1.07
Diluted earnings per share	30	1.18	0.84

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(in thousands of Canadian dollars)	Note	December 31, 2012 $	December 31, 2011 $
Profit for the year		80,941	62,143
Other comprehensive income (loss):			
Currency translation differences		(2,150)	2,305
Actuarial loss	22	(839)	(4,988)
Disposal of a subsidiary		–	168
Cash flow hedges		(16)	(15)
Income taxes on the above		210	1,247
Total other comprehensive loss for the year		(2,795)	(1,283)
Comprehensive profit for the year		78,146	60,860
Attributable to:			
Shareholders		75,276	56,183
Non-controlling interests		2,870	4,677
		78,146	60,860

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive loss: Currency translation differences	Accumulated other comprehensive loss: Actuarial gains and losses	Accumulated other comprehensive loss: Cash flow hedges	Shareholders equity	Non-controlling interest	Total equity
	$	$	$	$	$	$	$	$	$
Balance as at January 1, 2012	**291,633**	**6,027**	**192,808**	**(1,966)**	**(2,150)**	**(15)**	**486,337**	**3,540**	**489,877**
Profit for the year	–	–	77,978	–	–	–	77,978	2,963	80,941
Other comprehensive income (loss):									
Currency translation differences	–	–	–	(2,057)	–	–	(2,057)	(93)	(2,150)
Actuarial loss	–	–	–	–	(839)	–	(839)	–	(839)
Cash flow hedges	–	–	–	–	–	(16)	(16)	–	(16)
Taxes with respect to above items included in other comprehensive income	–	–	–	–	210	–	210	–	210
Total other comprehensive loss for the year	**–**	**–**	**–**	**(2,057)**	**(629)**	**(16)**	**(2,702)**	**(93)**	**(2,795)**
Total comprehensive income (loss) for the year	**–**	**–**	**77,978**	**(2,057)**	**(629)**	**(16)**	**75,276**	**2,870**	**78,146**
Dividends declared	–	–	(15,624)	–	–	–	(15,624)	–	(15,624)
Granting of stock options	–	1,231	–	–	–	–	1,231	–	1,231
Common shares purchased by the Trust of the long-term incentive plan (LTIP)	(8,435)	–	–	–	–	–	(8,435)	–	(8,435)
Transfers by the Trust to settle LTIP obligations	4,373	–	–	–	–	–	4,373	–	4,373
Balance as at December 31, 2012	**287,571**	**7,258**	**255,162**	**(4,023)**	**(2,779)**	**(31)**	**543,158**	**6,410**	**549,568**

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive loss: Currency translation differences	Accumulated other comprehensive loss: Actuarial gains and losses	Accumulated other comprehensive loss: Cash flow hedges	Shareholders equity	Non-controlling interest	Total equity
	$	$	$	$	$	$	$	$	$
Balance as at January 1, 2011	**298,613**	**5,009**	**150,776**	**(4,352)**	**1,591**	**–**	**451,637**	**7,961**	**459,598**
Profit for the year	**–**	**–**	**57,553**	**–**	**–**	**–**	**57,553**	**4,590**	**62,143**
Other comprehensive income (loss):									
Currency translation differences	–	–	–	2,218	–	–	2,218	87	2,305
Actuarial loss	–	–	–	–	(4,988)	–	(4,988)	–	(4,988)
Disposal of a subsidiary	–	–	–	168	–	–	168	–	168
Cash flow hedges	–	–	–	–	–	(15)	(15)	–	(15)
Taxes with respect to above items included in other comprehensive income	–	–	–	–	1,247	–	1,247	–	1,247
Total other comprehensive income (loss) for the year	–	–	–	**2,386**	**(3,741)**	**(15)**	**(1,370)**	**87**	**(1,283)**
Total comprehensive income (loss) for the year	–	–	**57,553**	**2,386**	**(3,741)**	**(15)**	**56,183**	**4,677**	**60,860**
Dividends declared	–	–	(11,263)	–	–	–	(11,263)	(3,443)	(14,706)
Common shares issued on exercise of options	2,698	(550)	–	–	–	–	2,148	–	2,148
Common shares purchased under Normal Course Issuer Bid	(7,780)	–	(4,258)	–	–	–	(12,038)	–	(12,038)
Granting of stock options	–	1,568	–	–	–	–	1,568	–	1,568
Common shares purchased by the Trust of the long-term incentive plan (LTIP)	(7,952)	–	–	–	–	–	(7,952)	–	(7,952)
Transfers by the Trust to settle LTIP obligations	6,054	–	–	–	–	–	6,054	–	6,054
Disposal of a subsidiary	–	–	–	–	–	–	–	(5,655)	(5,655)
Balance as at December 31, 2011	**291,633**	**6,027**	**192,808**	**(1,966)**	**(2,150)**	**(15)**	**486,337**	**3,540**	**489,877**

During the year ended December 31, 2012, the Company declared dividends amounting to $0.28 per share (December 31, 2011 – $0.20 per share).

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(in thousands of Canadian dollars)	Note	December 31, 2012	December 31, 2011
		$	$
CASH PROVIDED BY (USED IN)			
Operating activities			
Profit before income taxes		86,884	73,557
Income taxes (paid) recovered		(10,206)	23,699
Defined benefit pension		(1,770)	(1,214)
Items not affecting cash:			
Depreciation and amortization		63,562	62,548
Income from construction projects accounted for using the equity method		(14,440)	(14,058)
Gain on sale of assets		(898)	(15,912)
Income from leasehold inducements		(403)	(456)
Unrealized foreign exchange (gains) losses		414	(219)
Increase (decrease) in provisions		(2,909)	804
Notional interest representing accretion		6,239	4,597
Fair value gain on convertible debentures		(4,260)	(4,269)
Stock-based compensation		1,231	1,568
Change in other balances relating to operations	31	(54,568)	66,381
		68,876	197,026
Investing activities			
Decrease in restricted cash balances		5,935	12,503
Decrease (increase) in marketable securities		725	(725)
Purchase of property, plant and equipment		(51,211)	(64,341)
Proceeds on sale of property, plant and equipment		4,834	28,135
Disposal of a subsidiary		–	3,055
Investment in concession rights		(66,170)	(83,313)
Decrease in other intangible assets		(2,168)	(2,228)
Decrease (increase) in long-term financial assets		(2,338)	1,067
Distributions from construction projects accounted for using the equity method		5,000	8,000
		(105,393)	(97,847)
Financing activities			
Increase in bank indebtedness		10,368	–
Issuances of long-term debt		81,750	102,664
Repayments of long-term debt		(140,773)	(244,726)
Issuance of capital stock		–	2,148
Repurchase of capital stock		(8,435)	(19,990)
Dividends paid		(14,511)	(11,317)
Dividends to non-controlling interests		–	(3,443)
		(71,601)	(174,664)
Decrease in cash and cash equivalents during the year		(108,118)	(75,485)
Effects of foreign exchange on cash balances		(173)	(169)
Cash and cash equivalents – beginning of year		175,208	250,862
Cash and cash equivalents – end of year		66,917	175,208

See Note 31 for additional disclosures relating to the Consolidated Statements of Cash Flows.

1. CORPORATE INFORMATION

Aecon Group Inc. ("Aecon" or the "Company") is a publicly traded construction and infrastructure development company incorporated in Canada. Aecon and its subsidiaries provide services to private and public sector clients throughout Canada and, on a selected basis, internationally. Its registered office is located in Toronto, Ontario at 20 Carlson Court, Suite 800, M9W 7K6.

Aecon operates in three principal segments within the construction and infrastructure development industry: Infrastructure, Industrial and Concessions.

2. DATE OF AUTHORIZATION FOR ISSUE

The consolidated financial statements of the Company were authorized for issue on March 12, 2013 by the Board of Directors of the Company.

3. BASIS OF PRESENTATION

Basis of presentation
The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

Statement of compliance
These consolidated financial statements have been prepared in accordance with and comply with IFRS as issued by the International Accounting Standards Board ("IASB").

Basis of measurement
The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments and available-for-sale investments.

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 the assets, liabilities, revenue, expenses, profit or loss and cash flows of its joint ventures along with its investment in and share of the earnings of construction projects accounted for by the equity method.

Use of significant accounting estimates
The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in a material adjustment to the carrying value of the asset or liability affected.

The main judgments and estimates made by management in applying accounting policies primarily relate to the following (as applicable further details of assumptions made are disclosed in individual notes throughout the consolidated financial statements):

- Judgments and estimates used in recognizing the results of contracts on a percentage of completion basis including: the determination of the stage of completion; the estimation of total contract revenue and costs; the assessment of the probability of customer approval and acceptance of change orders and claims; and the measurement of change orders and claims.
- Estimates in determining various provisions including assessments of possible legal and tax contingencies, assessments of remediation costs, as well as interest and discount rates used in estimating decommissioning liabilities. See Note 17 for additional information.
- Estimates in calculating income taxes: the Company is subject to income taxes in numerous jurisdictions and significant judgment is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Company's income tax expense and current and deferred income tax assets and liabilities in the period in which such determinations are made. See Note 17 for additional information.
- Estimates relating to the valuation of financial instruments that are not traded in an active market and which have fair values determined using valuation techniques: such financial instruments include the embedded derivatives within the Company's convertible debentures, equity share investments classified as available for sale when the shares do not trade in an active market, and holdbacks receivable and payable. See Note 32 for additional information.
- Assumptions employed in the actuarial calculation of pension liabilities and other employee benefits obligations: examples of significant actuarial and accounting assumptions impacting the reporting of employee benefit obligations and expenses are the discount rate assumption and the expected return on assets assumption. Any changes in these assumptions will impact the carrying amount of pension obligations. Management determines the appropriate discount rate at the end of each year by considering the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the pension obligation. See Note 22 for additional information.
- Estimates used in the fair valuing of stock option grants: these estimates include assumptions about the volatility rating of the Company's stock. See Note 25 for additional information.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 REVENUE RECOGNITION

Construction contracts
A construction contract is a contract specifically negotiated for the construction of an asset or combination of assets, including contracts for the rendering of services directly related to the construction of the asset. Such contracts include fixed-price and cost-plus contracts.

Revenue recognition when the outcome of the contract can be estimated reliably
When the outcome of a construction contract, including contracts in which the Company participates through joint arrangements, can be estimated reliably, revenue from fixed priced and cost-plus construction contracts is recognized using the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs at the end of the reporting period.

Revenue recognition when the outcome of the contract cannot be estimated reliably
When the outcome of a construction contract cannot be estimated reliably, revenue is recognized to the extent of contract costs incurred where it is probable they will be recovered.

Revision of estimated total costs
On an ongoing basis, the estimated total costs for construction projects are revised based on the information available at the end of the reporting period. Changes in estimated total costs are reflected in the percentage of completion of applicable construction projects in the same period as the change in estimate occurs.

Recognition of contract costs
Contract costs are recognized as expenses in profit or loss as incurred. Contract costs include all amounts that relate directly to the specific contract, are attributable to contract activity, and are specifically chargeable to the customer under the terms of the contract. Examples of such costs include direct material, labour and equipment costs, borrowing costs and those indirect costs relating to contract performance such as indirect labour and supplies, depreciation on construction assets, tools and repairs.

Contract losses
Losses on contracts, if any, are recognized in full in the period when such losses become probable.

Change orders, disputes and claims
Contract revenue 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 revenue is 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 approved.

If there are disputes or claims 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 revenue anticipated from these disputes until resolution is probable.

Revenue recognition – other
Revenue on consulting contracts to manage or supervise construction activity of others is recognized when consulting services are rendered.

Contract revenue is measured at the fair value of the consideration received or receivable. Where deferral of payment has a material effect on the determination of such fair value, the amount at which revenue is recognized is adjusted to account for the time-value-of-money.

Unbilled revenue represents revenue earned in excess of amounts billed on uncompleted contracts.

Deferred revenue represents the excess of amounts billed to customers over revenue earned on uncompleted contracts.

Where advance payments are received from customers for the mobilization of project staff, equipment and services, the Company recognizes these amounts as liabilities and includes them in deferred revenue.

