

Aecon Group Inc. › Third Quarter Report 2006

Nine months ended September 30, 2006

Dear Fellow Shareholders,

Earlier this year, we outlined a strategic plan designed to drive improved profitability through 2007 and 2008. This plan includes a focus on Canada, a priority on margin growth over volume growth, leveraging our strength in the energy and transportation sectors, and concentrating on those areas where we have a proven record of profitability. The strong results achieved to date are evidence that this strategy has us headed in the right direction, in line with our business plan.

Backlog totaling \$838 million at September 30 is \$350 million higher than at the same time last year, with strong year-over-year increases in the Infrastructure and Industrial segments, offsetting a decline in the Buildings segment.

The robust construction market in Canada, paired with the disciplined focus in our bidding activities, has allowed us to grow not only the size of our backlog, but also the margin percentages imbedded in this future revenue.

The theme of driving margin growth rather than volume growth continues to be at the core of our focus and can be found in the improved return on revenue results in each of our segments this quarter.

In the Infrastructure segment, return on revenue increased to 6.8 per cent this quarter from 3.3 per cent last year, as operating profit grew to \$11.8 million from \$4.5 million and revenues grew to \$173 million. Notably, operating profit increased in each of the segment's operating units, with the roadbuilding, utilities, Quebec operations and other heavy civil operations each reporting improvement over the same quarter last year.

Although revenues in the Buildings segment dropped to \$71 million this quarter, the segment's return on revenues grew to 1.9 per cent this quarter, up from 1.3 per cent last year. The segment's results were buoyed by improved profit contributions from the Pearson International Airport joint venture and the resolution of outstanding change orders in the Toronto region.

The Industrial segment's results continued to improve as operating profits increased to \$4.4 million this quarter, despite a decline in revenues to \$65 million. This increased profitability resulted in a 6.8 per cent return on revenue – up from 3% a year ago. Although the segment's Western Canadian operations are expected to show strong year-over-year improvement, the improved contributions this quarter came largely from industrial construction in Ontario and fabrication operations in Ontario and Atlantic Canada.

Within the Concessions segment, contributions from the operation of the existing Quito airport, which are included in our reporting for the first time this quarter, drove an increase in revenues from \$7 million to \$12 million.

With 2006 now three quarters over, our expectations for the year remain consistent with those published at the end of the first and second quarters, including a return to profitability driven primarily by improved operating margins.

Within the Infrastructure segment, strong results from our Ontario roadbuilding and utilities operations are expected to continue for the balance of the year, and we expect increased profit contributions from these sectors.

In Alberta, early indications signal strong potential for our re-entry in the province's civil construction market. In Quebec, the focus on claim and change order settlements rather than civil construction bidding activity is expected to result in modest profit contributions in 2006. Elsewhere in Canada, our civil construction work continues to make good progress and is expected to also result in profit contributions.

Internationally, Aecon's primary focus is on construction of the new Quito, Ecuador airport. While construction is progressing well, the beginning of recognition of construction profit for this project is not expected until late next year.

The Buildings segment remains on track to report improved margin levels and increased profit contributions in 2006 despite the expected decline in revenue this year. Profit contributions from Greater Toronto Area operations are expected to increase. Overall, profit contributions from the segment's other business units are expected to remain similar to those reported last year.

As the year progresses, the outlook for the Industrial segment continues to strengthen, led by the Fabrication, Western Canada and Atlantic Canada business units. While another solid year is expected in our Ontario industrial construction sector, it is still expected that profit contributions will fall just short of 2005 results.

The Bruce Power nuclear restart project and the province's plans for increased generating capacity continue to drive backlog in this sector to historically high levels. A revenue decline is expected from Innovative Steam Technologies (IST), as they continue to work in a challenging sales environment. However, IST's backlog is expected to grow over the next quarter.

Within the Concessions segment, overhead and other costs are expected to exceed the modest earnings from the operations of the Quito airport and other operations in Israel and Canada. The reduced loss expected in this segment should turn to profit contributions during the remaining four-year Quito construction period.

Overall, the operating results achieved in the first three quarters of 2006 tend to strengthen management's view that the growth occurring in our core markets, combined with the operational improvements now in place, will result in increased margins and a positive net income for Aecon in 2006.

Thank you for your continued support of Aecon.

(signed) John M. Beck  
Chairman and Chief Executive Officer  
November 8, 2006

**Aecon Group Inc.**

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

**September 30, 2006**

## **Management's Discussion and Analysis of operating results and financial condition ("MD&A")**

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. ("Aecon") should be read in conjunction with the Company's Interim Consolidated Financial Statements and Notes (which have not been reviewed by the Company's external auditors) and in conjunction with the Company's annual MD&A for 2005. This interim MD&A has been prepared as of November 7, 2006. Additional information on Aecon is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) and includes the Company's Annual Information Form and other securities and continuous disclosure filings.

### **Introduction**

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

The Infrastructure segment includes all aspects of the construction of both public and private infrastructure, including roads and highways, principally within the Province of Ontario, as well as toll highways, dams, tunnels, bridges, airports, marine facilities, transit systems and hydroelectric power projects, domestically and internationally. There is also a strategic focus to develop civil capacity in the Alberta marketplace. This segment includes the mining, manufacture, and supply of asphalt and aggregate products, and the construction and/or installation of utility distribution systems for natural gas, telecommunications and electrical networks, as well as water and sewer mains, traffic signals and highway lighting, also principally within the Province of Ontario. Services provided in the Infrastructure segment include construction of large civil infrastructure projects in Canada and, on a selective basis, internationally.

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

The Industrial segment encompasses all of Aecon's industrial construction and manufacturing activities including in-plant construction and module assembly in the manufacturing, energy, petrochemical, steel and automotive sectors. Activities in this sector include the construction of alternative, fossil fuel and cogeneration power plants as well as in-plant construction at nuclear power

plants and the fabrication and module assembly of small diameter specialty pipe. In addition, activities in this sector include the design and manufacture of “once-through” heat recovery steam generators for industrial and power plant applications. Although activity in this segment is concentrated primarily in Canada, with selected projects in the United States and Europe, Aecon sells and installs “once-through” heat recovery steam generators throughout the world through its Innovative Steam Technologies division.

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

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

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

## CONSOLIDATED FINANCIAL HIGHLIGHTS

\$ millions	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
<b>Revenues</b>	<b>\$ 316.0</b>	<b>\$ 340.8</b>	<b>\$ 775.4</b>	<b>\$ 796.6</b>
<b>Gross margin <sup>(1)</sup></b>	<b>32.9</b>	20.1	<b>56.9</b>	43.2
<b>Operating profit <sup>(2)</sup></b>	<b>14.5</b>	4.9	<b>7.0</b>	0.1
<b>Interest expense, net</b>	<b>1.7</b>	2.4	<b>5.9</b>	6.7
<b>Income taxes</b>	-	0.4	<b>0.2</b>	1.5
<b>Extraordinary gain, net of income taxes</b>	-	-	-	3.4
<b>Net income (loss) for the period</b>	<b>12.8</b>	2.1	<b>0.9</b>	(4.6)
<b>Return on revenue <sup>(3)</sup></b>	<b>4.6%</b>	1.4%	<b>0.9%</b>	0.0%
<b>Backlog – September 30 <sup>(4)</sup></b>	<b>\$ 838.4</b>	<b>\$ 488.5</b>		

- (1) Gross margin is calculated as revenues less direct costs and expenses (before deducting MG&A, foreign exchange, interest, gains (losses) on sales, income taxes and extraordinary items).
- (2) Operating profit (loss) represents the profit (loss) from operations, before interest, income taxes and extraordinary items.
- (3) Return on revenue is calculated as operating profit (loss) as a percentage of revenues.
- (4) Included in backlog at September 30, 2006, is \$129 million related to the new Quito airport project. Although Aecon's 50% share of the construction revenues from this project are estimated at \$224 million, the amount reported as backlog has been reduced by \$95 million or 42.3%. This reduction is to reflect the fact that since Aecon has a 42.3% interest in the concession joint venture for which the new airport is being constructed, it cannot report backlog that effectively arises from transacting with itself.

Revenues in the third quarter of 2006 were \$316 million, representing a decrease of \$25 million over last year. Revenues increased in the Infrastructure and Concessions segments by \$36 million and \$5 million, respectively, and decreased in the Buildings and Industrial segments by \$43 million and \$19 million, respectively. For the first nine months of the year, revenues of \$775 million were lower than 2005 by \$21 million, as increases in the Infrastructure and Concessions segments were offset by declines in the Buildings and Industrial segments. Results for each of the four principal operating segments are discussed separately under Reporting Segments.

Gross margins (revenues less costs and expenses) as a percentage of revenues increased from 5.9% in the third quarter of 2005 to 10.4% in the current quarter, reflecting increased margins from all segments. For the nine months, gross margins increased from 5.4% to 7.3%, again with increases in all segments. Of the \$13 million improvement in margins in the current quarter, approximately \$4.1 million was the result of the commencement of concession operations at the existing Quito airport. However, after deducting amortization expense (\$3.3 million) on concession rights related to the existing airport (see below and note 2 to the September 30, 2006 Consolidated Financial Statements) and income taxes, the contribution of the existing airport to Aecon's net income for the quarter and

year-to-date was \$0.7 million. The balance of the operations (including Infrastructure up \$6 million and Industrial up \$3 million in the quarter) experienced higher margins resulting from a combination of factors including higher volumes in certain segments, improved revenue mix, better job performance, and the favourable resolution of various contract negotiations, claims, change orders and disputes. Marketing, general and administrative expenses (“MG&A”) amounted to \$13.2 million in the third quarter of 2006, which is \$1.8 million higher than the same period last year. This increase results from a number of items including the expansion of operations in western Canada, higher incentive accruals, higher stock option compensation expenses, and increased Bill 198 compliance costs. For the nine months, MG&A amounted to \$40.0 million, which is \$4.1 million higher than the same period last year. The \$4.1 million increase arose essentially for the same reasons cited above for the third quarter. As a result of these increases and, to a lesser extent, the shift in focus from “hard bid” work to “construction management”, MG&A as a percentage of revenues increased in the third quarter from 3.3% in 2005 to 4.2% in 2006, and for the nine months from 4.5% in 2005 to 5.2% in 2006. The higher gross margins, notwithstanding the higher MG&A, resulted in higher overall returns on revenues.