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

Other revenue types
Revenue related to aggregate sales is recognized on delivery of the product or when the significant risks and rewards of ownership have been transferred to the customer.

Interest income is recognized using the effective interest method.

4.2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at banks and on hand, cash in joint ventures, demand deposits, and short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. The Company considers investments purchased with original maturities of three months or less to be cash equivalents.

4.3 RESTRICTED CASH

Restricted cash is cash where specific restrictions exist on the Company's ability to use this cash. Restricted cash includes cash which has been deposited as collateral for letters of credit issued by the Company or cash deposits made to secure future equity commitments in projects. Restricted cash also includes cash that is held in subsidiaries that have regulatory restrictions or that operate in countries where exchange controls or other legal restrictions apply and therefore the cash is not available for general use by the Company.

4.4 FINANCIAL INSTRUMENTS – CLASSIFICATION AND MEASUREMENT

Financial assets
Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition. When, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, the investment is reclassified into the available-for-sale category.

Financial assets at fair value through profit or loss
The Company may designate any financial asset as fair value through profit or loss on initial recognition with transaction costs recognized in profit or loss. Financial assets are also classified as financial assets at fair value through profit or loss if they are acquired for the purpose of selling in the near term. Gains or losses on these items are recognized in profit or loss.

Derivatives that are financial assets are classified as financial assets at fair value through profit or loss unless they are designated as, and are effective, hedging instruments.

Loans and receivables
Loans and receivables (including trade, other receivables and long-term receivables with terms with more than one year) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortized cost using the effective interest rate method, less any impairment losses, with gains and losses recognized in profit and loss when the asset is derecognized or impaired. Loans yielding interest at normal market rates are reported at face value, while non-interest bearing loans and loans not at market rates are discounted to present value using a risk adjusted discount rate.

Held-to-maturity investments
Non-derivative financial assets (including short-term deposits classified as marketable securities) with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are measured at amortized cost using the effective interest rate method, less any impairment losses. Impairment losses are recognized in profit and loss.

Available-for-sale financial assets
Available-for-sale financial assets (including equity shares classified as marketable securities) are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three stated categories. After initial recognition, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income ("OCI") until the asset is derecognized, or impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in profit or loss.

Financial liabilities
The Company determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognized initially at fair value. For trade and other payables, bank overdrafts, loans and borrowings and financial guarantee contracts, directly attributable transaction costs are applied against the balance of the liability. For derivative financial instruments, transaction costs are expensed in profit and loss.

After initial recognition, interest bearing loans and borrowings and, where necessary, trade payables, are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. Amortization arising from the use of the effective interest rate method is included in finance costs in the consolidated statements of income.

Convertible debentures
Convertible debentures that allow for cash settlement on conversion are accounted for as a compound financial instrument with a debt component and a separate derivative component representing the fair value of the conversion option. Both the debt and embedded derivative components of these compound financial instruments are measured at fair value on initial recognition. The debt component is subsequently measured at amortized cost using the effective interest rate method. Interest expense based on the coupon rate of the debenture and the accretion of the liability component to the amount that will be payable on redemption are recognized through profit and loss as finance costs.

The embedded derivative is subsequently measured at fair value at each reporting date with gains or losses in fair value recognized through profit or loss.

Hedging
To qualify for hedge accounting, the Company must formally designate and document a hedge relationship between a qualifying hedging instrument and a qualifying hedged item at the inception of the hedge. The Company assesses the effectiveness of the designated hedging relationships both at inception and on an ongoing basis to demonstrate the effectiveness of the hedge.

Fair value hedge: Changes of the hedging derivative are recognized in the consolidated statement of income together with any changes in the fair value of the hedged items that are attributable to the hedged risk.

Cash flow hedge/hedge of a net investment in a foreign operation: 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, amounts previously recognized in Accumulated Other Comprehensive Income ("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.

4.5 DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets
A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the asset. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are

substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. Any loss on the derecognition of the original liability is recognized in profit or loss.

4.6 IMPAIRMENT OF FINANCIAL ASSETS

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

Objective evidence of impairment of financial assets carried at amortized cost exists if the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent the carrying value of the asset does not exceed its amortized cost at the reversal date.

Available-for-sale financial assets

Objective evidence of impairment of equity investments classified as available-for-sale would be a significant or prolonged decline in the fair value of the security below its cost.

Reversals of impairment in respect of equity instruments classified as available-for-sale are recognized in other comprehensive income.

For debt securities, the Company uses the criteria referred to under financial assets carried at amortized cost above.

Reversals of impairment losses on debt instruments are made through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and is recognized in profit or loss for the period. Reversals of impairment losses on assets carried at cost are not permitted.

4.7 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 the cost of aggregate inventories determined at weighted average cost. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads based on normal operating capacity.

Inventories are written down to net realizable value ("NRV") if their NRV is less than their carrying amount at the reporting date. If the NRV amount subsequently increases, the amount of the write down is reversed and recognized as a reduction in materials expense. The NRV of inventory is its estimated selling price in the ordinary course of business less applicable selling costs.

4.8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses, if any. The cost of property, plant and equipment includes the purchase price and the directly attributable costs of acquisition or construction costs required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management. Property, plant and equipment under finance lease, where the Company has substantially all the risks and rewards of ownership, are recorded at the lower of the fair value of the leased item or the present value of the minimum lease payments at the inception of the lease.

In subsequent periods, property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value, with the exception of land and assets under construction, which are not depreciated but are stated at cost less any impairment in value.

Depreciation is recorded to allocate the cost, less estimated residual values of property, plant and equipment over their estimated useful lives on the following bases:

Aggregate properties are depreciated using the unit of extraction method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves.

All other assets, excluding land, are depreciated on a straight-line basis using rates that approximate the estimated useful lives of the assets as follows:

Assets	Rate
Land	Not depreciated
Buildings and leasehold improvements	10 to 40 years
Aggregate properties	Units of extraction
Machinery and equipment	2 to 15 years
Heavy mining equipment	Operating hours
Office equipment	3 to 5 years
Vehicles	1 to 5 years

The Company reviews the residual value, useful lives and depreciation method of depreciable assets on an annual basis and, where revisions are required, the Company applies such changes in estimates on a prospective basis.

The net carrying amounts of property, plant and equipment assets are reviewed for impairment either individually or at the cash-generating unit ("CGU") level when events and changes in circumstances indicate the carrying amount may not be recoverable. To the extent these carrying amounts exceed their recoverable amounts, that excess is fully recognized in profit or loss in the financial year in which it is determined.

When significant parts of property, plant and equipment are required to be replaced and it is probable that future economic benefits associated with the item will be available to the Company, the expenditure is capitalized and the carrying amount of the item replaced is derecognized. Similarly, maintenance and inspection costs associated with major overhauls are capitalized and depreciated over their useful lives when it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognized. All other costs are expensed as incurred.

4.9 BORROWING COSTS

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets for periods preceding the dates the assets are available for their intended use. All other borrowing costs are recognized as interest expense in the period in which they are incurred.

4.10 GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill relating to the acquisition of subsidiaries is included on the consolidated balance sheets in concession rights and other intangible assets. Goodwill relating to the acquisition of associates is included in the investment of the associate and therefore tested for impairment in conjunction with the associate investment balance. Goodwill is not amortized but is reviewed for impairment at least annually and whenever events or circumstances indicate the carrying amount may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to the cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Company's cash-generating units generally represent either individual business units, or groups of business units that are all below the level of the Company's operating segment.

In a business combination, when the fair value attributable to the Company's share of the net identifiable assets acquired exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

Internally generated goodwill is not recognized.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Intangible assets

Intangible assets acquired as part of a business combination are recorded at fair value at the acquisition date if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition. Separately acquired intangible assets are recorded initially at cost and thereafter are carried at cost less accumulated amortization and impairment if the asset has a finite useful life.

Intangible assets are amortized over their estimated useful lives, except indefinite life intangible assets, which management regards as having an indefinite useful life as there is no foreseeable limit to the period over which the assets are expected to generate future economic benefits.

Estimated useful lives are determined as the period over which the Company expects to use the asset and for which the Company retains control over benefits derived from use of the asset.

For intangible assets with a finite useful life, the amortization method and period are reviewed annually and impairment testing is undertaken when circumstances indicate the carrying amounts may not be recoverable.

Amortization expense on intangibles with finite lives is recognized in profit or loss as an expense item.

The major types of intangible assets and their amortization periods are as follows:

Assets	Amortization basis
Concession rights	Concession period based on estimated traffic volumes
Acquired customer backlog	Pro rata basis as backlog revenue is worked off
Licences, software and other rights	Licence period

4.11 SERVICE CONCESSION ARRANGEMENTS

IFRIC 12, *"Service Concessions"*, applies to public-to-private service concession arrangements in which a public sector body (the grantor) controls and/or regulates the services provided by a private sector entity (the operator) relating to a concession asset.

Under IFRIC 12, the Company accounts for its concession arrangements relating to the New Quito Airport project using the intangible asset model. The Company has recognized an intangible asset for both the right to operate the Existing Quito Airport (whose profits are used to fund construction of the New Quito Airport) and the right to the concessions of the New Quito Airport once it begins operations. The concession rights relating to the operations of the Existing Quito Airport was recorded at fair value on the grant date. The concession rights relating to the New Airport represents the costs to construct the airport. See Note 14 for details on how these rights are amortized. Under the intangible asset model, the operator accounts for revenue and costs relating to construction or upgrade services in accordance with IAS 11, *"Construction Contracts"*. The operator recognizes revenue and costs relating to operation services in accordance with IAS 18, *"Revenue"*. Any contractual obligation to maintain or restore infrastructure, except for upgrade services, is recognized in accordance with IAS 37, *"Provisions, Contingent Liabilities and Contingent Assets"*.

Where the Company has a contractual right to receive an intangible asset, borrowing costs are capitalized during the construction period. Otherwise, borrowing costs are expensed in the period in which they are incurred.

4.12 IMPAIRMENT OF NON-FINANCIAL ASSETS

Property, plant and equipment and intangible assets that are subject to amortization are reviewed for impairment at the end of each reporting period. If there are indicators of impairment, a review is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. An asset's recoverable amount is determined as the higher of its fair value less costs to sell and its value-in-use. Such reviews are undertaken on an asset-by-asset basis, except where assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash-generating unit ("CGU") level.

Where a CGU, or group of CGUs, has goodwill allocated to it, or includes intangible assets that are either not available for use or that have an indefinite useful life (and can only be tested as part of a CGU), an impairment test is performed at least annually or whenever there is an indication the carrying amounts of such assets may be impaired. Corporate assets, where material to the carrying value of a CGU in computing impairment calculations, are allocated to CGUs based on the benefits received by the CGU.

If the carrying amount of an individual asset or CGU exceeds its recoverable amount, an impairment loss is recorded in profit or loss to reflect the asset at the lower amount. In assessing the value-in-use, the relevant future cash flows expected to arise from the continuing use of such assets and from their disposal are discounted to their present value using a market determined pre-tax discount rate, which reflects current market assessments of the time value of money and asset-specific risks. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties.

Similarly, a reversal of a previously recognized impairment loss is recorded in profit or loss when events or circumstances indicate that the estimates used to determine the recoverable amount have changed since the prior impairment loss was recognized and the recoverable amount of the asset exceeds its carrying amount. The carrying amount is increased to the recoverable amount but not beyond the carrying amount net of amortization, which would have arisen if the prior impairment loss had not been recognized. After such a reversal, the amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. Goodwill impairments are not reversed.

4.13 JOINT VENTURES

A joint venture is a contractual arrangement whereby two or more parties (the venturers) undertake an economic activity that is subject to joint control. Joint control is defined as the contractually agreed sharing of control of an economic activity and exists when the strategic, financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Joint ventures fall into three categories: jointly controlled entities, jointly controlled operations and jointly controlled assets.

A jointly controlled entity involves the establishment of a separate entity such as a corporation or partnership. Jointly controlled entities are accounted for under IAS 31, *"Interest in Joint Ventures"*, using either proportionate consolidation or equity accounting. Where the Company's activities are conducted through joint ventures, 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 joint ventures, and includes its share of the revenue and expenses of these joint ventures in profit or loss.

Jointly controlled operations and jointly controlled assets do not involve the creation of an entity that is separate from the venturers themselves. In a joint operation, each venturer uses its own resources and carries out its own part of a joint operation separately from the activities of the other venturer(s). Each venturer owns and controls its own resources that it uses in the joint operation. Jointly controlled assets involve the joint ownership of one or more assets. Where an entity has an interest in jointly controlled operations or jointly controlled assets, it accounts for its share of the assets, liabilities, revenue and expenses and cash flows under the arrangement.

Transactions with joint ventures

Where the Company contributes or sells assets to a joint venture, the Company recognizes only that portion of the gain or loss that is attributable to the interests of the other venturers.

Where the Company purchases assets from a joint venture, the Company does not recognize its share of the profit or loss of the joint venture from the transaction until it resells the assets to an independent party.

The Company adjusts joint venture financial statement amounts, if required, to reflect consistent accounting policies.

4.14 ASSOCIATES

Entities in which the Company has significant influence and which are neither subsidiaries, nor joint ventures, are accounted for using the equity method of accounting. Under the equity method of accounting, the Company's investments in associates are carried at cost and adjusted for post-acquisition changes in the net assets of the investment. Profit or loss reflects the Company's share of the results of these investments. The consolidated statements of comprehensive income include the Company's share of any amounts recognized by associates in other comprehensive income.

Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of that change in equity.

The financial statements of the associates are generally prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist in the underlying records of the associate. Adjustments are made in the consolidated financial statements to eliminate the Company's share of unrealized gains and losses on transactions between the Company and its associates.

The Company discontinues the use of the equity method from the date on which it ceases to have significant influence, and from that date accounts for the investment in accordance with IAS 39, *"Financial Instruments: Recognition and Measurement"* (its initial costs are the carrying amount of the associate on that date), provided the investment does not then qualify as a subsidiary or joint venture.

4.15 PROVISIONS

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset when reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. Where material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Decommissioning liabilities
The Company has legal obligations associated with the retirement of pits and quarries utilized in aggregate mining operations. As a result, a provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on estimated future costs using information available at the consolidated balance sheet date. The provision is discounted using a current market-based pre-tax discount rate that reflects the average life of the obligations and the risks specific to the liability. An increase in the provision due to the passage of time is recognized as a finance cost and the provision is reduced by actual rehabilitation costs incurred. The present value of the legal obligations incurred is recognized as an inventory production cost and is included in the cost of the aggregates produced.

The provision is reviewed at each reporting date for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations. Changes in the amount or timing of the underlying future cash flows or changes in the discount rate are immediately recognized as an increase or decrease in the carrying amounts of related assets and the provision.

4.16 LEASES

Operating leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income on a straight-line basis over the term of the lease.

Finance leases
Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The corresponding rental obligations, net of finance charges, are included in obligations under finance leases on the balance sheet. The interest element of the finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

4.17 EMPLOYEE BENEFIT PLANS

The Company recognizes the cost of retirement benefits over the periods in which employees are expected to render services in return for the benefits.

The Company sponsors defined benefit pension plans (which had their membership frozen as of January 1, 1998) and defined contribution pension plans for its salaried employees. The Company matches employee contributions to the defined contribution plans, which are based on a percentage of salaries. For the defined contribution pension plans the contributions are recognized as employee benefit expense when they are earned.

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 annually by independent actuaries using management's best estimate assumptions. The plan's assets are measured at fair value. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Actuarial gains and losses are recognized in other comprehensive income as they arise. Past service costs are recognized immediately in profit or loss unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

4.18 CURRENT AND DEFERRED INCOME TAXES

Current income tax is calculated on the basis of tax laws enacted or substantively enacted at the consolidated balance sheet date in the countries where the Company operates and generates taxable income. Current tax includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred income tax is provided using the asset and liability method on all temporary differences at the consolidated balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred income taxes are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax is provided on temporary differences associated with investments in subsidiaries, associates or joint ventures, except where the timing of the reversal of temporary differences can be controlled and it is probable the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilized.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the consolidated balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. To the extent that an asset not previously recognized fulfills the criteria for recognition, a deferred income tax asset is recorded.

Current and deferred tax relating to items recognized directly in equity and other comprehensive income are recognized in equity and other comprehensive income and not in profit or loss.

Current income tax assets and liabilities or deferred income tax assets and liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the income taxes relate to the same taxable entity and the same tax authority.

4.19 DIVIDENDS

A provision is not recorded for dividends unless the dividends have been declared by the Board of Directors on or before the end of the period and not distributed at the reporting date.

4.20 STOCK-BASED COMPENSATION

The Company has stock-based compensation plans, as described in Note 25 Capital Stock. All transactions involving share-based payment are recognized as an expense over the vesting period.

Equity-settled share-based payment transactions, such as stock option awards and the Company's long-term incentive plan, are measured at the grant date fair value of employee services received in exchange for the grant of options or share awards and for non-employee transactions, at the fair value of the goods or services received at the date on which the entity recognizes the goods or services. The total amount of the expense recognized in profit or loss is determined by reference to the fair value of the share awards or options granted, which factors in the number of options expected to vest. Equity-settled share-based payment transactions are not re-measured once the grant date fair value has been determined, except in cases where the share-based payment is linked to non-market related performance conditions.

Cash-settled share-based payment transactions are measured at the fair value of the liability. The liability is remeasured at each consolidated balance sheet date and at the date of settlement, with changes in fair value recognized in profit or loss.

4.21 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is determined by dividing profit attributable to shareholders of the Company, excluding, if applicable, preferred dividends after-tax, amortization of discounts and premiums on issuance, premiums on repurchases, inducements to convert relating to convertible debentures and any costs of servicing equity other than common shares, by the weighted average number of common shares outstanding during the period.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential common shares and the weighted average number of shares assumed to have been issued in relation to dilutive potential common shares.

Potential dilutive common shares result from issuances of stock options and convertible debentures and from shares held by the trustee of the Long-Term Incentive Plan.

4.22 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in thousands of Canadian dollars, which is the Company's presentation currency.

Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and resulting from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when deferred in other comprehensive income for qualifying cash flow hedges and for qualifying net investment hedges.

All foreign exchange gains and losses presented in profit or loss are presented within other income.

Changes in the fair value of monetary securities denominated in a foreign currency classified as available-for-sale are separated between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

Translation of foreign entities

Assets and liabilities are translated from the functional currency to the presentation currency at the closing rate at the end of the reporting period. The consolidated statements of income are translated at exchange rates at the dates of the transactions or at the average rate if it approximates the actual rates. All resulting exchange differences are recognized in other comprehensive income.

On disposal, or partial disposal, of a foreign entity, or repatriation of the net investment in a foreign entity, resulting in a loss of control, significant influence or joint control, the cumulative translation account balance recognized in equity relating to that particular foreign entity is recognized in profit or loss as part of the gain or loss on sale. On a partial disposition of a subsidiary that does not result in a loss of control, the amounts are reallocated to the non-controlling interest in the foreign operation based on their proportionate share of the cumulative amounts recognized in AOCI. On partial dispositions of jointly controlled foreign entities or associates, the proportionate share of translation differences previously recognized in AOCI is reclassified to profit or loss.

4.23 BUSINESS COMBINATIONS

The Company uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary includes the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date. For each acquisition, the Company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If this amount is less than the fair value of the net assets of the subsidiary acquired, such as in the case of a bargain purchase, the difference is recognized directly to profit or loss.

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent and are presented in equity in the consolidated balance sheets, separately from the parent's shareholders' equity.

4.24 OPERATING SEGMENTS

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing the performance of the operating segments and has been identified as the Executive Committee that makes strategic decisions.

5. FUTURE ACCOUNTING CHANGES

IFRS standards and interpretations that are issued, but not yet effective as at December 31, 2012, are disclosed below. The Company intends to adopt these standards, as applicable, when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the disclosure of items presented in other comprehensive income. IAS 1 will require the presentation of items in other comprehensive income as two separate groups based on whether or not those items will be recycled to profit or loss in the future. The amendment affects presentation only and has no impact on the Company's financial position or results of operations. The amendment becomes effective for the Company for annual periods beginning on or after January 1, 2013.

IAS 19 Employee Benefits (Revised)

The amendment changes recognition and measurement standards for defined benefit pension expense and termination benefits. The amendment also introduces expanded disclosure requirements. This amendment is effective for years beginning on or after January 1, 2013. The Company does not anticipate any material impact to the Company's financial position or results of operation from adoption of this standard.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments become effective for annual periods beginning on or after January 1, 2013 and are not expected to impact the Company's financial position or results of operations.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is at fair value through profit or loss. IFRS 9 was also updated to include guidance on financial liabilities and derecognition of financial instruments. This guidance is similar to the guidance included in IAS 39 relating to financial liabilities and derecognition of financial instruments. IFRS 9 is effective for years beginning on or after January 1, 2015. The Company has not yet determined the impact of adopting IFRS 9.

IFRS 10 Consolidated Financial Statements

The IASB issued IFRS 10, which replaces the current guidance in IAS 27, *"Consolidated and Separate Financial Statements"*, and SIC 12, *"Consolidation: Special Purpose Entities"*. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company, and provides additional guidance to assist in the determination of control. IFRS 10 is not expected to impact the consolidation of any investments currently held by the Company. IFRS 10 is effective for years beginning on or after January 1, 2013.

IFRS 11 Joint Arrangements

The IASB issued IFRS 11, which replaces the current guidance in IAS 31, *"Interests in Joint Ventures"*. IFRS 11 reduces the types of joint arrangements to two: joint ventures and joint operations. IFRS 11 requires equity accounting for interests in joint ventures, eliminating the existing policy choice of proportionate consolidation for jointly controlled entities in IAS 31. Accounting for joint operations will follow accounting similar to that for jointly controlled assets and jointly controlled operations under IAS 31. This standard becomes effective for annual periods beginning on or after January 1, 2013, and will be applied retrospectively for joint arrangements existing at the date of initial application.

Most of the Company's existing joint arrangements are expected to be classified as joint operations under the new standards with no significant change in the accounting for these projects. However a few joint arrangements will be classified as joint ventures under the new standard and as a result will be accounted for using the equity method instead of proportionate consolidation. While adoption of this standard will not impact the overall reported profit attributable to shareholders, IFRS 11 will impact the amounts reported for revenue and expense items in the consolidated statements of income. For 2012, after applying the standard, there will be an estimated reduction of reported revenue of approximately $60,000, and as at December 31, 2012, current assets and current liabilities will be reduced by approximately $79,000 and $48,000, respectively, while non-current assets and non-current liabilities will be reduced by approximately $192,000 and $217,000, respectively.

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 details the disclosure requirements for entities reporting under IFRS 10 and IFRS 11. IFRS 12 also replaces the disclosure requirements in IAS 28, *"Investments in Associates"*. These new disclosures have no impact on the Company's financial position or results of operations. IFRS 12 is effective for years beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement
IFRS 13 provides one source of guidance on measuring fair value. The standard also enhances the disclosure requirements about fair value measurements. IFRS 13 is effective for years beginning on or after January 1, 2013 and is not expected to significantly impact the Company's financial position or results of operations.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
IFRIC 20 provides guidance on the accounting for overburden waste removal in the production phase of a mine. IFRIC 20 is effective for years beginning on or after January 1, 2013. This new interpretation is not expected to have a significant impact on the Company's financial position or results of operations.

6. CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011
	$	$
Cash excluding joint ventures and Build Finance SPVs	–	122,772
Joint ventures	66,566	50,157
Build Finance SPVs	351	2,279
	66,917	175,208

Cash and cash equivalents on deposit in joint venture bank accounts cannot be accessed directly by the Company. Cash and cash equivalents also include cash advanced by lenders to finance the construction of build finance projects through individual Build Finance Special Purpose Vehicles ("Build Finance SPVs"). Cash held in the Quito Airport concessionaire ("Quiport JV") is included in restricted cash (see Note 7).