Depreciation and amortization expense in the current quarter of \$5.3 million is \$3.3 million higher than the same quarter last year, and depreciation and amortization expense of \$9.0 million for the nine months is \$3.4 million higher than last year. The increase in the quarter and year-to-date expense resulted from the commencement in the third quarter of the amortization of the concession rights related to the existing Quito airport operations. This charge amounted to \$3.3 million for the quarter and year-to-date.

Net interest expense in the current quarter of \$1.7 million is \$0.7 million lower than the same quarter last year, and interest expense of \$5.9 million for the nine months is \$0.8 million lower than last year. Reduced borrowings resulting from the receipt of net proceeds of a \$27.7 million equity issue in March 2006 and the March 2006 conversion into common shares of the remaining balance of convertible debentures held by the Company’s largest shareholder were the principal reasons for the decline in interest in the quarter. While these same events favourably impacted year-to-date net interest costs, the benefit was partially offset by higher interest costs in 2006 related to the March 2005 issuance of \$32.5 million of convertible debentures.

In 2004 and 2005, the Company provided a valuation allowance against the net future tax assets that had been previously recorded and against future tax assets that would otherwise have been recorded in respect of its Canadian controlled operations. Consistent with this accounting treatment, future tax assets in respect of further tax losses incurred in 2006 from Canadian controlled operations will be offset by a valuation allowance, whereas tax on income from Canadian controlled operations will be offset by a reduction in previously recorded valuation allowances.

Set out in note 4 of the September 30, 2006 Consolidated Financial Statements is a reconciliation between the expected tax recoveries in 2006 and 2005 at statutory income tax rates and the actual reported tax expense in 2006 and 2005.

Income tax expense for the nine months of 2006 amounted to \$0.2 million (\$1.5 million in 2005) on a pre-tax income of \$1.1 million (pre-tax loss of \$6.6 million in 2005) before extraordinary item. The income tax expense for the nine months of 2006 that would normally be provided on Canadian source



income has been offset by a \$0.8 million reduction (\$1.6 million increase in 2005) in the valuation allowance. Should Aecon continue to report income from its Canadian operations during the remainder of 2006, any provision for tax on this income will further reduce the valuation allowance balance. For the third quarter ended September 30, 2006, no tax expense (tax expense of \$0.4 million in 2005) was recorded on a pre-tax income of \$12.8 million (pre-tax income of \$2.5 million in 2005).

Included in Aecon's results for both 2006 and 2005 are certain items of income and expense that had a significant net income impact. The table below summarizes these items.

\$ millions	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
<b><u>Income/(expense):</u></b>				
Gain (loss) on sales of assets	0.1	(0.2)	0.1	0.8
Foreign exchange losses	-	(1.7)	(1.0)	(2.2)
Extraordinary gain, net of taxes	-	-	-	3.4
<b>Total income impact</b>	<b>0.1</b>	<b>(1.9)</b>	<b>(0.9)</b>	<b>2.0</b>

Net income for the quarter ended September 30, 2006 was \$12.8 million representing a \$10.7 million improvement compared to the same period in 2005. As noted in the table above, included in the third quarter results for 2005 were \$1.9 million of net losses from foreign exchange and sales of assets compared to net gains of \$0.1 million in 2006. Without these impacts, the \$10.7 million improvement in earnings would have been \$8.7 million. For the nine months ended September 30, 2006, there was a net income of \$0.9 million compared to a net loss of \$4.6 million in 2005, representing a \$5.5 million increase in earnings. Included in net income for the first nine months of 2005 was \$1.4 million in net losses from foreign exchange and sales of assets compared to \$0.9 million of net losses in 2006. Also, the results for the first nine months of 2005 included an after-tax extraordinary gain of \$3.4 million. Without the impact of these net losses and the extraordinary item, the \$5.5 million improvement in earnings would have been \$8.4 million.

Backlog at September 30, 2006, was \$838 million or \$350 million higher than the same time last year. On a segment basis, there were increases in the Infrastructure and Industrial segments of \$290 million and \$110 million, respectively, and a decline in the Buildings segment of \$51 million. New contract awards of \$343 million were booked in the current quarter, which compares with \$299 million in 2005, and total new contract awards of \$1,037 million booked in the first nine months, compared to \$720 million in 2005. The increase in awards in the first nine months was due to higher awards in the Infrastructure and Industrial segments, which exceeded the decline in awards in the Buildings segment. Further details for each of the segments are included in the discussion below under Reporting Segments. The margins expected to be earned from backlog, both as percentage of revenue and on a total dollar basis, is continuing to show a positive upward trend relative to prior years.

At September 30, 2006, major projects backlog was \$131 million which is \$127 million higher than last year. The increase results from the addition of \$129 million in backlog related to the construction of the Quito airport and a \$2 million decline in backlog related to the substantially completed Israel and India projects.

It is notable that significant and increasing commitments made to Aecon based on general contracts, supplier of choice and alliance agreements do not necessarily show up as backlog for external reporting purposes primarily due to the degree of uncertainty regarding the exact amount of work than can be expected. For example, Aecon has contractual arrangements with its two largest clients in the utilities sector that include geographic mandates for Aecon in certain parts of Ontario. Under these agreements, any work awarded by the client that is within the specified geographic area, and that meets the specifications and conditions in the contract, is awarded to Aecon as supplier of choice through the simple issuance of a purchase order. While it is possible to estimate with some confidence the minimum value of work likely to be awarded under these contracts, Aecon does not include work awarded under these contracts in backlog until the purchase orders have been issued. The effective backlog at any given time is therefore greater than what is reported to the extent that the expected volume of committed work under these general contracts and partnering agreements, for which purchase orders have not been issued, is significant. Because it is one of Aecon's strategic directives to focus on general contract, supplier of choice and partnering arrangements with clients, the amount of effective backlog that is excluded from reported backlog is expected to increase.

## **REPORTING SEGMENTS**

### **INFRASTRUCTURE**

#### **Financial Highlights<sup>(1)&(3)</sup>**

<b>\$ millions</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>Revenues</b>	<b>\$ 173.3</b>	<b>\$ 137.3</b>	<b>\$ 337.6</b>	<b>\$ 296.3</b>
<b>Segment operating profit</b>	<b>11.8</b>	<b>4.5</b>	<b>9.3</b>	<b>5.8</b>
<b>Return on revenue</b>	<b>6.8%</b>	<b>3.3%</b>	<b>2.8%</b>	<b>1.9%</b>
<b>Backlog - September 30<sup>(2)</sup></b>	<b>\$ 465.2</b>	<b>\$ 175.5</b>		

- (1) Certain prior period comparative figures have been reclassified to conform to the new segment definitions currently being used as described in the introduction section.
- (2) Included in backlog at September 30, 2006, is \$129 million related to the new Quito airport project. Although Aecon's 50% share of the construction revenues from this project are estimated at \$224 million, the amount reported as backlog has been reduced by \$95 million or 42.3%. This reduction is to reflect the fact that since Aecon has a 42.3% interest in the concession joint venture for which the new airport is being constructed, it cannot report backlog that effectively arises from transacting with itself.
- (3) Not included in the Financial Highlights table above is a first quarter 2005 extraordinary gain of \$3.4 million after income taxes resulting from the acquisition by Aecon of its partner's share in a joint venture.

Revenues from the Infrastructure segment increased from \$137 million in the third quarter of 2005 to \$173 million in the same period of 2006, as revenue gains of \$40 million from roadbuilding operations, \$1 million from utilities operations, and \$9 million from other heavy civil operations offset revenue declines of \$14 million from the segment's Quebec operations.

Throughout 2006, the significant increase in revenues from roadbuilding operations was driven by higher backlog levels, new contract awards, and favourable weather conditions. The government of Ontario continues to place a greater focus on infrastructure development in the province, leading to more new projects being tendered for bid. The roadbuilding division has been very successful in its tendering activities in 2006, obtaining \$88 million in new contracts awards in the third quarter of this year and \$355 million in the first nine months of 2006. This higher roadbuilding construction activity also benefited the material and aggregates operations and resulted in a \$7 million increase in volumes this quarter.

Third quarter revenues of \$4 million from the segment's Quebec operations represent a decline of \$14 million, mostly as a result of the Eastmain project reaching substantial completion in 2006 and a decision to curtail new project pursuits in the heavy civil sector within Quebec. Revenues from other heavy civil operations increased \$9 million in the third quarter, principally as a result of the commencement of construction on the new Quito airport.

For the nine months ended September 30, 2006, the Infrastructure segment reported revenues of \$338 million compared to revenues of \$296 million last year, an increase of \$41 million. Revenues from roadbuilding, utilities and other heavy civil operations were up \$60 million, \$10 million, and \$9 million, respectively, while revenues from Quebec operations were down \$37 million versus last year. The year-to-date fluctuations in roadbuilding, Quebec, and other heavy civil operations arose principally for the reasons cited in the third quarter commentary above. The \$10 million increase in utilities revenues reflects mostly higher volumes of communications and gas pipeline installation work.

Infrastructure operating profits of \$11.8 million for the third quarter of 2006 were \$7.3 million higher than in 2005. Increased operating profits were reported by all operating units with roadbuilding, utilities, Quebec operations, and other heavy civil operations up \$2.3 million, \$0.6 million, \$2.3 million, and \$2.2 million, respectively.

Operating earnings from roadbuilding operations are higher than last year mostly on account of significantly higher volumes in the current year, as noted above. The improvement in the utilities sector arose primarily from higher volumes from utility locate services and installations of satellite dishes which contributed \$0.6 million in additional operating income compared to the same period last year. Even though revenues in Quebec were down significantly in the current quarter over last year, Quebec operating results benefited favourably from a \$2.4 million reduction in project contingencies related to a completed project. The improvement in other heavy civil operations arose principally from \$1.9 million in favourable foreign exchange effects on a quarter over quarter basis (i.e. foreign exchange gains of \$0.1 million in the current quarter versus losses of \$1.8 million in the prior year's quarter). To date, no construction profits have been recorded on the new Quito airport

project. Under Aecon's accounting policy for large multi-year contracts, profit is recognized only when construction progress reaches a stage of completion sufficient to reasonably determine the probable results, which is expected in late 2007.

For the nine months, the Infrastructure segment reported operating profits of \$9.3 million compared to operating profits of \$5.8 million profit in 2005. Increased operating profits were reported by all operating units with roadbuilding, utilities, Quebec operations, and other heavy civil operations up \$0.8 million, \$0.9 million, \$1.8 million, and \$0.1 million, respectively.

Roadbuilding operations had earnings of \$5.8 million in the first nine months of 2006 compared to \$5.0 million in the same period last year. However, when the impact of unusually high claim settlements of \$3.8 million is removed from the 2005 results, the increase in profits is substantially greater and is more reflective of the significant increase in volumes experienced this year.

For the first nine months of 2006, the utilities operating results benefited from higher sales volumes and from \$1.3 million in claim settlements. These favourable impacts were partially offset by higher direct overhead costs, primarily incurred in the substantial ramp-up this year of work by Aecon's utilities engineering and utilities locate businesses, both of which have recently been successful in expanding their scope and scale of operations.

The improvement in operating results in Quebec in the nine-month period results mostly from the improvement in third quarter earnings, as described above, offset by the impact of a decision to curtail heavy civil project pursuits in the Quebec market.

Other heavy civil operations increased slightly year-over-year as foreign exchange improvements of \$1.6 million (a current year loss of \$0.5 million versus a prior year period loss of \$2.1 million) offset a decline in current year revenues of \$2 million and the impact of a \$0.5 million gain in 2005 related to the partial recovery of bid costs incurred in 2004.

The Company's MD&A covering the results for the year ended December 31, 2005 (the "2005 MD&A") included a detailed discussion on the Company's participation in the Eastmain project in Quebec, in which Aecon has a 50% joint venture interest, and the Nathpa Jhakri project in India, in which Aecon has a 45% interest. Other than as noted in note 14 to the September 30, 2006 consolidated financial statements, no material developments with respect to these projects has occurred since then and management believes that its accounting for these projects, which was described in the 2005 MD&A, is still appropriate.

Backlog at the end of September 2006 was \$465 million, which represents a \$290 million increase from the same time last year. Consistent with the higher backlog, new contract awards of \$185 million for the quarter and \$683 million for the year-to-date were booked. These awards levels represent a current quarter increase of \$14 million and a nine-month increase of \$363 million. The majority of the increase in awards and backlog relates to roadbuilding operations where several major contract awards totaling \$355 million were received in the first nine months of 2006, and to the Quito airport construction project which, as a result of financial close in June 2006, added \$133 million in awards this year. As previously noted, since a portion of the construction revenues from the new Quito airport, equivalent to Aecon's percentage investment in the Quito airport concession, are

viewed as being earned from construction work undertaken for our own use, such revenues, and the profits thereon, will not be recognized as construction revenues and profits for consolidated reporting purposes, nor are such revenues included in reported backlog. The construction profits not recognized will be accounted for as a reduction in the cost of the new airport concession right and will be effectively recognized in income by way of lower amortization expenses over the life of the new airport concession asset.

As discussed in the Consolidated Financial Highlights section, significant commitments made to Aecon based on general contracts, supplier of choice and alliance agreements do not necessarily show up as backlog. The effective backlog is therefore greater than what is reported to the extent that the expected volume of committed work is significant.

## **BUILDINGS**

### **Financial Highlights**

<b>\$ millions</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>Revenues</b>	<b>\$ 71.4</b>	<b>\$ 114.5</b>	<b>\$ 238.9</b>	<b>\$ 299.8</b>
<b>Segment operating profit</b>	<b>1.3</b>	<b>1.5</b>	<b>2.0</b>	<b>2.1</b>
<b>Return on revenue</b>	<b>1.9%</b>	<b>1.3%</b>	<b>0.8%</b>	<b>0.7%</b>
<b>Backlog - September 30</b>	<b>\$ 191.1</b>	<b>\$ 241.7</b>		

Revenues in the Buildings segment were \$71 million in the current quarter, a \$43 million decrease over the same period in 2005. In the Buildings group, and in particular in the Toronto operations, the strategic focus has been on margin enhancement rather than revenue growth, including more emphasis on design-build, construction management and ongoing program interiors and renovations work. Revenues of \$40 million from the segment's Toronto operations continue to represent the largest component of this segment's revenues. However, the Toronto operations had the largest single reduction in revenue this quarter compared to 2005 (\$39 million), while the Ottawa and Montreal operations had reductions of \$6 million and \$4 million, respectively. The lower revenues in Toronto are primarily the result of peak production on a number of large lump sum projects in 2005 compared with lower production levels towards the close out of these same projects in 2006, and also a reduction in new work. Lower revenues in the Ottawa and Montreal operations are the result of fewer new work awards in the first nine months of 2006. Partially offsetting these declines was an increase of \$3 million in revenues from the division's Seattle operations which arose as a result of stronger backlog to start the year and additional awards on projects that had been delayed last year.

For the nine months ended September 30, 2006, the Buildings segment reported revenues of \$239 million compared to revenues of \$300 million last year. Of the \$61 million decline, the Toronto, Ottawa and Montreal operations were down \$64 million, \$17 million and \$10 million, respectively, all for reasons similar to those cited above for the third quarter reduction. Revenues in the Seattle operations for the first nine months of 2006 are up \$21 million year-over-year.

Operating results for the third quarter of 2006 were \$1.3 million or \$0.2 million lower than last year. The Toronto and Ottawa operations reported profits improvements of \$0.2 million and \$0.3 million, respectively, in the quarter, while Seattle was down \$0.5 million. The Toronto operations benefited from the favourable resolution in the current quarter of an outstanding change order on a large project that carried forward from 2005. This settlement combined with ongoing operational improvements, offset the impact of lower revenue volumes in the Toronto operations. In addition, the Ottawa improvement is related to the higher margins percentages and reduced overhead costs. The decline in Seattle this quarter is related to lower margins on projects. The remaining operations all combined to produce a net \$0.2 million decline in operating profits principally related to lower volumes in the quarter and the associated reduction in margins from having less new work than planned.

For the nine months ended September 30, 2006, the Buildings segment generated an operating profit of \$2.0 million, down slightly from \$2.1 million in the same period in 2005. The Toronto operations benefited significantly in 2006 from the favourable resolution of outstanding change orders on some large projects that carried forward from 2005. These settlements offset the impact of lower revenue volumes in the Toronto operations. Improvements were also experienced by the Vancouver and Halifax operations as a result of higher volumes in these smaller operations. These increases were offset by lower operating profits earned by the other Buildings operations and by a \$1.1 million unfavourable adjustment on the write down of an investment in a joint venture that occurred this year.

Backlog of \$191 million at the end of the third quarter of 2006 was \$51 million lower than last year. New contract awards of \$141 million were booked in the first nine months, which compares with \$196 million in 2005, while awards of \$85 million were booked in the current quarter compared to \$51 million in 2005. The largest declines in awards occurred in Toronto and Montreal (\$73 million combined for the first nine months) and resulted from a combination of continued competitive pressures in these markets, a reduced focus on lump sum contract pursuits, and a strategy to pursue more negotiated contract management and design build work rather than higher risk lump sum work. The work-off throughout 2005 and 2006 of backlog on large projects combined with these lower award levels produced the lower backlog amount at September 30<sup>th</sup>. Awards in the current quarter of \$85 million improved \$33 million from the \$51 million in 2005 with most of the increase in the program and interiors group in Toronto.

As discussed in the Consolidated Financial Highlights section, commitments made to Aecon based on construction management advisory agreements, general contracts, supplier of choice and alliance agreements do not necessarily show up as firm backlog. The effective backlog is therefore greater than what is reported to the extent that the expected volume of committed work is significant.

## INDUSTRIAL

### Financial Highlights

\$ millions	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues	\$ 64.5	\$ 83.0	\$ 185.2	\$ 190.7
Segment operating profit	4.4	2.5	6.9	2.4
Return on revenue	6.8%	3.0%	3.7%	1.3%
Backlog - September 30	\$ 182.0	\$ 71.3		

Third quarter revenues in the Industrial segment of \$65 million were \$18 million lower than the same quarter in 2005.

For the quarter, revenues of \$25 million from construction operations in Ontario were up \$5 million from the prior year, mostly as a result of increases in work performed for customers in the petrochemical and nuclear sectors. This increase was partially offset by a decline in revenues from customers in the automotive sector. Aecon has strategically chosen to focus on only a select few core automotive clients rather than pursue generally lower margin work in a highly competitive automotive market.

Current quarter revenues from the segment's western Canada operations were \$25 million versus \$52 million in 2005. Revenues throughout 2005 were strongly impacted by a significant amount of one-time demolition and rebuild work performed on the Suncor site in Fort McMurray after a fire in January 2005. As anticipated, 2006 operations experienced a decline in site construction work following conclusion of the fire rebuild project. However, there were significant offsetting increases in the volume of module assembly and pipe fabrication work performed in western Canada in 2006 for customers such as Canadian Natural Resources Limited, OPTI and ConocoPhillips Canada.

Fabrication revenues of \$10 million in the current quarter from the segment's Ontario and eastern Canada operations were \$4 million higher than the same quarter in 2005, primarily from volume growth in eastern Canada.

Revenues of \$6 million for the quarter from Innovative Steam Technologies ("IST"), which sells and licenses the technology for "once through" heat recovery steam generators ("OTSG"), were up \$1 million from the prior year.

For the nine months ended September 30, 2006, the Industrial segment reported revenues of \$185 million compared to revenues of \$191 million last year. In the Ontario Construction operations, volumes increased \$16 million mostly because of revenue increases from customers in the petrochemical and power/nuclear sectors. Spurred on by relatively high crude oil prices and strong demand for oil, western Canada operations continue to benefit from the development of several oilsands and gas projects in the Fort McMurray and Long Lake regions of Alberta. Western Canada revenue levels remained strong at \$79 million, however this was a decline of \$13 million from last year and resulted from similar reasons cited above in the third quarter revenue comments. IST

revenues decreased by \$9 million during the first nine months of 2006 reflecting delays from customers in booking new orders. IST continues to track a high volume of contract prospects and is in possession of two letters of intent and a contract awaiting notice to proceed, valued in excess of \$40 million. However, until formal contracts and notices to proceed are received, there is no assurance that these prospects will actually materialize as revenue in the future.

Industrial operating profits of \$4.4 million for the third quarter were \$1.9 million higher than in 2005. Consistent with the increase in revenues noted above, operating profits from the Ontario Construction operations were \$1.6 million or \$1.3 million higher than last year. Operating profits from western Canada of \$2.2 million were \$0.9 million lower than last year. The previously noted drop in volumes this quarter was the primary reason for the lower operating profits. However, the change in revenue mix, in particular the increased proportion of higher margin fabrication and module projects performed relative to the lower margin site work it replaced, offset some of the impact of lower current quarter volumes. Fabrication operations in Ontario and eastern Canada generated an operating profit of \$0.9 million in the third quarter of 2006, representing a \$1.3 million improvement over the loss of \$0.4 million recorded in 2005. The majority (\$0.9 million) of the improvement was produced by the Ontario Fabrication operations, which is now benefiting from the steps taken to improve profitability following a detailed strategic analysis of these operations. A smaller fabrication shop in Oakville, Ontario was closed in 2006 and the focus of the Ontario group has been on its main facility in Cambridge.