7. RESTRICTED CASH

	December 31, 2012	December 31, 2011
	$	$
Joint ventures	35,617	40,215
Other restricted cash	3,676	5,867
	39,293	46,082

In addition to cash held in Quiport JV, restricted cash also includes cash that was deposited as collateral for borrowings and letters of credit issued by the Company. As such, this cash is not available for general operating purposes.

8. TRADE AND OTHER RECEIVABLES

	December 31, 2012	December 31, 2011
	$	$
Trade receivables	424,873	356,592
Allowance for doubtful accounts	(1,969)	(1,627)
	422,904	354,965
Holdbacks receivable	189,430	168,386
Other	12,135	9,884
	201,565	178,270
Total	624,469	533,235
Amounts receivable beyond one year	53,256	33,526

Other receivables include a $600 (2011 – $nil) non-interest bearing relocation loan due from an officer of the Company. The loan balance is expected to be repaid in 2013.

A reconciliation of the beginning and ending carrying amounts of the Company's allowance for doubtful accounts is as follows:

For the year ended	December 31, 2012	December 31, 2011
	$	$
Balance – beginning of year	(1,627)	(4,645)
Additional amounts provided for during the year	(1,588)	(1,294)
Trade receivables written off during the year	35	2,685
Amounts recovered	1,211	1,627
Balance – end of year	(1,969)	(1,627)

9. UNBILLED REVENUE AND DEFERRED REVENUE

Costs incurred and estimated earnings (i.e. earned revenue), net of billings, on uncompleted contracts are presented in the consolidated balance sheets under the following captions:

	December 31, 2012	December 31, 2011
	$	$
Earned revenue on projects to date	7,218,998	5,457,960
Less: Billings on projects to date	7,029,050	5,316,499
Net balance sheet position	189,948	141,461
Reported as:		
Unbilled revenue	331,547	249,557
Deferred revenue	(141,599)	(108,096)
	189,948	141,461

10. INVENTORIES

	December 31, 2012	December 31, 2011
	$	$
Raw materials and supplies	8,340	8,365
Finished goods	22,678	22,134
	31,018	30,499

11. LONG-TERM FINANCIAL ASSETS

	Note	December 31, 2012	December 31, 2011
		$	$
Long-term receivables		1,321	15
Income tax deposit	17(c)	–	5,414
Commitment fees		1,951	1,648
Other		1,534	1,427
		4,806	8,504

12. CONSTRUCTION PROJECTS ACCOUNTED FOR USING THE EQUITY METHOD

The Company performs some construction projects through non-consolidated entities. The Company's participation in construction project entities where the Company exercises significant influence (i.e. associates), but does not control or jointly control the entity, is accounted for using the equity method.

The Company's share of assets, liabilities, revenue and expenses of construction project entities accounted for using the equity method is as follows:

	December 31, 2012	December 31, 2011
	$	$
Assets	35,231	25,337
Liabilities	(7,860)	(7,406)
Net investment in construction projects accounted for using the equity method	27,371	17,931

Revenue and expenses for the year ended were as follows:

	December 31, 2012	December 31, 2011
	$	$
Revenue	100,063	84,253
Expenses	(85,623)	(70,195)
Share of profits before income taxes	14,440	14,058

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and leasehold improvements	Aggregate properties	Machinery and construction equipment	Office equipment, furniture and fixtures, and computer hardware	Vehicles	Heavy equipment	Total property, plant and equipment
	$	$	$	$	$	$	$	$
Cost								
Balance as at January 1, 2012	33,483	73,475	50,580	196,878	28,055	65,231	216,861	664,563
Additions	1,833	7,412	2,490	35,672	5,373	7,885	26,056	86,721
Disposals	–	(102)	(35)	(5,744)	(2,080)	(8,162)	(1,152)	(17,275)
Foreign currency translation adjustments	–	(7)	–	–	(3)	(2)	–	(12)
Balance as at December 31, 2012	35,316	80,778	53,035	226,806	31,345	64,952	241,765	733,997
Accumulated depreciation and impairment								
Balance as at January 1, 2012	–	21,116	9,816	82,642	17,396	40,120	11,325	182,415
Depreciation	–	4,865	714	20,192	4,878	9,580	15,851	56,080
Disposals	–	(92)	–	(3,319)	(2,014)	(7,521)	(393)	(13,339)
Foreign currency translation adjustments	–	(3)	–	–	(3)	(2)	–	(8)
Balance as at December 31, 2012	–	25,886	10,530	99,515	20,257	42,177	26,783	225,148
Net book value as at December 31, 2012	**35,316**	**54,892**	**42,505**	**127,291**	**11,088**	**22,775**	**214,982**	**508,849**
Net book value as at January 1, 2012	**33,483**	**52,359**	**40,764**	**114,236**	**10,659**	**25,111**	**205,536**	**482,148**
Net book value of assets under finance lease as at December 31, 2012	**–**	**–**	**115**	**48,922**	**3,998**	**19,854**	**16,866**	**89,755**

	Land	Buildings and leasehold improvements	Aggregate properties	Machinery and construction equipment	Office equipment, furniture and fixtures, and computer hardware	Vehicles	Heavy equipment	Total property, plant and equipment
	$	$	$	$	$	$	$	$
Cost								
Balance as at January 1, 2011	33,483	68,678	49,193	165,032	27,710	64,279	183,018	591,393
Additions	–	5,085	1,387	38,897	5,729	8,412	51,626	111,136
Disposals	–	(294)	–	(7,051)	(5,294)	(7,448)	(17,783)	(37,870)
Foreign currency translation adjustments	–	6	–	–	(90)	(12)	–	(96)
Balance as at December 31, 2011	33,483	73,475	50,580	196,878	28,055	65,231	216,861	664,563
Accumulated depreciation and impairment								
Balance as at January 1, 2011	–	16,901	7,684	68,539	16,795	35,216	1,982	147,117
Depreciation	–	4,401	2,132	17,426	4,516	11,426	9,558	49,459
Disposals	–	(192)	–	(3,323)	(3,858)	(6,520)	(215)	(14,108)
Foreign currency translation adjustments	–	6	–	–	(57)	(2)	–	(53)
Balance as at December 31, 2011	–	21,116	9,816	82,642	17,396	40,120	11,325	182,415
Net book value as at December 31, 2011	**33,483**	**52,359**	**40,764**	**114,236**	**10,659**	**25,111**	**205,536**	**482,148**
Net book value as at January 1, 2011	**33,483**	**51,777**	**41,509**	**96,493**	**10,915**	**29,063**	**181,036**	**444,276**
Net book value of assets under finance lease as at December 31, 2011	**–**	**–**	**135**	**30,328**	**5,233**	**21,074**	**16,779**	**73,549**

14. CONCESSION RIGHTS AND OTHER INTANGIBLE ASSETS

	Concession rights	Goodwill	Acquired customer backlog	Licenses, software and other rights	Total
	$	$	$	$	$
Cost					
Balance as at January 1, 2012	362,643	53,783	25,631	16,505	458,562
Additions:					
Acquired separately	51,178	–	–	2,167	53,345
Interest capitalized	14,992	–	–	–	14,992
Disposals	–	–	–	(490)	(490)
Foreign currency translation adjustments and other changes	(8,885)	–	–	3	(8,882)
Balance as at December 31, 2012	419,928	53,783	25,631	18,185	517,527
Accumulated amortization and impairment					
Balance as at January 1, 2012	55,391	–	24,273	7,857	87,521
Amortization	2,874	–	1,358	3,250	7,482
Disposals	–	–	–	(490)	(490)
Foreign currency translation adjustments and other changes	(2,389)	–	–	5	(2,384)
Balance as at December 31, 2012	**55,876**	**–**	**25,631**	**10,622**	**92,129**
Net book value as at December 31, 2012	**364,052**	**53,783**	**–**	**7,563**	**425,398**
Net book value as at January 1, 2012	**307,252**	**53,783**	**1,358**	**8,648**	**371,041**

	Concession rights	Goodwill	Acquired customer backlog	Licenses, software and other rights	Total
	$	$	$	$	$
Cost					
Balance as at January 1, 2011	270,960	53,783	25,631	15,915	366,289
Additions:					
Acquired separately	69,613	–	–	2,304	71,917
Interest capitalized	13,700	–	–	–	13,700
Disposals	–	–	–	(1,668)	(1,668)
Foreign currency translation adjustments and other changes	8,370	–	–	(46)	8,324
Balance as at December 31, 2011	362,643	53,783	25,631	16,505	458,562
Accumulated amortization and impairment					
Balance as at January 1, 2011	50,743	–	17,353	6,347	74,443
Amortization	3,402	–	6,920	2,767	13,089
Disposals	–	–	–	(1,197)	(1,197)
Foreign currency translation adjustments and other changes	1,246	–	–	(60)	1,186
Balance as at December 31, 2011	**55,391**	**–**	**24,273**	**7,857**	**87,521**
Net book value as at December 31, 2011	**307,252**	**53,783**	**1,358**	**8,648**	**371,041**
Net book value as at January 1, 2011	**220,217**	**53,783**	**8,278**	**9,568**	**291,846**

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

Amortization of intangible assets is included in the depreciation and amortization expense line item on the consolidated statements of income.

Concession rights – Existing and New Quito Airports
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"). Under the concession contract with CORPAQ, Quiport JV was awarded 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 must be reinvested in the New Quito Airport.

The right to operate the Existing Quito Airport was initially recognized at fair value and the Company's proportionate share of this concession right was assigned a value of $64,000 at the date of financial close in 2006. At December 31, 2012, this concession right is fully amortized (carrying amount December 31, 2011 – $2,921).

At December 31, 2012, the concession right for the New Quito Airport, representing the Company's proportionate share of the costs to construct the New Quito Airport, had a carrying amount of $364,052 (December 31, 2011 – $304,331). Amortization of this concession right will commence following the opening of the New Quito Airport, which occurred on February 20, 2013.

Goodwill
The following cash-generating units ("CGUs") or groups of CGUs have significant amounts of goodwill allocated to them for the purposes of impairment testing:

	December 31, 2012	December 31, 2011
	$	$
Cash-Generating Unit:		
Social Infrastructure Contracting	17,192	17,192
Transportation	14,063	14,063
Industrial West	9,879	9,879
Other	12,649	12,649
	53,783	53,783

The recoverable amounts of the above listed CGUs were determined based on fair value less costs to sell calculations. Fair value less costs to sell calculations use post-tax cash flow projections expected to be generated by the CGU based on financial budgets approved by management covering a two-year period. For the CGUs noted above, cash flows beyond the two-year period were extrapolated at December 31, 2012 using a growth rate of 2%, which does not exceed the long-term average growth rate for the business in which the CGUs operate. The discount rate applied to cash flow projections at December 31, 2012 was approximately 9% based on the Company's post-tax weighted average cost of capital. Budgeted cash flows were determined by management based on the Company's past performance, backlog currently on hand and future growth prospects.

15. BANK INDEBTEDNESS

Bank indebtedness as at December 31, 2012 of $10,368 (December 31, 2011 – $nil) represents borrowings on the Company's operating line of credit.

On August 3, 2012, Aecon amended its $262,500 credit facility, which was due to expire in May 2014. The committed facility was increased to $300,000 and now expires on the earlier of August 3, 2016 or four months prior to the maturity date of any convertible debentures if certain conditions are not satisfied. Under the amended agreement, the Company has the right, subject to receiving additional lending commitments, to increase the amount available under the credit agreement by $150,000.

Letters of credit amounting to $54,952 were issued against the credit facility as at December 31, 2012. Cash drawings under the facility bear interest at rates ranging from prime plus 0.10% to prime plus 0.35% per annum.

Drawings on the facility are secured by a general security agreement which provides the lenders with a first priority ranking security interest, subject to existing encumbrances, over certain existing and future assets of the Company. Security is also provided by way of a $90,000 collateral mortgage, subject to existing encumbrances, over certain aggregate properties owned by the Company, and by guarantees from all entities that are required to provide security under the general security agreement.