IST operating losses in the third quarter of 2006 were \$0.3 million, which is \$0.3 million better than the same quarter last year. The improvement in results was primarily volume related.

For the nine months, the Industrial segment generated an operating profit of \$6.9 million compared to \$2.4 million last year. Of the \$4.5 million improvement, western Canada, Ontario Construction, and Fabrication operations were up \$3.2 million, \$2.1 million and \$2.1 million, respectively. Only IST, with a loss of \$3.8 million, compared to a loss of \$0.8 million in 2005, was down from last year.

In western Canada, higher operating profits were primarily the result of a more profitable mix of work in the current year, as noted above, and the favourable impact from the successful renegotiation of the commercial terms of two large projects that commenced in 2005. The improvement in Ontario Construction operating results reflects the higher volumes in 2006. Similarly, Ontario and eastern Canada Fabrication results improved as a result of higher volumes and reduced overhead costs. For IST, the lower operating results are a direct result of the decline in revenues associated with fewer contract bookings and thus lower production levels in 2006.

Backlog at September 30, 2006 of \$182 million is \$111 million higher than last year. Ontario Construction backlog is up \$88 million, principally as a result of a \$204.0 million award in late 2005 to a joint venture (in which Aecon has a 50% interest) for a nuclear project in Ontario. In western Canada operations, backlog of \$44 million at September 30, 2006 is up \$21 million from last year. Fabrication backlog of \$10 million is up \$4 million, and IST backlog of \$3 million is down \$3 million. New contract awards of \$63 million in the current quarter are \$7 million lower than in 2005, and new awards of \$196 million for the nine months of 2006 are \$2 million higher than 2005. The Ontario Construction and Fabrication operations benefited from increased activity and new project



awards in the nuclear and gas markets in Ontario. In addition, awards in the Ontario Construction and western Canada operations from core customers have remained strong.

As discussed in the Consolidated Financial Highlights section, significant commitments made to Aecon based on general contracts, supplier of choice and alliance agreements do not necessarily show up as firm backlog. The effective backlog is therefore greater than what is reported to the extent that the expected volume of committed work is significant.

## **CONCESSIONS**

### **Financial Highlights<sup>(1)</sup>**

<b>\$ millions</b>	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>Revenues</b>	\$ 12.3	\$ 7.2	\$ 22.9	\$ 13.2
<b>Segment operating loss</b>	<b>(0.4)</b>	<b>(0.5)</b>	<b>(2.3)</b>	<b>(1.7)</b>
<b>Return on revenue</b>	<b>(3.3)%</b>	<b>(7.0)%</b>	<b>(10.1)%</b>	<b>(12.6)%</b>
<b>Backlog - September 30</b>	<b>\$ -</b>	<b>\$ -</b>		

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

Revenues in the Concessions segment were \$12 million in the current quarter, a \$5 million increase over the same period in 2005. For the nine months, revenues were \$23 million, a \$10 million increase over the same period in 2005. In addition to the results from operating the Cross Israel Highway, and Highway 104 toll plaza in Atlantic Canada, commencing in the third quarter, the results of the Quito Airport concessionaire began to be included in Aecon's financial results. Aecon's long-term investment in Derech Eretz Highways (1997) Ltd. ("Derech Eretz"), the company owning the concessionaire rights to the Cross Israel Highway, is carried at cost, and as a result, income is only recognized to the extent of dividends received. As such, Aecon has not reported any revenues and profits from this investment in the above periods.

Concessions revenues consist of the following:

<b>\$ millions</b>	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>Quito Airport project</b>	\$ 6.6	\$ -	\$ 6.6	\$ -
<b>Cross Israel Highway Operator</b>	<b>5.4</b>	<b>7.1</b>	<b>15.3</b>	<b>12.9</b>
<b>Others</b>	<b>0.3</b>	<b>0.1</b>	<b>1.0</b>	<b>0.3</b>
	<b>\$ 12.3</b>	<b>\$ 7.2</b>	<b>\$ 22.9</b>	<b>\$ 13.2</b>

The operating loss of \$0.4 million for the third quarter of 2006 was \$0.1 million lower than last year, while the loss of \$2.3 million for the nine months was \$0.6 million higher than in 2005. The Quito Airport project, which includes the results from operating the existing airport while the new airport is being constructed, contributed \$0.8 million in operating profits for the quarter. However, this profit contribution from the existing airport was offset by higher MG&A costs and the ongoing and anticipated low margin results from the entity that manages the operations of the Cross Israel Highway. The decline in the nine month operating results relates partially to a gain in 2005 of \$0.9 million from the sale of a 40% interest in the company that has a 51% interest in the entity that operates the Cross Israel Highway as well as one-time costs of \$0.5 million incurred in 2006 related to the start-up of the Quito Airport project.

Although the Cross Israel Highway is fully operational and has been tolled for over two years, Aecon will not earn any income from its investment in this concession until dividends are paid or a portion of this investment is monetized. As noted above, earnings from the Operator of the Cross Israel Highway are expected to be nominal.

While Aecon expects future revenues from its concession assets, the concession backlog reported at September 30<sup>th</sup> is zero because Aecon does not include in its reported backlog potential revenues from operations management contracts and concession agreements. Therefore, the effective backlog is therefore greater than what is reported.

For details on Aecon's investment in the Quito Airport Project, refer to note 2 of the September 30, 2006 consolidated financial statements.

### **CORPORATE AND OTHER**

Net Corporate expenses for the current quarter are \$2.6 million compared to \$3.0 million in 2005. The decrease results primarily from lower losses on sales of fixed assets in 2006.

Net Corporate expenses for the nine months are \$9.0 million compared to \$8.6 million in 2005. The increase results primarily from compensation charges totaling \$0.8 million related to the issuance of stock options in the first quarter and higher compliance costs related to Bill 198 initiatives.

## Quarterly Financial Data

The reader is referred to the Company's 2005 Management Discussion and Analysis for an analysis of the results of the eight quarters that ended December 31, 2005.

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

	2006			2005				2004
	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4
Revenues	\$ 316.0	\$ 258.7	\$ 200.6	\$ 323.5	\$ 340.8	\$ 283.0	\$ 172.9	\$ 258.7
Net income (loss)	12.8	(1.0)	(10.9)	3.5	2.1	1.7	(8.4)	(40.7)
Earnings (loss) per share:								
Basic	0.35	(0.03)	(0.36)	0.12	0.07	0.06	(0.29)	(1.42)
Diluted	0.34	(0.03)	(0.36)	0.11	0.07	0.05	(0.29)	(1.42)

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

Aecon holds a 42.3% economic interest in Corporacion Quiport S.A. ("Quiport JV"), an Ecuadorian company, whose main operations consist of: (a) managing and operating the existing Quito Airport, and (b) the development, construction, operations and maintenance of the new Quito International Airport under a concession arrangement. Aecon's investment in the Quiport JV is accounted for by the proportionate consolidated method, whereby the consolidated financial statements reflect, line by line, Aecon's pro-rata share of each of the assets, liabilities, revenues, expenses and cash flows of Quiport JV. Given the significant effect of Quiport JV on Aecon's consolidated financial statements, and in order to provide additional information about the Quiport JV operations and assets, which act as security for project debt, Aecon provides consolidating balance sheet and cash flow worksheets in note 11 to the September 30, 2006 consolidated financial statements as additional information about its accounts, thereby enabling the reader to have a greater understanding of Aecon's underlying assets, earnings base and financial resources.

### **Cash and Debt Balances**

Cash and cash equivalents at September 30, 2006 are \$36.8 million, which compares with \$27.0 million at the end of last year. Of these amounts, \$30.4 million and \$10.2 million, respectively, were on deposit in joint venture bank accounts, which Aecon cannot access directly.

Restricted cash of \$2.1 million at September 30, 2006 (December 31, 2005 - \$7.5 million) represents cash that was deposited as collateral for borrowings and letters of credit issued by Aecon. As such, this cash was not available for general operating purposes.

Restricted marketable securities and term deposits of \$14.9 million (December 31, 2005 - \$15.3 million) were all held within joint ventures and, similar to cash held by joint ventures, these securities cannot be accessed directly by Aecon.

At September 30, 2006, long-term debt and convertible debentures, including the current portion, totaled \$126.8 million compared to \$108.8 million at the end of 2005. The \$18.0 million net increase results mainly from the proportionate consolidation of Aecon's share of the borrowings of \$39.3 million to finance the Quito Airport Project (which are non-recourse to Aecon), less debt repayments on the Company's revolving debt facility of \$15.1 million, and the conversion of \$7.7 million of convertible debentures by the Company's largest shareholder into common shares.

Bank indebtedness of \$12.4 million at the end of September 2006 includes \$7.9 million, representing Aecon's 45% share of funds borrowed within the Nathpa Jhakri hydroelectric project joint venture in India, and \$4.5 million from Aecon's operating line of credit.

Interest bearing debt amounted to \$139.2 million at September 30 2006, compared to \$119.6 million at December 31, 2005, the composition of which is as follows (\$ millions):

	<u>Sept. 30, 2006</u>	<u>Dec. 31, 2005</u>
Bank indebtedness	\$ 12.4	\$ 8.3
Loan from a related party	-	2.5
Current portion of long-term debt	4.5	6.2
Convertible debentures – current	-	7.7
Long-term debt – recourse	23.2	35.7
Long-term debt - non-recourse	39.3	-
Convertible debentures	59.8	59.2
<b>Total interest bearing debt</b>	<b>\$ 139.2</b>	<b>\$ 119.6</b>
Interest bearing debt in joint ventures	47.2	9.8
Other interest bearing debt	92.0	109.8
Total	<b>\$ 139.2</b>	<b>\$ 119.6</b>

Aecon has a reducing revolving term loan to fund working capital and operating requirements (with a current limit of \$21.9 million). This facility, which is reported as long-term debt, had \$6.7 million outstanding at September 30, 2006, and, as such, \$15.2 million of the facility was available for drawdown to supplement Aecon's liquidity and working capital position. Aecon also had \$59.8 million outstanding in convertible debentures, details of which are described in note 5 to the September 30, 2006 consolidated financial statements. In March 2006, \$7.7 million of convertible debentures were converted into common shares.

As a result of an equity issue in March 2006, Aecon's liquidity position strengthened considerably and is expected to be sufficient to finance its operations and working capital requirements for the foreseeable future. Nonetheless, the Company continues to pursue various financing alternatives to augment its credit and liquidity base. In this regard, on July 31, 2006, the Company signed a new credit agreement with the TD Bank, which provides the Company with a \$15 million operating line, with an additional \$5 million letter of credit facility available upon achieving certain pre-conditions. Previously, Aecon had a \$7.5 million operating line with the TD bank. To fund investments in property, plant and equipment, Aecon has access to several committed and uncommitted equipment financing and leasing facilities.

Future equity investments of US\$20 million by Aecon in the Quito Airport Project are expected to be funded by cash profits from construction of the new airport. To-date, Aecon has deposited US\$1 million with Export Development Canada ("EDC") in support of letters of credit issued by EDC on the Quito airport project. These deposits are included in restricted cash on the consolidated balance sheets at September 30, 2006.

### Summary of cash flows

<b>\$ millions</b>	<b>Three Months Ended Sept. 30</b>		<b>Nine Months Ended Sept. 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Cash provided by (used in):</b>				
Operating activities	\$ (13.2)	\$ 7.7	\$ (38.6)	\$ (37.5)
Investing activities	0.7	(1.7)	(8.6)	(18.6)
Financing activities	(0.2)	1.6	57.1	33.5
Increase (decrease) in cash and cash equivalents	(12.7)	7.6	9.9	(22.5)
Effects of foreign exchange on cash balances	0.2	(0.3)	(0.1)	(0.2)
Cash and cash equivalents - beginning of period	49.3	20.2	27.0	50.2
Cash and cash equivalents - end of period	<b>\$ 36.8</b>	<b>\$ 27.5</b>	<b>\$ 36.8</b>	<b>\$ 27.5</b>

### Operating Activities

Cash used in operating activities of \$13.2 million in the third quarter of 2006 was \$20.9 million higher than in the same period last year, while cash used in operating activities of \$38.6 million in the first nine months of 2006 was \$1.1 million higher than in the same period last year. The large quarter-over-quarter increase was due to higher working capital requirements (in particular higher investments in work-in-process and accounts receivable balances) related to the construction of the new Quito airport project. Cash flows from operating activities, after excluding the impact of the higher working capital requirements on the Quito project in the third quarter, were similar to the same quarter last year, and are expected based on seasonal patterns to improve in the fourth quarter.

### Investing Activities

For the quarter, investing activities resulted in a source of cash of \$0.7 million, which compares with cash used of \$1.7 million in 2005. The reduction in the amount of restricted cash required to be on

deposit as collateral for borrowings and letters of credit was the largest source of cash from investing activities in the quarter, while cash used to construct the new Quito airport (i.e. increase in concession rights) represented the largest use of cash. In 2005, the largest use of cash related to an increase in other assets, and consisted mostly of development costs incurred during that quarter on the Quito airport project.

For the nine months ended September 30, 2006, investing activities resulted in a use of cash of \$8.6 million, which compares with cash used of \$18.6 million in 2005. Similar to the third quarter, the largest source of cash during the first nine months of 2006 was the decrease in restricted cash balances while the largest use of cash arose from construction of the new Quito airport. The major uses of cash during the first nine months of 2005 were a \$4.3 million increase in Aecon's investment in Derech Eretz Highways (1997) Ltd, ("Derech Eretz") from 22% to 25%, a \$7.5 million increase in "restricted cash" that was deposited as collateral for borrowings and letters of credit issued by Aecon, and a \$7.0 million increase in other assets related primarily to bid costs on the Quito airport project.

Investing activities in the nine months ended September 30, 2006, not requiring an immediate use of cash, included the acquisition of concession rights (valued at \$79 million) to operate the existing and new Quito airports. In addition to this non-cash investment in the Quito airport, non-cash investments for the nine months ended September 30, 2006, included a \$1.5 million increase in Aecon's investment in Derech Eretz, the concessionaire of the Cross Israel Highway. The increased investment was financed by a loan from the other shareholders in Derech Eretz at an interest rate of 6% per annum.

### **Financing Activities**

In the quarter ended September 30, 2006, cash used by financing activities amounted to \$0.2 million, compared to cash generated of \$1.6 million in 2005. \$1.9 million of the increase over 2005 relates to concession related deferred revenue resulting from the receipt of development funds related to the Quito airport project. This deferred revenue balance will be amortized to earnings over the term of the new Quito airport concession period. In addition, there was a \$3.6 million increase in borrowings on the Company's operating line of credit to fund current operations. These receipts were partially offset by a net reduction in long-term debt of \$5.2 million. In the third quarter of 2005, cash generated from financing activities was \$1.7 million, of which \$3.1 million of the increase arose from a loan from Hochtief AG, the parent of the Aecon's largest shareholder, to support a portion of Aecon's working capital contribution requirements to the Eastmain Joint-Venture, a hydroelectric power house project in Northern Quebec, which was being completed by a 50%/50% joint venture between Aecon and Hochtief. This loan was repaid in the first quarter of 2006.

For the nine months ended September 30, 2006, cash generated from financing activities amounted to \$57.1 million, compared to \$33.5 million in 2005. During the nine months, Aecon issued 4,680,000 common shares for net proceeds of \$27.7 million plus an additional 275,000 common shares for an additional \$1 million were issued upon the exercise of stock options this year. Also issuances of long-term debt amounted to \$52.9 million while repayments totalled \$32.6 million, for a net change of \$20.3 million. Included in these borrowings is the financing for the new Quito International Airport Project (\$39.3 million, representing Aecon's proportionately consolidated share of the financing for the new Quito airport project), partly offset by a net repayment of \$15.1 million of long

term debt outstanding on the Company's revolving term facility. Gross long-term debt issuances and repayments were affected by a series of drawdowns and repayments under the Company's revolving term facility. Also, in addition to the third quarter increase of \$1.9 million in concession deferred revenues noted above, the operations of the existing Quito airport, prior to financial close, generated \$4.3 million of net operating assets that will be used to fund construction of the new Quito airport. This \$4.3 million, which has been treated as an 'inducement' for accounting purposes, is included within concession related deferred revenue in the Company's balance sheet as at September 30, 2006, and will be amortized to earnings over the term of the new airport concession. In the first nine months of 2005, a \$32.5 million convertible debenture financing was completed, which yielded net proceeds of \$31.0 million.

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

Aecon's surety capacity remains sufficient to meet its needs. However, surety capacity and pricing continues to be a constraining issue broadly within the industry, and while Aecon is not immune to these impacts, the above-noted initiatives to further improve Aecon's liquidity position had a positive impact on Aecon's surety capacity. As at September 30, 2006, Aecon has significant unused capacity. In addition, Aecon is one of only a very few number of contractors in Canada that has been able to secure the ability to issue Sub-Guard insurance, which can be used as an alternative to surety for some projects, thus reducing Aecon's overall reliance on bonding/surety.

## **NEW ACCOUNTING STANDARDS**

No new Canadian accounting standards were adopted in 2006 in the consolidated financial statements.

## **SUPPLEMENTAL DISCLOSURES**

### **Responsibility of Management**

The Company's management maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, reliable and timely. The Chief Executive Officer and the Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) for the period ended September 30, 2006, and have concluded that such disclosure controls and procedures are operating effectively.

### **Contractual Obligations**

At December 31, 2005, the Company had commitments totalling \$172.8 million for equipment and premises under operating leases requiring minimum payments and principal repayment obligations under long-term debt (including the convertible debentures described in note 11 to the 2005 annual

consolidated financial statements). The only material changes since then have been the Quito International Airport Project borrowings of approximately \$39 million, repayments of approximately \$15 million of debt under a revolving term credit facility, and the conversion of certain convertible debentures into equity, details of which are included in note 5 to the third quarter 2006 Interim Consolidated Financial Statements.

At September 30, 2006, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was \$933 million. This consists of the reported backlog of \$838 million plus an additional \$95 million representing Aecon's share of the Quito project revenues not included in reported backlog revenues.

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

In connection with its joint venture operations in India and Israel, Aecon has provided various financial and performance guarantees and letters of credit, which are described in note 6 to the interim consolidated financial statements. In addition to any off-balance sheet exposures which may exist relating to Aecon's joint venture operations in India and Israel (including Derech Eretz), Aecon has a net balance sheet investment (Aecon's share of total assets less total liabilities of these joint ventures) of approximately \$13 million and \$50 million, respectively. These international joint ventures may be subject to Risks and Uncertainties such as International/Foreign Jurisdiction Factors as noted in the 2005 Annual MD&A. With respect to Aecon's operations in Quito, refer to notes 2 and 11 of the September 30, 2006 consolidated financial statements for details of various financial and performance guarantees, letters of credit provided, and investment balances.

There was no material change in the funded status of Aecon's pension plans during the first nine months of 2006. Details relating to Aecon's defined benefit plans are set out in note 19 to the Company's 2005 consolidated financial statements.

From time to time Aecon enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. At September 30, 2006, the Company had net outstanding contracts to sell US\$3.5 million (December 31, 2005 - sell US\$3.6 million) on which there was a net unrealized exchange gain of \$0.1 million (2005 - net gain of \$0.2 million). The net unrealized exchange gain (loss) represents the estimated amount the Company would have received if it terminated the contracts at the end of the respective periods. Financial instruments are discussed in note 21 to the 2005 consolidated financial statements.

In accordance with the terms of prior acquisitions agreements, the Company is liable to make earn out incentive payments totalling an additional \$0.5 million if certain financial performance targets are achieved.

### **Related Party Transactions**

In March 2006, the previously outstanding \$7.7 million of convertible subordinated debentures held by Hochtief AG, Aecon's largest shareholder, were converted to equity as described in note 5 to the



consolidated financial statements, and a \$2.5 million short-term unsecured loan was repaid on January 13, 2006 as described in note 13(c) to the interim consolidated financial statements. Hochtief AG has issued guarantees totalling \$24.8 million in support of the financial and performance related obligations of the Nathpa Jhakri hydroelectric project in India in which Aecon has a joint venture interest.

Aecon and Hochtief are also joint venture partners in a hydroelectric project in Quebec. Note 13 to the consolidated financial statements details various other related party transactions and balances.

### **Critical Accounting Estimates**

The reader is referred to the detailed discussion on Critical Accounting estimates as outlined in the notes to the Company's 2005 consolidated financial statements.