The Company also maintains two additional letters of credit facilities (a $150,000 domestic facility and a US$15,000 international facility) provided by Export Development Canada, of which $124,573 was utilized as at December 31, 2012.

16. TRADE AND OTHER PAYABLES

	December 31, 2012	December 31, 2011
	$	$
Trade payables and accrued liabilities	547,076	437,965
Holdbacks payable	84,778	98,532
	631,854	536,497
Amounts payable beyond one year	4,909	5,894

17. PROVISIONS

	Contract related obligations	Asset decommissioning costs	Tax assessments	Other	Total
	$	$	$	$	$
	(a)	(b)	(c)		
Balance as at January 1, 2012	14,043	3,211	17,949	140	35,343
Amounts used	(8,402)	(718)	(5,781)	(133)	(15,034)
Additions made	3,048	454	675	39	4,216
Unused amounts reversed	(1,355)	(70)	(8,600)	–	(10,025)
Changes due to discounting, passage of time and discount rate changes	59	109	–	–	168
Foreign exchange differences	–	–	–	(2)	(2)
Balance as at December 31, 2012	**7,393**	**2,986**	**4,243**	**44**	**14,666**
Reported as:					
Current	**4,100**	**–**	**–**	**44**	**4,144**
Non-current	**3,293**	**2,986**	**4,243**	**–**	**10,522**
	7,393	**2,986**	**4,243**	**44**	**14,666**

(a) Contract related obligations are made up of contract warranty obligations and litigation risks relating to construction operations. Contract warranty obligations relate to warranties provided by the Company in respect of its construction contracts. If not used during the warranty period, these amounts will be reversed into income. Warranty periods range from one to seven years.

(b) Asset decommissioning costs relate to future legal and constructive obligations associated with the retirement of pits and quarries engaged in aggregate mining operations in Ontario and Alberta. Decommissioning obligations are expected to be settled between 2013 and 2108 at which point the amount of the liability will reverse. A 2% inflation factor has been applied to obtain the future value of the decommissioning costs, which has been discounted at a rate of 4.8% to obtain the present value of the obligation.

(c) Tax assessments include provisions for specific income tax exposures faced by the Company. The $8,600 of unused amounts reversed results from a settlement in the third quarter of 2012 of a long outstanding income tax matter with Canada Revenue Agency. This settlement resulted in a reversal in 2012 of accrued interest penalties and of previously expensed income taxes amounting to $5,700 and $2,900, respectively. Although final federal and provincial reassessments have not as yet been issued, the Company believes that it has adequate provisions to cover the ultimate outcome of this and other tax reassessments. Amounts used of $5,781 represent prior year payments on account which were previously reported as long-term financial assets.

18. LONG-TERM DEBT

		December 31, 2012	December 31, 2011
		$	$
Non-recourse project debt:			
Infrastructure Ontario project debt	(a)	19,184	52,452
Quiport JV project financing	(b)	148,783	141,371
		167,967	193,823
Long-term debt:			
Finance leases	(c)	96,477	86,738
Equipment and other loans	(d)	111,470	121,533
		207,947	208,271
Total long-term debt		375,914	402,094
Reported as:			
Current liabilities:			
Non-recourse project debt		11,926	56,745
Long-term debt		61,899	65,690
Non-current liabilities:			
Non-recourse project debt		156,041	137,078
Long-term debt		146,048	142,581
		375,914	402,094

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

The following describes the components of long-term debt:

(a) The Company is involved in build finance projects with Infrastructure Ontario. These projects are being financed by non-recourse project debt during the construction period through the use of a build finance special purpose vehicle. At December 31, 2012, project financing for these projects totalled $19,184 (2011 – $52,452). Repayments are entirely funded from lump sum payments by Infrastructure Ontario either entirely at the completion of construction or as project milestones are achieved. The outstanding debt balance is scheduled to be repaid in 2014. The project debt, which is secured by the assets of the respective project, bears interest at an annual rate of 2.67%.

(b) Included in the Company's consolidated balance sheet at December 31, 2012 is debt, net of transaction costs, of US$148,024 (CA$148,783) (2011 – US$139,008 or CA$141,371) representing the Company's proportionate share of Quiport JV debt. This debt is secured by the assets of Quiport JV and is without recourse to the Company.

The financing is denominated in US dollars with due dates up to December 2023 and with annual interest rates fluctuating between 4.50% and 10.65%.

All interest costs are capitalized during construction (see Note 14). Debt repayments commenced in 2010 and are scheduled to continue until 2023.

(c) At December 31, 2012, finance leases of $96,477 (2011 – $86,738) bore interest at fixed and floating rates averaging 4.66% (2011 – 4.90%) per annum, with specific equipment provided as security (see Note 13).

(d) At December 31, 2012, equipment and other loans of $111,470 (2011 – $121,533) bore interest at fixed and floating rates averaging 5.09% (2011 – 5.54%) per annum, with specific equipment provided as security (see Note 13).

The weighted average interest rate on total long-term debt outstanding (excluding convertible debentures) at December 31, 2012 was 5.87% (2011 – 6.04%).

19. CONVERTIBLE DEBENTURES

Convertible subordinated debentures consist of:

	December 31 2012	December 31 2011
	$	$
Debt component reported as long-term liability:		
Debenture maturing on October 31, 2015	87,041	85,254
Debenture maturing on September 30, 2014	164,559	160,325
	251,600	245,579
Embedded derivative reported as long-term liability:		
Debenture maturing on October 31, 2015	1,059	2,872
Debenture maturing on September 30, 2014	530	2,978
	1,589	5,850
Total convertible debentures	253,189	251,429

On October 8, 2010 and September 29, 2009, the Company issued $92,000 and $172,500, respectively, of unsecured subordinated convertible debentures maturing October 31, 2015 and September 30, 2014, respectively. The 2015 and 2014 convertible debentures bear interest at rates of 6.25% and 7.0% per annum, respectively, payable on a semi-annual basis. At the holder's option, both issuances of convertible debentures may be converted into common shares of the Company at any time up to the maturity dates at a conversion price of $19.00 for each common share, subject to adjustment in certain circumstances. The 2015 and 2014 convertible debentures will not be redeemable before October 31, 2013 and September 30, 2012, respectively. From October 31, 2013 and September 30, 2012 through to the maturity dates, the Company may, at its option, redeem the convertible debentures, in whole or in part, at par plus accrued and unpaid interest provided the weighted average closing price of the common shares on the Toronto Stock Exchange during a specified period prior to redemption is not less than 125% of the conversion price. At December 31, 2012, the face values of the 2015 and 2014 convertible debentures, which remain outstanding, were $92,000 and $172,500, respectively.

Subject to specified conditions, the Company has the right to repay the outstanding principal amount of the convertible debentures, on maturity or redemption, through the issuance of common shares of the Company. The Company also has the option to satisfy its obligation to pay interest through the issuance and sale of additional common shares of the Company. Additionally, the Company has 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.

As noted above, the convertible debentures contain a cash settlement feature which, under IAS 32, *"Financial Instruments: Presentation"*, is accounted for as a compound instrument with two components: a debt component and a derivative component, the latter representing the fair value of the conversion option offered to the debenture holders. Both the debt and embedded derivative components of these compound financial instruments are measured at fair value on initial recognition. The debt component is subsequently accounted for at amortized cost using the effective interest rate method. The embedded derivative is subsequently measured at fair value at each reporting date with gains and losses in fair value recognized through profit or loss.

Finance income (costs) associated with the debentures consists of:

	December 31, 2012	December 31, 2011
	$	$
Interest expense on face value	(17,825)	(17,780)
Notional interest representing accretion	(6,020)	(5,947)
Fair value gain on convertible debentures	4,260	4,269
	(19,585)	(19,458)

As at December 31, 2012, the convertible debentures have an estimated fair value of $274,857 (December 31, 2011 – $272,175).

20. CONCESSION RELATED DEFERRED REVENUE

As part of acquiring, in 2006, the rights to operate the Existing Quito Airport (see Note 14), the Company recorded concession related deferred revenue of $57,047 being the Canadian dollar equivalent of US$57,337 at December 31, 2012 exchange rates (2011 – US$57,337 or CA$58,313). Concession related deferred revenue represents the estimated value of the "inducement" received by Quiport JV to develop, finance and operate the New Quito Airport.

As at June 28, 2006, CORPAQ also provided Quiport JV with net assets of US$3,897, being the Canadian equivalent of $3,877 at December 31, 2012 exchange rates (2011 – US$3,897 or CA$3,963). These net assets, which were received by Quiport JV between the date the concession went into effect (January 27, 2006) and the date of financial close (June 28, 2006), represent additional inducements and have been classified as concession related deferred revenue in the consolidated balance sheets.

Concession related deferred revenue at December 31, 2012, also includes $2,990 (2011 – $2,990) received in 2006 as development funds and cost reimbursements related to the Quito Airport Project.

All the above concession deferred revenue amounts will be amortized to earnings over the term of the New Quito Airport concession period.

21. INCOME TAXES

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

The gross movement in the deferred income tax account is as follows:

	December 31, 2012	December 31, 2011
	$	$
At January 1	(31,120)	(40,027)
Exchange differences	200	(584)
Disposals of subsidiaries	–	97
Income statement (charge) recovery	(2,118)	8,147
Tax credit relating to components of other comprehensive income	210	1,247
At December 31	(32,828)	(31,120)

The movement in the components of deferred income taxes is as follows:

	2012					2011				
	January 1	(Charged) credited to the income statement	(Charged) credited to other comprehensive income	Other	December 31	January 1	(Charged) credited to the income statement	(Charged) credited to other comprehensive income	Other	December 31
	$	$	$	$	$	$	$	$	$	$
Deferred tax assets										
Canadian components:										
Net operating and capital losses carried forward	73,555	9,323	–	–	82,878	46,460	27,095	–	–	73,555
Reserves expensed for financial statement purposes and deducted for income tax purposes when paid	2,395	2,461	–	–	4,856	4,482	(2,087)	–	–	2,395
Actuarial gains and losses	3,065	–	210	–	3,275	1,818	–	1,247	–	3,065
Offset in deferred tax liabilities	(38,793)	(17,985)	–	–	(56,778)	(8,007)	(30,786)	–	–	(38,793)
Total Canadian deferred income tax assets	**40,222**	**(6,201)**	**210**	**–**	**34,231**	**44,753**	**(5,778)**	**1,247**	**–**	**40,222**
Deferred tax liabilities										
Canadian components:										
Property, plant and equipment: net book value in excess of tax basis	(30,139)	(6,776)	–	–	(36,915)	(18,103)	(12,036)	–	–	(30,139)
Long-term contracts, including joint ventures[(1)]	(59,984)	(13,674)	–	–	(73,658)	(51,845)	(8,139)	–	–	(59,984)
Other temporary differences	(483)	(3,352)	–	–	(3,835)	(2,389)	1,809	–	97[(2)]	(483)
Other long-term differences	(4,327)	(977)	–	–	(5,304)	(6,959)	2,632	–	–	(4,327)
Convertible debentures and related embedded derivatives	(2,828)	(1,257)	–	–	(4,085)	(1,873)	(955)	–	–	(2,828)
Offset in deferred tax assets	38,793	17,985	–	–	56,778	8,007	30,786	–	–	38,793
Total Canadian deferred income tax liabilities	(58,968)	(8,051)	–	–	(67,019)	(73,162)	14,097	–	97	(58,968)
Foreign components:										
Long-term contracts, including joint ventures	(12,374)	12,134	–	200[(3)]	(40)	(11,618)	(172)	–	(584)[(3)]	(12,374)
Total deferred income tax liabilities	**(71,342)**	**4,083**	**–**	**200**	**(67,059)**	**(84,780)**	**13,925**	**–**	**(487)**	**(71,342)**
Total deferred income tax liabilities, net	**(31,120)**	**(2,118)**	**210**	**200**	**(32,828)**	**(40,027)**	**8,147**	**1,247**	**(487)**	**(31,120)**

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

(2) Deferred tax on disposals of subsidiaries.

(3) Foreign exchange translation adjustment.

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

Deferred tax assets are offset against deferred tax liabilities within each legal entity.

The operations of the Company are complex and related tax interpretations, regulations and legislation are subject to change. The Company believes the amounts reported as deferred income tax liabilities adequately reflect management's current best estimate of its income tax exposures (see Note 17).

Income tax expense

	December 31, 2012	December 31, 2011
	$	$
Current tax on profits for the year	(9,123)	(19,642)
Adjustments in respect of prior years	(632)	81
Reversal of prior period tax provision	3,030	–
Recovery on settlement of prior year tax reassessment	2,900	–
Total current tax	(3,825)	(19,561)
Origination and reversal of temporary differences	(10,716)	3,003
Reversal of prior period tax provision	7,520	3,088
Impact of change in enacted tax rates on deferred tax balances	1,078	2,056
Total deferred tax	(2,118)	8,147
Income tax expense	(5,943)	(11,414)

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

	December 31, 2012	December 31, 2011
	$	$
Profit before income taxes	86,884	73,557
Statutory income tax rate	25.75%	28.25%
Expected income tax expense	(22,373)	(20,780)
Effect on income taxes of:		
Impact of change in enacted tax rates on deferred tax balances	1,078	2,056
Provincial and foreign rate differences	3,377	7,547
Reversal of prior period tax provision	10,550	3,088
Non-deductible notional interest	(1,017)	(1,641)
Non-deductible stock-based compensation expense	(326)	(451)
Other non-deductible expenses	(767)	(954)
Foreign exchange translation losses	(267)	(244)
Reversal of prior year non-deductible interest	1,511	–
Tax-exempt portion of capital gains	–	2
Recovery of prior year non-deductible interest	2,900	–
Other	(609)	(37)
	16,430	9,366
Income tax expense	(5,943)	(11,414)

Deferred taxes have been remeasured to reflect statutory enacted future tax rates.

22. 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, 2010 and the next required actuarial valuation will be prepared with an effective date no later than December 31, 2013.

The defined benefit pension obligation is presented as part of other liabilities on the consolidated balance sheets.

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

	2012	2011
	$	$
Change in fair value of plan assets:		
Fair value of plan assets – beginning of year	36,038	35,477
Expected return on plan assets	1,901	2,050
Actuarial gains (losses)	1,024	(1,646)
Company contributions	2,482	1,776
Plan participant contributions	123	133
Benefits paid	(2,614)	(1,752)
Fair value of plan assets – end of year	38,954	36,038
Change in benefit obligation:		
Benefit obligation – beginning of year	44,576	40,240
Current service cost	774	650
Interest cost	1,839	1,962
Benefits paid	(2,614)	(1,752)
Plan participant contributions	123	133
Actuarial losses	1,863	3,343
Benefit obligation – end of year	46,561	44,576
Funded Status:		
Fair value of plan assets	38,954	36,038
Defined benefit obligation	(46,561)	(44,576)
Pension liabilities at December 31	(7,607)	(8,538)

	2012	2011
	$	$
Weighted average assumptions to calculate benefit obligation:		
Discount rate	3.75%	4.25%
Rate of increase in future compensation	3.00%	3.00%
Asset categories of pension assets:		
Debt securities	36.00%	35.91%
Equity securities	53.65%	52.83%
Other	10.35%	11.26%

	2012	2011
	$	$
Defined benefit pension expense:		
Current service cost, net of employee contributions	774	650
Interest cost	1,839	1,962
Expected return on plan assets	(1,901)	(2,050)
Defined benefit pension expense recognized in profit or loss	712	562
Actuarial losses recognized in other comprehensive income	839	4,988
Defined benefit pension expense	1,551	5,550
Other pension expense:		
Defined contribution pension expense	5,163	4,517
Multi-employer pension plan expense	60,531	50,831
Other pension expense	65,694	55,348
Defined benefit pension expense: Weighted average assumptions to calculate pension benefit expense:		
Discount rate	4.25%	5.00%
Assumed long-term rate of return on plan assets	5.75%	6.25%
Rate of increase in future compensation	3.00%	3.50%

During 2013, the Company expects to make contributions of $2,392 to the defined benefit plans.

	2012	2011
	$	$
Total cash contribution for employee pension plans:		
Defined benefit plans	2,482	1,776
Defined contribution plans	5,163	4,517
Multi-employer pension plan	60,531	50,831
	68,176	57,124

In 2012, the actual return on plan assets was $2,925 (2011 – $404).

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

The defined benefit obligations and benefit cost levels will change as a result of future changes in the actuarial methods and assumptions, the membership data, the plan provisions and the legislative rules, or as a result of future experience gains or losses, none of which have been anticipated at this time. Emerging experience, differing from the assumptions, will result in gains or losses that will be revealed in future accounting valuations. As a result of the uncertainty associated with these estimates, there is no assurance that the plans will be able to earn the assumed rate of return on plan assets. Furthermore, market driven changes may result in changes to discount rates and other variables which would result in the Company being required to make contributions to the plans in the future that may differ significantly from estimates. As a result, there is a significant amount of measurement uncertainty involved in the actuarial valuation process. This measurement uncertainty may lead to potential fluctuations in financial results attributable to the selection of actuarial assumptions and other accounting estimates involved in the determination of pension expense and obligations. A significant actuarial and accounting assumption impacting the reporting of pension plans is the discount rate assumption. As at December 31, 2012, the Company used a discount rate of 3.75% in its pension plan calculations for financial statement purposes. The impact of a 0.5% decrease in the discount rate assumption would have resulted in an increase in the pension benefit obligation of approximately $2,400 at December 31, 2012 and an increase in the estimated 2013 pension expense of approximately $100.

23. CONTINGENCIES

The Company is involved in various disputes and litigation both as plaintiff and defendant. In the opinion of management, the resolution of disputes against the Company, including those provided for (see Note 17), will not result in a material effect on the consolidated financial position of the Company.

As part of regular operations, the Company has the following guarantees and letters of credit outstanding:

GUARANTEES AND LETTERS OF CREDIT	PROJECT	DECEMBER 31, 2012	DECEMBER 31, 2011
Guarantees:			
Surety bonds, guaranteed joint and severally, to cover construction and concession related performance obligations, advance payment bond and retention release bond	Quito Airport Project	$122,779	$125,964
Letters of credit:			
In support of various project contingencies	Quito Airport Project	$32,785	$36,462
Financial and performance – issued in the normal conduct of business	Various	$179,525	$107,788

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. As at December 31, 2012, 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 $2,252,847 (December 31, 2011 – $1,669,950), 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.

24. COMMITMENTS UNDER NON-CANCELLABLE OPERATING LEASES

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

	Future minimum lease payments
	December 31, 2012
	$
Due within one year	10,945
Due beyond one and up to five years	22,623
Due beyond five years	7,744
	41,312

In 2012, minimum lease payments recognized as an operating lease expense were $18,318 (2011 – $17,758).

25. CAPITAL STOCK

	December 31, 2012		December 31, 2011	
	Number	Amount	Number	Amount
		$		$
Number of common shares outstanding – beginning of year	53,300,487	291,633	54,689,459	298,613
Common shares issued on exercise of options	–	–	343,650	2,698
Common shares purchased by the Trust of the long-term incentive plan (LTIP)	(674,191)	(8,435)	(805,779)	(7,952)
Transfers by the Trust to settle LTIP obligations	385,156	4,373	498,057	6,054
Common shares purchased under Normal Course Issuer Bid	–	–	(1,424,900)	(7,780)
Number of common shares outstanding – end of year	53,011,452	287,571	53,300,487	291,633

The Company is authorized to issue an unlimited number of common shares. The Company's shares have no par value. Including common shares held by the LTIP Trust, discussed below, the total number of common shares outstanding as at December 31, 2012 is 55,812,149 (December 31, 2011 – 55,812,149).

Normal course issuer bid

In the first quarter of 2011, the Company announced a normal course issuer bid (the "NCIB") commencing on March 16, 2011 and expiring on March 15, 2012. During that period, the Company was permitted to acquire up to 5,527,277 common shares, which was approximately 10% of the issued and outstanding common shares at the time of the announcement of the NCIB. From March 16, 2011 to March 15, 2012, the Company acquired 1,424,900 common shares for $12,038 of which $7,780 was recorded as a reduction in capital stock and $4,258 recorded as a reduction of retained earnings. All of the shares acquired were subsequently cancelled. No common shares were acquired in 2012 under the NCIB, which has now expired.

Stock option plans

The aggregate number of common shares that can be issued under the 2005 Stock Option Plan shall not exceed 5,000,000. Each share option issuance under the 2005 Stock Option Plan specifies the period during which the share option thereunder is exercisable (which in no event shall exceed ten years from the date of grant) and the date that the share option will expire. The Company's Board of Directors determines the vesting period on the dates of share option grants. The exercise price of share option grants equals the market price of the common shares on the grant date. The Company issues common shares on exercise of the options.

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

	For the year ended December 31, 2012		For the year ended December 31, 2011	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		$		$
Balance outstanding – beginning of year	1,750,000	13.02	1,843,650	12.50
Granted	210,000	12.35	350,000	9.66
Forfeited	(50,000)	14.95	(100,000)	14.95
Exercised	–	–	(343,650)	6.25
Balance outstanding – end of year	1,910,000	12.90	1,750,000	13.02
Options exercisable – end of year	1,793,334	13.08	1,466,667	13.53

Share options currently outstanding have the following exercise prices and expiry dates:

Share options granted in	Number of shares	Exercise price	Expiry date
		$	
2008	950,000	14.95	August 5, 2013
2009	50,000	9.12	March 4, 2014
2009	300,000	11.29	May 14, 2014
2010	50,000	12.30	November 2, 2015
2011	350,000	9.66	March 11, 2016
2012	160,000	12.95	March 7, 2017
2012	50,000	10.41	December 8, 2017
	1,910,000		

All option grants have a term of five years from the date of grant and vest immediately or over a three-year period.

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

The Company applies fair value accounting for share options granted to employees and records compensation expense upon issuance of the share options under its stock option plan. For options granted during the year ended December 31, 2012 and 2011, the fair value was estimated on the date of grant using the Black-Scholes fair value option pricing model using the following assumptions:

	2012	2011
	$	$
Weighted average fair value per share option	2.48–5.15	3.97
Expected volatility[1]	33.4–53.4%	56.00%
Dividend yield	2.16–2.69%	2.07%
Risk-free interest rate	1.57–1.67%	2.62%
Weighted average expected life in years	5.00	5.00

(1) Expected volatility was determined using historical volatility.

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

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 will 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 under the plan are assumed, for accounting purposes, to vest immediately. In 2012, the Company recorded LTIP compensation charges of $7,450 (2011 – $6,000).

The LTIP Trust (the "Trust") currently holds 2,800,697 shares at December 31, 2012 (2011 – 2,511,662 shares). The Company has determined it holds a beneficial interest in the activities of the Trust and that the Trust meets the criteria of a Special Purpose Entity that requires consolidation by the Company in accordance with SIC 12 *"Consolidation: Special Purpose Entities."* Accordingly, at December 31, 2012, share capital was reduced by $30,384 (2011 – $26,476) and accrued liabilities increased by the same amount.

26. JOINT VENTURES

The following amounts represent the Company's share of assets, liabilities, revenue and expenses relating to joint ventures. Included in expenses, in determining the Company's share of profit or loss from joint ventures, are income taxes for those entities that are separately liable for the payment of income 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 for the year ended December 31, 2012, amount to an income tax recovery of $10,855 and an income tax expense of $239 for the year ended December 31, 2011.

	December 31, 2012	December 31, 2011
	$	$
Current assets	227,520	240,864
Non-current assets	340,498	289,569
Current liabilities	(209,560)	(165,673)
Non-current liabilities	(198,109)	(199,383)
Share of net assets of joint ventures	160,349	165,377

Revenue and expenses for the year ended were as follows:

	December 31, 2012	December 31, 2011
	$	$
Revenue	391,416	376,014
Expenses	(336,044)	(308,794)
Share of profit	55,372	67,220

As at December 31, 2012, the Company's total investment in Quiport JV was US$158,916. Of this amount, US$63,470 was invested through cash equity contributions and the balance of US$95,446 through the reinvestment of the Company's share of the earnings of the existing airport. As at December 31, 2012, the Company's direct equity investment in Quiport JV was fully contributed.