### **Outstanding Share Data**

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

(in thousands of dollars, except share amounts)

	<u>September 30, 2006</u>	<u>November 7, 2006</u>
Number of common shares outstanding	38,283,175	38,283,175
Paid-up capital of common shares outstanding (1)	\$ 133,241	\$ 133,241
Outstanding securities exchangeable or convertible into common shares:		
Number of stock options outstanding	1,350,000	1,350,000
Number of common shares issuable on exercise of stock options	1,350,000	1,350,000
Increase in paid-up capital on exercise of stock options	\$ 8,216	\$ 8,216
Principal amount of convertible debentures outstanding (see note 5 to the Company's consolidated financial statements)	\$ 59,781	\$ 59,781
Number of common shares issuable on conversion of convertible debentures	8,276,316	8,276,316
Increase in paid-up capital on conversion of convertible debentures	\$ 59,781	\$ 59,781

- (1) As described in note 7 to the Company's consolidated financial statements, in accordance with the recommendations of The Canadian Institute of Chartered Accountants, share capital has been reduced by \$1.1 million on account of share purchase loans receivable from employees.

## OUTLOOK

With 2006 now three quarters over, Aecon's expectations for the year remain consistent with those published at the end of the first and second quarters, including a return to profitability driven primarily by improved operating margins.

Within the Infrastructure segment, the strong results posted by Aecon's Ontario roadbuilding operations are expected to continue throughout the balance of the year as backlog remains well above traditional levels and the trend toward improved margins continues. As a result, Aecon continues to expect increased profit contributions from this sector in 2006.

In the utilities sector, margins continue to recover from the low levels experienced in recent years. This improvement, combined with Aecon's strong client alliances in this sector, is expected to result in increased profit contributions from utilities operations this year.

Early indications continue to signal strong potential for Aecon's re-entry into the Alberta civil construction market. While start-up costs associated with this initiative are expected to limit results to near breakeven levels in 2006, early business development successes are creating a growing backlog with which to begin 2007.

In Quebec, the decision to curtail bidding activity on civil construction work in favour of a focus on settling claims generated in previous years is expected to result in modest profit contributions in 2006. In addition to working on claims, Aecon's Quebec civil team continues to focus on resolution of the outstanding client issues on the Eastmain project, where management continues to believe that the Aecon/Hochtief joint venture will be successful in recovering the value of unpriced change orders associated with the project.

Aecon's other civil construction work in Canada, consisting primarily of tunnelling contracts in the Greater Toronto Area, continues to make good progress and is expected to result in profit contributions similar to those generated in 2005.

Internationally, Aecon's primary focus is on construction of the new airport in Quito Ecuador. While on-site work began in earnest in the second quarter, and construction is progressing very well, no construction profit will be recognized for the project in 2006. Aecon's accounting policy for large multi-year contracts provides for construction profit to be recognized only when progress reaches a stage of completion sufficient to reasonably determine the probable results (generally when the contract is 20% complete), which is expected late in 2007.

In the Buildings segment, Aecon remains on track to report improved margin levels and increased profit contributions in 2006 despite the expected decline in revenue this year.

Expectations remain that profit contributions from Buildings work in the Greater Toronto Area will increase in 2006 due in part to strong results from Aecon's work at Pearson International Airport as well as the settlement of change orders and outstanding project claims in the region.

Overall profit contributions from the segment's other business units are expected to remain similar to those reported last year, with some business units projecting a modest increase in contributions and others projecting a modest decline over those posted in 2005.

As 2006 progresses, the outlook for Aecon's Industrial segment continues to strengthen, led by the segment's Fabrication, Western Canada and Atlantic Canada business units.

The segment's Western Canadian operations are expected to provide increased profit contributions again this year as margins continue to improve in Alberta's booming oil and gas sector. Results from the segment's fabrication operations in Ontario and Atlantic Canada also continue to improve, with profit contributions expected this year after losses in 2005.

The industrial construction market in Ontario also remains strong, with another solid year expected from Aecon's operations in this sector (although it is still expected that profit contributions will fall just short of the results recorded in 2005). The Bruce Power nuclear restart project and the province's plans for increased generating capacity continue to drive backlog in this sector to historical high levels.

Expectations remain that a delay in closing new sales at IST will result in a drop in revenues and a net loss for the year in this business. IST continues to operate in a challenging sales environment where sales prospects, although strong, continue to develop at a pace significantly slower than originally anticipated. While this strong sales pipeline is not expected to generate new sales in time to significantly impact 2006 volumes, backlog is expected to grow over the next quarter, putting IST on an improved footing in 2007.

Within the Concessions segment, it is expected that overhead and other costs will continue to exceed the modest earnings from the existing Quito airport and the fees from Aecon's other concession operations in Israel and Canada. The reduced loss expected in this segment in 2006 is expected to turn to a profit contribution during the remainder of the four year Quito construction period, as earnings from the existing Quito airport grow.

While a profit contribution is expected from this segment next year, the full value of Aecon's concession investments will not be fully reflected in earnings until certain project milestones are reached. For example, earnings from Aecon's investment in the Cross Israel Highway concession will be reflected in financial statements only when dividend payments begin, which is not likely to be for some time, or when a portion of the investment is monetized. In the case of Aecon's investment in the Quito International Airport concession, earnings from the operation of the new airport will not be reflected in Aecon's financial statements until the airport goes into operation in 2010.

Aecon's backlog of \$838 million at September 30, 2006 was \$350 million higher than at the same time last year and \$261 million higher than at year end, with strong year-over-year increases in the Infrastructure and Industrial segments offsetting a decline in the Buildings segment. Included in backlog is \$129 million related to the new Quito airport project. Although Aecon's 50% share of the remaining construction revenues from this project are estimated at \$224 million, the amount reported as backlog has been reduced to reflect the fact that, since Aecon has an interest in the concession joint

venture for which the new airport is being constructed, it cannot report backlog that effectively arises from transacting with itself.

Not included in backlog, but important to Aecon's prospects, are the expected revenues from Aecon's growing alliance and supplier-of-choice arrangements, largely in the industrial and utilities sectors. As outlined earlier in this MD&A, Aecon's effective backlog is therefore greater than what is reported here.

Overall, the operating results achieved in the first three quarters of 2006 tend to strengthen management's view that the growth occurring in Aecon's core markets, combined with the operational improvements now in place, will result in increased margins and a positive net income for Aecon in 2006.

## **FORWARD-LOOKING INFORMATION**

In various places in Management's Discussion and Analysis and in other sections of this document, management's expectations regarding future performance of Aecon was discussed. These "forward-looking" statements are based on currently available competitive, financial and economic data and operating plans, but are subject to risks and uncertainties. Many factors could cause Aecon's actual results, performance or achievements to vary from those expressed or inferred herein, including without limitation, the ability of the Eastmain Joint Venture to recover the full value of unpriced change orders, the uncertain intentions of Hochtief, failure to achieve the targets associated with the Quito Airport, the achievement of lower than expected volumes of work in western Canada and the failure of IST to secure anticipated contract levels. Risk factors are discussed in greater detail in the section on "Risk Factors" in the Annual Information Form filed on March 31, 2006 and available at [www.sedar.com](http://www.sedar.com). Forward-looking statements include information concerning possible or assumed future results of operations or financial position of Aecon, as well as statements preceded by, followed by, or that include the words "believes," "expects," "anticipates," "estimates", "projects," "intends," "should" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of Aecon and could cause those results to differ materially from those expressed in any forward-looking statements.

# **Aecon Group Inc.**

Consolidated Financial Statements  
(Unaudited)

September 30, 2006 and 2005

### **Notice to Reader**

The management of Aecon Group Inc. is responsible for the preparation of the accompanying interim consolidated financial statements. The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

These interim consolidated financial statements have not been reviewed by an auditor. These interim consolidated financial statements are unaudited and include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

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

(signed) Scott C. Balfour, President and Chief Financial Officer

November 7, 2006

# Aecon Group Inc.

## Consolidated Balance Sheets

(in thousands of dollars) (unaudited)

	<u>September 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 36,755	\$ 27,002
Restricted cash (note 2(g))	2,128	7,500
Restricted marketable securities and term deposits	14,854	15,318
Accounts receivable	183,690	135,005
Holdbacks receivable	54,716	66,583
Deferred contract costs and unbilled revenue	100,192	82,058
Inventories	10,594	7,186
Prepaid expenses	10,349	1,763
	<u>413,278</u>	<u>342,415</u>
<b>Property, plant and equipment</b>	<b>53,360</b>	<b>56,116</b>
<b>Future income tax assets</b>	<b>20,100</b>	<b>20,100</b>
<b>Concession rights</b> (notes 2 and 8)	<b>87,182</b>	<b>-</b>
<b>Long-term investment</b> (note 3)	<b>42,733</b>	<b>41,273</b>
<b>Other assets</b>	<b>32,100</b>	<b>44,518</b>
	<u>\$ 648,753</u>	<u>\$ 504,422</u>

# Aecon Group Inc.

## Consolidated Balance Sheets ...continued

(in thousands of dollars) (unaudited)

	<u>September 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ 12,355	\$ 8,312
Accounts payable and accrued liabilities	160,221	166,594
Holdbacks payable	34,686	38,021
Deferred revenue	57,273	29,274
Income taxes payable	850	1,779
Future income tax liabilities	24,976	26,275
Current portion of long-term debt	4,499	6,228
Loan from a related party (note 13(c))	-	2,500
Convertible debentures (note 5)	-	7,676
	<u>294,860</u>	<u>286,659</u>
<b>Long-term debt</b> (note 2(e))	<b>62,518</b>	<b>35,671</b>
<b>Other liabilities</b>	<b>2,877</b>	<b>2,971</b>
<b>Other income tax liabilities</b>	<b>13,904</b>	<b>13,634</b>
<b>Concession related deferred revenue</b> (notes 2(f) and 8)	<b>70,287</b>	<b>-</b>
<b>Convertible debentures</b> (notes 5 and 7)	<b>59,781</b>	<b>59,159</b>
	<u>504,227</u>	<u>398,094</u>
<b>Commitments and contingencies</b> (note 14)		
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 7)	<b>133,241</b>	<b>95,985</b>
<b>Contributed surplus</b> (note 7)	<b>1,218</b>	<b>361</b>
<b>Convertible debentures</b> (notes 5 and 7)	<b>4,146</b>	<b>4,982</b>
<b>Retained earnings</b>	<b>5,921</b>	<b>5,000</b>
	<u>144,526</u>	<u>106,328</u>
	<u>\$ 648,753</u>	<u>\$ 504,422</u>

Approved by the Board of Directors

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(signed) John M. Beck, Director

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(signed) Scott C. Balfour, Director



# Aecon Group Inc.

## Consolidated Statements of Operations

For the Three Months Ended September 30, 2006 and 2005

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

	<u>2006</u>	<u>2005</u>
<b>Revenues</b>	<b>\$ 316,039</b>	<b>\$ 340,793</b>
<b>Costs and expenses</b>	<b>283,123</b>	<b>320,659</b>
	<b>32,916</b>	<b>20,134</b>
<b>Marketing, general and administrative expenses</b>	<b>13,237</b>	<b>11,394</b>
<b>Foreign exchange (gains) losses</b>	<b>(32)</b>	<b>1,659</b>
<b>(Gain) loss on sale of assets</b>	<b>(54)</b>	<b>206</b>
<b>Depreciation and amortization</b>	<b>5,253</b>	<b>1,954</b>
<b>Interest expense, net</b>	<b>1,706</b>	<b>2,424</b>
	<b>20,110</b>	<b>17,637</b>
<b>Income before income taxes</b>	<b>12,806</b>	<b>2,497</b>
<b>Income tax expense (recovery)</b>		
Current	<b>512</b>	<b>407</b>
Future	<b>(534)</b>	<b>-</b>
	<b>(22)</b>	<b>407</b>
<b>Net income for the period</b>	<b>\$ 12,828</b>	<b>\$ 2,090</b>
<b>Net earnings per share (note 7)</b>		
Basic	<b>\$ 0.35</b>	<b>\$ 0.07</b>
Diluted	<b>\$ 0.34</b>	<b>\$ 0.07</b>
<b>Average number of shares outstanding (note 7)</b>		
Basic	<b>36,698,212</b>	<b>29,592,494</b>
Diluted	<b>38,109,577</b>	<b>33,262,891</b>

# Aecon Group Inc.

## Consolidated Statements of Operations

For the Nine Months Ended September 30, 2006 and 2005

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

	<u>2006</u>	<u>2005</u>
<b>Revenues</b>	<b>\$ 775,353</b>	<b>\$ 796,643</b>
<b>Costs and expenses</b>	<b>718,470</b>	<b>753,479</b>
	<b>56,883</b>	<b>43,164</b>
<b>Marketing, general and administrative expenses</b>	<b>40,048</b>	<b>35,965</b>
<b>Foreign exchange losses</b>	<b>962</b>	<b>2,197</b>
<b>Gain on sale of assets</b>	<b>(131)</b>	<b>(806)</b>
<b>Depreciation and amortization</b>	<b>9,049</b>	<b>5,688</b>
<b>Interest expense, net</b>	<b>5,886</b>	<b>6,702</b>
	<b>55,814</b>	<b>49,746</b>
<b>Income (loss) before income taxes and extraordinary item</b>	<b>1,069</b>	<b>(6,582)</b>
<b>Income tax expense (recovery) (note 4)</b>		
Current	<b>710</b>	<b>1,492</b>
Future	<b>(534)</b>	<b>-</b>
	<b>176</b>	<b>1,492</b>
<b>Income (loss) before extraordinary item</b>	<b>893</b>	<b>(8,074)</b>
<b>Extraordinary gain, net of income taxes (note 12)</b>	<b>-</b>	<b>3,444</b>
<b>Net income (loss) for the period</b>	<b>\$ 893</b>	<b>\$ (4,630)</b>
<b>Earnings (loss) per share before extraordinary item (note 7)</b>		
Basic	<b>\$ 0.03</b>	<b>\$ (0.27)</b>
Diluted	<b>\$ 0.03</b>	<b>\$ (0.27)</b>
<b>Net earnings (loss) per share (note 7)</b>		
Basic	<b>\$ 0.03</b>	<b>\$ (0.16)</b>
Diluted	<b>\$ 0.03</b>	<b>\$ (0.16)</b>
<b>Average number of shares outstanding (note 7)</b>		
Basic	<b>34,746,874</b>	<b>29,394,024</b>
Diluted	<b>36,756,512</b>	<b>33,094,157</b>

# **Aecon Group Inc.**

## **Consolidated Statements of Retained Earnings (Deficit) For the Three Months Ended September 30, 2006 and 2005**

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(in thousands of dollars) (unaudited)

	<u>2006</u>		<u>2005</u>
<b>Deficit - beginning of period</b>	\$ (6,917)	\$	(596)
<b>Add:</b>			
<b>Net income for the period</b>	12,828		2,090
<b>Interest received on share purchase loans (note 7)</b>	10		7
<b>Retained earnings - end of period</b>	\$ <u>5,921</u>	\$	<u>1,501</u>

# **Aecon Group Inc.**

## **Consolidated Statements of Retained Earnings For the Nine Months Ended September 30, 2006 and 2005**

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(in thousands of dollars) (unaudited)

	<u>2006</u>		<u>2005</u>
<b>Retained earnings - beginning of period</b>	\$ 5,000	\$	6,111
<b>Add (deduct):</b>			
<b>Net income (loss) for the period</b>	893		(4,630)
<b>Interest received on share purchase loans (note 7)</b>	28		20
<b>Retained earnings - end of period</b>	\$ <u>5,921</u>	\$	<u>1,501</u>

# Aecon Group Inc.

## Consolidated Statements of Cash Flows

For the Three Months Ended September 30, 2006 and 2005

(in thousands of dollars) (unaudited)

	<u>2006</u>	<u>2005</u>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the period	\$ 12,828	\$ 2,090
Items not affecting cash -		
Depreciation and amortization	5,253	1,954
(Gain) loss on sale of assets	(54)	206
Deferred financing charges	179	154
Unrealized (gain) loss on foreign exchange	(275)	1,507
Non-cash interest on other income tax liabilities	90	90
Notional interest representing accretion	207	235
Defined benefit pension	(97)	(719)
Future income taxes	(534)	-
Stock-based compensation	222	39
	<u>17,819</u>	<u>5,556</u>
Change in other balances relating to operations (note 8)	<u>(31,043)</u>	<u>2,094</u>
	<u>(13,224)</u>	<u>7,650</u>
<b>Investing activities</b>		
Decrease in restricted cash balances	6,199	3,321
(Increase) decrease in restricted marketable securities and term deposits	(128)	90
Purchase of property, plant and equipment	(1,102)	(1,265)
Proceeds on sale of property, plant, and equipment	178	322
Increase in concession rights (notes 2(d) and 8)	(10,282)	-
Decrease (increase) in other assets	5,806	(4,191)
	<u>671</u>	<u>(1,723)</u>
<b>Financing activities</b>		
Increase in bank indebtedness	3,557	116
Short-term loan from a related party (note 13(c))	-	3,125
Issuance of long-term debt (note 2(e))	3,563	-
Repayments of long-term debt	(8,778)	(1,740)
Increase in concession related deferred revenue (note 2(f))	1,466	-
Issuance of capital stock (note 7)	(6)	152
Interest received on share purchase loans	10	7
	<u>(188)</u>	<u>1,660</u>
<b>(Decrease) increase in cash and cash equivalents during the period</b>	<b>(12,741)</b>	<b>7,587</b>
<b>Effects of foreign exchange on cash balances</b>	<b>154</b>	<b>(324)</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>49,342</b>	<b>20,199</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 36,755</b>	<b>\$ 27,462</b>
<b>Supplementary disclosure (note 8)</b>		

# Aecon Group Inc.

## Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2006 and 2005

(in thousands of dollars) (unaudited)

	<u>2006</u>	<u>2005</u>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income (loss) for the period	\$ 893	\$ (4,630)
Items not affecting cash -		
Depreciation and amortization	9,049	5,688
Gain on sale of assets	(131)	(806)
Deferred financing charges	516	691
Extraordinary gain (note 12)	-	(4,122)
Unrealized loss on foreign exchange	749	2,249
Non-cash interest on other income tax liabilities	270	270
Notional interest representing accretion	649	614
Defined benefit pension	(403)	(351)
Future income taxes	(534)	678
Stock-based compensation	857	118
Others	32	-
	<u>11,947</u>	<u>399</u>
Change in other balances relating to operations (note 8)	<u>(50,516)</u>	<u>(37,892)</u>
	<u>(38,569)</u>	<u>(37,493)</u>
<b>Investing activities</b>		
Decrease (increase) in restricted cash balances	5,372	(7,500)
Increase in restricted marketable securities and term deposits	(216)	(760)
Purchase of property, plant and equipment	(1,998)	(2,982)
Proceeds on sale of property, plant, and equipment	731	2,299
Acquisition (note 12)	(192)	(192)
Increase in concession rights (notes 2(d) and 8)	(11,191)	-
Increase in long-term investment (notes 3 and 12)	-	(4,348)
Increase in other assets	(1,103)	(6,966)
Cash acquired on acquisition of a subsidiary, net of consideration paid (note 12)	-	1,896
	<u>(8,597)</u>	<u>(18,553)</u>
<b>Financing activities</b>		
Increase (decrease) in bank indebtedness	4,363	(3,090)
Short-term loan from a related party (note 13(c))	-	6,125
Repayment of short-term loan from a related party (note 13(c))	(2,500)	-
Issuance of long-term debt (note 2(e))	52,863	45,948
Repayments of long-term debt	(32,593)	(48,646)
Increase in concession related deferred revenue (note 2(f))	6,201	-
Issuance of capital stock (note 7)	28,689	2,156
Interest received on share purchase loans	28	20
Net proceeds from issuance of convertible debentures	-	31,016
	<u>57,051</u>	<u>33,529</u>
<b>Increase (decrease) in cash and cash equivalents during the period</b>	<b>9,885</b>	<b>(22,517)</b>
<b>Effects of foreign exchange on cash balances</b>	<b>(132)</b>	<b>(160)</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>27,002</b>	<b>50,139</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 36,755</b>	<b>\$ 27,462</b>
<b>Supplementary disclosure (note 8)</b>		

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

September 30, 2006 and 2005

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

### 1. Summary of significant accounting policies

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements. They do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and accordingly, the interim financial information should be read in conjunction with the Company’s annual consolidated financial statements. The interim financial information has been prepared using the same accounting policies as set out in note 1 to the Consolidated Financial Statements for the year ended December 31, 2005. In the opinion of management these statements include all adjustments, consisting of normal and recurring items that are necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

The construction industry in Canada is seasonal in nature for companies like Aecon, who do a significant portion of their work outdoors (principally road construction and utilities work) and, as a result, less work is performed in the winter and early spring months than in the summer and fall months. Accordingly, the Company experiences a seasonal pattern in its operating results with the first half of the year typically reflecting lower revenues and profits than the second half of the year. Results for the three-month and nine-month periods ended September 30, 2006 are not necessarily indicative of results expected for the full fiscal year or any other future period.