27. EXPENSES

Expenses for the year ended were as follows:

	December 31, 2012	December 31, 2011
	$	$
Materials	378,664	542,396
Subcontractors	730,720	826,261
Personnel	1,117,451	1,018,142
Equipment costs	426,234	227,829
Depreciation of property, plant and equipment and amortization of intangible assets	63,562	62,548
Finance costs charged to projects	508	3,928
Other expenses	135,405	142,310
Total expenses	2,852,544	2,823,414

Reported as:

	December 31, 2012	December 31, 2011
	$	$
Direct costs and expenses	2,631,791	2,622,034
Marketing, general and administrative expenses	157,191	138,832
Depreciation and amortization	63,562	62,548
Total expenses	2,852,544	2,823,414

28. OTHER INCOME

Other income for the year ended was as follows:

	December 31, 2012	December 31, 2011
	$	$
Gain on disposal of a subsidiary	–	11,539
Foreign exchange gains	174	309
Gain on sale of property, plant and equipment	898	4,373
Losses on legal provisions	–	(2,500)
Total other income	1,072	13,721

In the third quarter of 2011, the Company sold its 30.6% interest in Derech Eretz Highways Management Corporation Limited, the operator of the Cross Israel Highway, as well as its interests in several affiliates of the operator that operate other transportation infrastructure assets in Israel, for proceeds of $14,000. The resulting pre-tax gain on sale was $11,539.

In the fourth quarter of 2011, the Company settled a long outstanding legal dispute relating to its prior involvement in the construction of a grain terminal in Gdansk, Poland. The settlement resulted in a loss of $2,500 in 2011.

29. FINANCE COSTS

Finance costs for the year ended were as follows:

	Note	December 31, 2012	December 31, 2011
		$	$
Interest on long-term debt and debentures	17(c)	20,548	31,313
Interest on finance leases		5,432	2,373
Interest on short-term debt		3,127	3,077
Unwinding of discount on provisions		168	160
Total finance costs		29,275	36,923

30. EARNINGS PER SHARE

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

	December 31, 2012	December 31, 2011
	$	$
Profit attributable to shareholders	77,978	57,553
Interest on convertible debentures, net of tax[(1)]	18,524	18,013
Fair value gain on convertible debentures, net of tax	(3,142)	(3,063)
Diluted net earnings	93,360	72,503
Average number of common shares outstanding	52,976,520	53,905,613
Effect of dilutive securities:[(1)]		
Options	88,476	–
Convertible debentures[(1)]	23,099,465	29,915,970
Shares held in trust account in respect of a long-term incentive plan	2,800,697	2,511,662
Weighted average number of diluted common shares outstanding	78,965,158	86,333,245
Basic earnings per share	1.47	1.07
Diluted earnings per share[(1)]	1.18	0.84

(1) 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 (loss) per share.

31. SUPPLEMENTARY CASH FLOW INFORMATION

Change in other balances relating to operations

	For the year ended December 31, 2012	December 31, 2011
	$	$
Decrease (increase) in:		
Trade and other receivables	(91,949)	(18,493)
Unbilled revenue	(82,157)	147,643
Inventories	(518)	(5,270)
Prepaid expenses	(4,278)	(2,505)
(Decrease) increase in:		
Trade and other payables	100,300	(30,265)
Provisions	(9,620)	1,498
Deferred revenue	33,654	(26,227)
	(54,568)	66,381

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

Cash flows from interest and dividends

	For the year ended December 31, 2012	December 31, 2011
	$	$
Operating activities		
Cash interest paid	(42,407)	(46,301)
Cash interest received	139	1,264
Financing activities		
Cash dividends paid	(14,511)	(11,317)

Non-cash transactions

	For the year ended December 31, 2012	December 31, 2011
	$	$
Non-cash transactions excluded from consolidated statements of cash flows		
Property, plant and equipment acquired and financed by finance leases	35,510	48,390

32. FINANCIAL INSTRUMENTS

Fair value

From time to time, the Company enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar, but does not hold or issue such financial instruments for speculative trading purposes. As at December 31, 2012, the Company had net outstanding contracts to sell US$259 and buy US$3,622 (December 31, 2011 – sell euro 394, sell US$18,318, and buy US$1,402) on which there was a net unrealized exchange gain of $21 (December 31, 2011 – net gain of $204). The net unrealized exchange gain represents the estimated amount the Company would have received if it terminated the contracts at the end of the respective periods, and is included in other income in the consolidated statements of income.

IFRS 7 "*Financial Instruments: Disclosures*" enhances disclosures about fair value measurements. Fair value is defined as the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs. The first two levels are considered observable and the last unobservable. These levels are used to measure fair values as follows:

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

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

As at December 31, 2012	Total	Level 1	Level 2	Level 3
	$	$	$	$
Financial assets (liabilities) measured at fair value:				
Convertible debentures – embedded derivatives	(1,589)	–	–	(1,589)

As explained in Note 19, the convertible debentures contain an embedded derivative that must be measured at fair value at each reporting date with gains and losses in fair value recognized through profit or loss. The fair value of the embedded derivatives is determined using the quoted market price of the convertible debentures and apportioning the value between the debt and the embedded derivative components of the instruments. Two of the most significant assumptions impacting the Company's valuation of these embedded derivatives are the implied volatility and credit spread inputs. For the 2015 and 2014 debentures, the Company used an implied volatility of 23.23% and 24.05%, respectively, and a credit spread of 3.43% and 3.83%, respectively. A 1% change in the implied volatility factor would have changed the fair value of the embedded derivative by $321 and a 1% change in the credit spread factor would have changed the fair value of the embedded derivative by $4,928.

Risk management

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk. These risks arise from exposures that occur in the normal course of business and are managed on a consolidated Company basis.

Credit risk

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, short-term deposits and marketable securities, accounts receivable, holdbacks receivable, unbilled revenue, and foreign exchange contracts.

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

The credit risk associated with foreign exchange contracts arises from the possibility that the counterparty to one of these contracts fails to perform according to the terms of the contract. Credit risk associated with foreign exchange contracts is minimized by entering into such transactions with major Canadian financial institutions.

Concentration of credit risk associated with accounts receivable, holdbacks receivable and unbilled revenue is limited by the Company's diversified customer base and its dispersion across different business and geographic areas. The credit quality of the Company's significant customers is monitored on an ongoing basis and allowances are provided for potential losses that have been incurred at the consolidated balance sheet dates. Receivables that are neither past due nor impaired are considered by management to have no significant collection risk. The liquidity of customers and their ability to pay receivables are considered in assessing the impairment of such assets. No collateral is held in respect of impaired assets or assets that are past due but not impaired. The Company provides an allowance for credit losses in the year in which there is objective evidence of impairment. Balances are considered for impairment on a case by case basis when they are over 60 days past due or if there is an indication a customer will not be satisfying their payment obligation.

As at December 31, 2012, the Company had $112,094 in trade receivables that were past due. Of this amount, $48,503 was over 60 days past due, against which the Company has recorded an allowance for doubtful accounts of $1,969.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled in cash or another financial asset.

The Company's approach is to ensure it will have sufficient liquidity to meet operational, tax, capital and regulatory requirements and obligations, under both normal and stressed circumstances. Cash flow projections are prepared and reviewed quarterly by the Board of Directors to ensure a sufficient continuity of funding. Long-term debt maturities are spread over a range of dates, thereby ensuring the Company is not exposed to excessive refinancing risk in any one year. The Company's cash and cash equivalents, short-term deposits and restricted cash are invested in highly liquid interest bearing investments.

Contractual maturities for financial liabilities at December 31, 2012 are as follows:

	Due withing one year	Due between one and five years	Due after five years	Total undiscounted cash flows	Effect of interest	Carrying value
	$	$	$	$	$	$
Bank indebtedness	–	10,368	–	10,368	–	10,368
Trade and other payables	626,945	5,661	–	632,606	(752)	631,854
Finance leases	30,899	73,951	362	105,212	(8,735)	96,477
Equipment and other loans	39,800	81,851	1,023	122,674	(11,204)	111,470
	70,699	155,802	1,385	227,886	(19,939)	207,947
Non-recourse project debt	22,983	109,909	93,928	226,820	(58,853)	167,967
Convertible debentures	–	264,500	–	264,500	(11,311)	253,189
Long-term financial liabilities	93,682	530,211	95,313	719,206	(90,103)	629,103

Interest rate risk

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

At December 31, 2012, the interest rate profile of the Company's long-term debt was as follows:

	$
Fixed rate instruments held by joint ventures	29,652
Variable rate instruments held by joint ventures	119,131
Fixed rate instruments	227,131
Total long-term debt	375,914
Fixed rate convertible debentures	253,189

Long-term debt held by joint ventures relates primarily to project financing for the Quito Airport Project (see Note 18) and because interest is capitalized until the new airport is available for use, changes in interest rates would not have had an impact on net earnings or comprehensive income in the current period.

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

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

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

Currency risk

The Company operates internationally and is exposed to risk from changes in foreign currency rates. The Company is mainly exposed to fluctuations in the US dollar.

The Company's currency exposure to US dollars arises primarily from its investments in the Quito Airport concessionaire, Quito construction joint venture and from its US operating unit within the Infrastructure segment. The functional currency of these entities is the US dollar. The impact of changes in currency rates for these investments does not impact profit or loss but is instead reported as currency translation differences in other comprehensive income. For these investments, the Company's sensitivity to a 10% change of the US dollar against the Canadian dollar as at December 31, 2012 would have been a change in comprehensive income of approximately $13,600.

The Company's sensitivity to a 10% change of the US dollar against the Canadian dollar as at December 31, 2012 to profit or loss for currency exposures other than those discussed above would be $570. The sensitivity analysis includes foreign currency denominated monetary items but excludes all investments in joint ventures and hedges and adjusts their translation at period end for the above 10% change in foreign currency rates.

Additional information on financial instruments

	Fair value through profit or loss	Held to maturity	Loans and receivables	Amortized cost	Total carrying amount	Total fair value
	$	$	$	$	$	$
Cash and cash equivalents	–	–	66,917	–	66,917	66,917
Restricted cash	–	–	39,293	–	39,293	39,293
Trade and other receivables	–	–	624,469	–	624,469	624,469
Unbilled revenue	–	–	331,547	–	331,547	331,547
Long-term financial assets	–	3,485	1,321	–	4,806	4,806
	–	3,485	1,063,547	–	1,067,032	1,067,032
Bank indebtedness	–	–	–	10,368	10,368	10,368
Trade and other payables	–	–	–	631,854	631,854	631,854
Deferred revenue	–	–	–	141,599	141,599	141,599
Current portion of non-recourse project debt	–	–	–	11,926	11,926	11,926
Current portion of long-term debt	–	–	–	61,899	61,899	61,899
Non-recourse project debt	–	–	–	156,041	156,041	156,041
Long-term debt	–	–	–	146,048	146,048	146,048
Convertible debentures	1,589	–	–	251,600	253,189	279,047
	1,589	–	–	1,411,335	1,412,924	1,438,782

Cash and cash equivalents, restricted cash, marketable securities, trade receivables, trade payables and accrued liabilities approximate their fair values on a discounted cash flow basis because of the short-term nature of these instruments. 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 current based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations.

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

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

Convertible debentures are discussed in Note 19.

33. CAPITAL DISCLOSURES

For capital management purposes, the Company defines capital as the aggregate of its shareholders' equity and debt. Debt includes the current and non-current portions of long-term debt (excluding non-recourse debt) and the current and non-current long-term debt components of convertible debentures.

The Company's principal objectives in managing capital are:

- to ensure sufficient liquidity to adequately fund the ongoing operations of the business;
- to provide flexibility to take advantage of contract and growth opportunities that are expected to provide satisfactory returns to shareholders;
- to maintain a strong capital base so as to maintain client, investor, creditor and market confidence;
- to provide a superior rate of return to its shareholders; and
- to comply with financial covenants required under its various borrowing facilities.

The Company manages its capital structure and adjusts it in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new debt or repay existing debt, issue new shares, issue convertible debt, or adjust the amount of dividends paid to shareholders. Financing decisions are generally made on a specific transaction basis and depend on such things as the Company's needs, capital markets and economic conditions at the time of the transaction.

Although the Company monitors capital on a number of bases, including liquidity and working capital, total debt (excluding non-recourse debt and drawings on the Company's credit facility presented as bank indebtedness) as a percentage of total capitalization (debt to capitalization percentage) is considered to be the most important metric in measuring the strength and flexibility of its consolidated balance sheets. As at December 31, 2012, the debt to capitalization percentage including convertible debentures as debt was 46%. If the convertible debentures were to be excluded from debt and added to equity on the basis that they could be redeemed for equity, either at the Company's option or at the holder's option, then the adjusted debt to capitalization percentage would be 21% as at December 31, 2012. While the Company believes this debt to capitalization percentage is acceptable, because of the cyclical nature of its business, the Company will continue its current efforts to maintain a conservative capital position.

As at December 31, 2012, the Company complied with all of its financial debt covenants.

34. OPERATING SEGMENTS

Segment reporting is based on the Company's divisional operations. The breakdown by divisions mirrors the Company's internal reporting systems.

The Company operates in three principal segments within the construction and infrastructure development industry: Infrastructure, Industrial and Concessions. The Eliminations and Other category in the summary below includes corporate costs and other activities not directly allocable to segments and also includes inter-segment eliminations.

Infrastructure
The Infrastructure segment includes all aspects of the construction of both public and private infrastructure, including roads and highways, as well as toll highways, hydroelectric power projects and dams, tunnels, bridges, airports, marine facilities and transit systems, primarily in Canada, and on a selected basis, internationally. This segment includes the mining, manufacture and supply of asphalt and aggregate products and the construction and/or installation of utility distribution systems for natural gas, telecommunications and electrical networks, as well as water and sewer mains, traffic signals and highway lighting. The Infrastructure segment also includes the operations of Aecon Mining, a large mining and reclamation contractor operating in the oil sands and resource sectors, as well as the design and construction of the new Quito Airport project. Aecon Buildings, which specializes in the construction and renovation of commercial and institutional buildings is also included in the Infrastructure segment, and commencing in 2012 was combined with Lockerbie & Hole Contracting, which provides mechanical construction management and complete mechanical construction services including the design and build of water and waste water facilities as well as mechanical and electrical installations in hospitals, schools and institutional buildings, to serve the social infrastructure market sector. This realignment of Lockerbie & Hole Contracting, which was previously included in the Industrial segment, to the Infrastructure segment builds on the Company's "One Aecon" business strategy and is expected to more fully capitalize on the combined strengths and potential synergies of the Aecon Buildings and Lockerbie & Hole Contracting operations in the social infrastructure sector. In addition, commencing in 2012, the operating units within the Infrastructure segment were reorganized to align with Infrastructure's operating management structure into the following sub-categories: Transportation; Heavy Civil; Utilities; Mining; and Social Infrastructure. Prior year comparative figures have been restated to conform to the presentation adopted in the current year.

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

Concessions
Activities within the Concessions segment include the development, financing, construction 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,

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

management, maintenance and enhancement of investments held by Aecon in infrastructure concessions, which is currently comprised of an investment in the Quito Airport concession company and also includes the operations of the Highway 104 toll plaza in Atlantic Canada. In addition, this segment has a development function whereby it monitors and, where appropriate, brings together the unique capabilities and strengths of Aecon where the Company can play a role beyond being a contractor, but rather as a developer, operator and investor in build finance and design build finance projects.

For the year ended December 31, 2012	Infrastructure	Industrial	Concessions	Other costs and eliminations	Total
	$	$	$	$	$
Statement of income					
External customer revenue	1,895,158	1,009,444	42,194	–	2,946,796
Inter-segment revenue	1,926	4,533	–	(6,459)	–
Total revenue	1,897,084	1,013,977	42,194	(6,459)	2,946,796
Which includes:					
Construction revenue	1,897,084	1,013,977	–	(6,459)	2,904,602
Concession revenue	–	–	42,194	–	42,194
Expenses	(1,851,705)	(957,709)	(16,897)	(26,233)	(2,852,544)
Which include:					
Depreciation and amortization	(46,215)	(7,548)	(2,955)	(6,844)	(63,562)
Other income (loss):					
Foreign exchange gains (losses)	152	223	(182)	(19)	174
Gain (loss) on sale of property, plant and equipment	992	(109)	–	15	898
Income from construction projects accounted for using the equity method	12,961	1,479	–	–	14,440
Operating profit (loss)	59,484	57,861	25,115	(32,696)	109,764
Finance income (costs):					
Finance income	1,542	91	5	497	2,135
Finance costs	(6,525)	(106)	–	(22,644)	(29,275)
Fair value gain on convertible debentures	–	–	–	4,260	4,260
Profit (loss) before income taxes	54,501	57,846	25,120	(50,583)	86,884
Income tax expense					(5,943)
Profit for the year					80,941
Attributable to:					
Shareholders					77,978
Non-controlling interests					2,963

	Infrastructure	Industrial	Concessions	Other costs and eliminations	Total
	$	$	$	$	$
Balance sheet					
Segment assets	962,231	562,870	288,254	315,927	2,129,282
Of which investments in construction projects accounted for using the equity method	24,754	2,617	–	–	27,371
Segment liabilities	733,733	218,701	269,148	358,132	1,579,714
Additions to non-current assets:					
Property, plant and equipment	76,901	5,066	–	4,754	86,721
Concession rights and other intangible assets	11	7	63,105	5,214	68,337

	For the year ended December 31, 2011				
	Infrastructure	Industrial	Concessions	Other costs and eliminations	Total
	$	$	$	$	$
Statement of income					
External customer revenue	1,897,874	917,063	81,230	–	2,896,167
Inter-segment revenue	6,780	1,275	–	(8,055)	–
Total revenue	1,904,654	918,338	81,230	(8,055)	2,896,167
Which includes:					
Construction revenue	1,904,654	918,338	–	(8,055)	2,814,937
Concession revenue	–	–	81,230	–	81,230
Expenses	(1,857,358)	(889,557)	(56,940)	(19,559)	(2,823,414)
Which include:					
Depreciation and amortization	(45,528)	(8,237)	(3,436)	(5,347)	(62,548)
Other income (loss):					
Foreign exchange gains (losses)	220	365	37	(313)	309
Loss on legal provision	–	–	–	(2,500)	(2,500)
Gain (loss) on sale of property, plant and equipment	4,579	(206)	–	–	4,373
Gain on disposal of a subsidiary	–	–	11,539	–	11,539
Income from construction projects accounted for using the equity method	12,785	1,273	–	–	14,058
Operating profit (loss)	64,880	30,213	35,866	(30,427)	100,532
Finance income (costs):					
Finance income	4,532	557	33	557	5,679
Finance costs	(5,414)	(167)	–	(31,342)	(36,923)
Fair value gain on convertible debentures	–	–	–	4,269	4,269
Profit (loss) before income taxes	63,998	30,603	35,899	(56,943)	73,557
Income tax expense					(11,414)
Profit for the year					62,143
Attributable to:					
Shareholders					57,553
Non-controlling interests					4,590

	Infrastructure	Industrial	Concessions	Other costs and eliminations	Total
	$	$	$	$	$
Balance sheet					
Segment assets	907,245	441,372	247,680	387,798	1,984,095
Of which investments in construction projects accounted for using the equity method	16,293	1,638	–	–	17,931
Segment liabilities	708,381	161,870	254,602	369,365	1,494,218
Additions to non-current assets:					
Property, plant and equipment	99,255	4,859	1,630	5,392	111,136
Concession rights and other intangible assets	1,382	16	62,532	7,987	71,917

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

Transactions between reportable segments have been recorded at exchange value.

Geographic segment information

	December 31, 2012	December 31, 2011
	$	$
Revenue from external customers:		
Canada	2,789,688	2,653,686
USA	59,030	58,413
International	98,078	184,068
	2,946,796	2,896,167
Property, plant, equipment and intangible assets		
Canada	579,403	544,183
USA	1,570	1,651
International	353,274	307,355
	934,247	853,189

Revenue from external customers has been attributed to individual countries on the basis of the customer's location.

35. RELATED PARTIES

The Company conducts its business principally through the following subsidiary companies, all of which are wholly owned:

Subsidiary	Jurisdiction of incorporation
Aecon Construction and Materials Limited	Ontario
Aecon Construction Group Inc.	Canada
Canonbie Contracting Limited	Alberta
Groupe Aecon Québec Ltée	Quebec
Lockerbie & Hole Contracting Limited	Alberta
South Rock Ltd.	Alberta
Karson Construction Group	Ontario
Miwel Construction Limited	Ontario
Aecon Construction Management Inc.	Alberta

The Company also conducts its business through the following significant joint ventures and associates:

Joint ventures and associates	Country of operations	Ownership interests
Quiport JV	Ecuador	42.3%
Quito Airport Construction Project	Ecuador	50.0%
Upper and Lower Mattagami Projects	Canada	20.0%
Autoroute 30 Project	Canada	16.0%
Waneta Dam Project	Canada	60.0%
TTC Sheppard South Project	Canada	30.0%
Scott Management	Canada	49.0%
IPF Cold Lake and Polaris Pipelines Project	Canada	50.0%
Northeast Anthony Henday Drive Project	Canada	22.5%
OPG Darlington RFR Project	Canada	50.0%

Key management includes the Company's Board of Directors and Executive Committee. Compensation awarded to key management is as follows:

	December 31, 2012	December 31, 2011
	$	$
Short-term employee benefits	6,099	5,491
Share-based payments	1,117	1,855
	7,216	7,346

CORPORATE INFORMATION

BOARD OF DIRECTORS

John M. Beck
Chairman and Chief Executive Officer
Aecon Group Inc.

Austin C. Beutel
Chairman
Oakwest Corporation Limited

Michael A. Butt
Chairman and Chief Executive Officer
Buttcon Limited

Anthony P. Franceschini
Corporate Director

J.D. Hole
President
J.D. Hole Investments Inc.

Rolf Kindbom
President
Kindbom Consulting Inc.

The Hon. Brian V. Tobin P.C., ICD.D
Executive Chairman
Consolidated Thompson Iron Mines Limited

Robert P. Wildeboer
Executive Chairman
Martinrea International Inc.

EXECUTIVE COMMITTEE

John M. Beck
Chairman and Chief Executive Officer

Terrance L. McKibbon
Executive Vice-President and Chief Operating Officer

David Smales
Executive Vice-President and Chief Financial Officer

Paul P. Koenderman
Executive Vice-President and Executive Chairman
Aecon Industrial Group

L. Brian Swartz
Executive Vice President
Legal and Commercial Services and Corporate Secretary

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Best
Employers
in Canada
By Aon Hewitt

WE ARE ONE OF CANADA'S BEST EMPLOYERS

Aecon is proud to have been ranked one of the Best Employers in Canada for six straight years. The best people in the industry are drawn to Aecon because of the many great projects we deliver for our diverse clients. Aecon is pleased to offer our 12,000 employees a challenging and engaging work environment. We recently launched Aecon University, our in-house training and development program designed to provide employees with the tools and skills needed to further build and enhance their careers. Every day, Aecon's employees are successfully working together to deliver projects safely and with excellence across Canada.

SAFETY IS OUR NUMBER ONE CORE VALUE

At Aecon, we take our responsibility to provide a safe working environment seriously. Safety has been and will always be our number one core value. We work hard to provide safe working conditions for our employees, contractors and clients – which has resulted in an industry-leading safety culture across our organization. In 2012, Aecon achieved a 99% safety audit rating by the Infrastructure Health and Safety Association.

AECON@WORK

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 service@computershare.com.

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AECON WEST HEADQUARTERS

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