### 2. Quito International Airport Project

The Company has recorded concession rights at September 30, 2006 as follows:

Concession rights to operate the existing Quito Airport	\$ 60,761
Concession rights to operate the new Quito Airport	26,421
	<u>\$ 87,182</u>

#### (a) Background information

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

The Company’s partners in Quiport JV are: Andrade Gutierrez Concessoes of Brazil, Airport Development Corporation of Toronto, and HAS Development Corporation of Houston, Texas, which is affiliated with the Houston Airport System. The grantor of the concession is CORPAQ, and the project's senior lenders are: USA-

# **Aecon Group Inc.**

## Notes to Consolidated Financial Statements

September 30, 2006 and 2005

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

based Overseas Private Investment Corporation, Export-Import Bank of the United States, the Inter-American Development Bank and Export Development Canada (EDC) (collectively the “Project Senior Lenders”).

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

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

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

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

On June 28, 2006, the Company began accounting for these investments using the proportionate consolidation method, whereby the Company recognizes on its balance sheet, its share of the assets and liabilities of both Quiport JV and Construction JV, and in its consolidated statement of operations, its share of the revenues and expenses of these joint ventures.

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

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

As an inducement to develop and finance the new Quito International Airport, Quiport JV has been granted the right to operate and to benefit from the operations of the Existing Quito Airport while the new airport is being constructed. In accordance with GAAP, an entity acquiring an “in kind” asset must measure the asset at fair value as at the date of acquisition. Therefore, in accounting for the right to operate the Existing Quito Airport, Quiport JV has fair valued this right and recorded an intangible asset (being the “Concession Rights”) on its consolidated balance sheet. The Company’s proportionate share of this asset was assigned a value of \$64,086 (US\$57,337). This amount reflects a preliminary estimate made by management and will be updated prior to year-end at which point management will have completed its determination of the fair value of this right. The assessment of the fair value will include an independent valuation of the inducement. Quiport JV will amortize the Concession Rights over the remaining term of the right to operate the Existing Quito Airport. The offsetting



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concession related deferred revenue balance (being the value of the inducement received by Quiport JV to develop and finance the New Quito Airport) will be amortized to earnings over the term of the New Quito Airport concession period. Consequently, income earned from the operation of the Existing Quito Airport, which will be recognized in the normal fashion (notwithstanding that net cash earned will be reinvested in the New Quito Airport), will be reduced by the amount of the annual amortization charge related to the Existing Quito Airport Concession Rights.

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

Costs incurred of \$26,421, representing the Company's proportionate share, to construct the New Quito Airport have been recorded as Concession Rights to operate the New Quito Airport. Included in this amount is \$15,257 of deferred development costs previously included in other assets and \$11,164 of additional construction costs incurred by Quiport JV. Amortization of the Concession Rights to operate the New Quito Airport will commence after construction of the New Quito Airport is completed. As a result, there is no amortization expense recorded in the current period results.

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

Upon achieving financial close of the Quito International Airport Project, US\$77,291 of senior project financing was advanced to Quiport JV by the Project Senior Lenders. The total financing commitment made by the Project Senior Lenders to Quiport JV is US\$376,388.

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

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

Included in the Company's balance sheet at September 30, 2006, is debt of \$39,307 (US\$35,167) representing the Company's proportionate share of this debt. This debt is secured by the assets of Quiport JV and is without recourse to the Company.

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

As at September 30, 2006, Quiport JV was in breach of certain non-financial debt covenants. These defaults primarily related to pre-closing conditions that were waived by the lenders at financial close and which continue to be waived by the lenders.

### **(f) Concession related deferred revenue**

As part of acquiring the rights to operate the Existing Quito Airport (see note 2(c) above), the Company recorded \$64,086 of concession related deferred revenue representing the estimated value of the "inducement"

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received by Quiport JV to develop and finance the New Quito Airport). This deferred revenue amount will be amortized to earnings over the term of the New Quito Airport concession period.

As at June 28, 2006, CORPAQ also provided Quiport JV with net assets of \$4,299 - representing net assets received by Quiport JV between the date the concession went into effect (January 27, 2006) and the date of financial close (June 28, 2006). This amount represents an additional inducement and has been classified as concession related deferred revenue in the consolidated balance sheets. As with the other concession related deferred revenue amounts noted above, this balance will be amortized to earnings over the term of the New Quito Airport concession period.

The Company also received \$1,902 in development funds and costs reimbursements related to the Quito airport project which have been recorded as concession related deferred revenue. This deferred revenue balance will be amortized to earnings over the term of the New Quito Airport concession period.

### **(g) Guarantees**

In connection with the Quito International Airport Project, the Company has provided letters of credit in support of its remaining equity obligations of \$22,400 (US\$20,000) and for various project contingencies of \$33,800 (US\$30,200). These letters of credit are supported by guarantees issued on behalf of the Company to the issuing banks by EDC and will remain in place until its equity obligations are fulfilled and the conditions giving rise to the contingencies are satisfied or cleared. In connection with EDC issuing these guarantees, the Company has deposited a total of \$1,177 (US\$1,000) as part of its obligations under this arrangement and these deposit amounts are included in restricted cash at September 30, 2006.

In addition, the Company and Andrade Gutierrez have provided surety bonds, guaranteed joint and severally, to cover construction and concession related performance obligations of \$74,900 (US\$67,000), an advance payment bond of \$83,300 (US\$74,500) and a retention release bond of \$23,100 (US\$20,700), in each case the Company's share supported by guarantees issued by EDC.

### **3. Long-term investment**

The long-term investment in the amount of \$42,733 at September 30, 2006 (December 31, 2005 - \$41,273) represents the Company's 25.0% investment, which is carried at cost, in Derech Eretz Highways (1997) Ltd. ("Derech Eretz"), the company owning the concessionaire rights to the Cross Israel Highway. Under the terms of the concession contract with the State of Israel and lender agreements, the Company is required to obtain approvals in order to sell all or a portion of this investment. In addition, existing shareholders have a right of first refusal to acquire this investment in the event of a sale and also are entitled to participate on a pro rata basis in the event of a sale to a third party. Pursuant to an agreement with the State of Israel, the Company's interest in Derech Eretz would be diluted to approximately 12% if options granted are exercised. On January 24, 2005, the Company increased its interest in Derech Eretz from 22.2% to 25%. The purchase price for the increased stake was \$4,348 (US\$3,500). On February 16, 2006, pursuant to an agreement reached with the project lenders, the shareholders of Derech Eretz purchased certain options held by lenders. The lenders' options would have allowed the lenders to purchase directly from the existing shareholders a portion of their equity and subordinated debt of the concessionaire. The Company's pro rata share of the purchase price was \$1,460 (US\$ 1,250) and was financed by a loan from the other shareholders in Derech Eretz at an interest rate

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of 6% per annum repayable from future distributions available to the Company from Derech Eretz or the construction joint venture.

### 4. Income taxes

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

	Nine months ended September 30	
	2006	2005
Income (loss) before income taxes and extraordinary item	\$ 1,069	\$ (6,582)
Statutory income tax rate	36.1%	36.1%
Expected income tax expense (recovery)	386	(2,377)
Effect on income tax of:		
(Decrease) increase in the valuation allowance against current year's future tax assets	(761)	1,623
Provincial and foreign rate differentials	(202)	47
Non-deductible expenses	376	325
Large corporations tax	-	338
Foreign exchange translation losses	145	650
Other foreign exchange losses	20	929
Foreign losses for which there is no tax recovery	212	-
Other	-	(43)
	(210)	3,869
Income tax expense	\$ 176	\$ 1,492

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### 5. Convertible debentures

Convertible subordinated debentures consist of:

	September 30, 2006	December 31, 2005
Debt component:		
(a) Debentures maturing June 30, 2006	\$ -	\$ 7,676
(b) Debentures maturing November 2, 2009	28,773	28,474
(b) Debentures maturing March 17, 2010	31,008	30,685
	<u>\$ 59,781</u>	<u>\$ 66,835</u>
Reported as:		
Current liability	\$ -	\$ 7,676
Long-term liability	59,781	59,159
	<u>\$ 59,781</u>	<u>\$ 66,835</u>
Equity component:		
(a) Debentures maturing June 30, 2006	\$ -	\$ 836
(b) Debentures maturing November 2, 2009	1,990	1,990
(b) Debentures maturing March 17, 2010	2,156	2,156
	<u>\$ 4,146</u>	<u>\$ 4,982</u>

- (a) In March 2006, the Company's largest shareholder exercised its option to convert convertible debt with a face value of \$7,731 into 2,147,566 common shares at a conversion price of \$3.60 per share.
- (b) In November 2004, the Company issued \$30,000 in unsecured, subordinated convertible debentures maturing November 2, 2009. The debentures bear interest at the rate of 8.25% per annum payable on a semi-annual basis. At the holder's option, the convertible debentures may be converted into common shares at any time up to the maturity date at a conversion price of \$7.50 for each common share, subject to adjustment in certain circumstances. The convertible debentures will not be redeemable before November 2, 2007. From November 2, 2007 through to the maturity date the Company may, at its option, redeem the convertible debentures, in whole or in part, at par plus accrued and unpaid interest provided that the weighted average closing price of the common shares on the Toronto Stock Exchange during a specified period prior to redemption is not less than 125% of the conversion price.

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

Subject to specified conditions, the Company will have the right to repay the outstanding principal amount of the convertible debentures, on maturity or redemption, through the issuance of common shares of the

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Company. The Company also has the option to satisfy its obligation to pay interest through the issuance and sale of additional common shares of the Company on a private placement basis. Additionally, the Company will have the option, subject to the prior agreement of the holders, to settle its obligations on conversion by way of a cash payment of equal value.

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

Interest expense on the debentures is composed of the interest calculated on the face value of the debentures, which amounted to \$62,500 at September 30, 2006 (December 31, 2005 - \$70,231), an annual notional interest representing the accretion of the carrying value of the debentures, and amortization of deferred financing costs. Interest recorded was as follows:

	Three months ended September 30 2006		Nine months ended September 30 2006		2005
Interest expense on face value	\$ 1,300	\$ 1,398	\$ 3,954	\$ 3,615	
Notional interest representing accretion	208	235	645	614	
Amortization of deferred financing costs	147	147	441	378	
	<u>\$ 1,655</u>	<u>\$ 1,780</u>	<u>\$ 5,040</u>	<u>\$ 4,607</u>	

The liability portion of the debentures is as follows:

	September 30, 2006	December 31, 2005
Financial liability component	\$ 58,354	\$ 65,249
Notional interest representing accretion	1,427	1,586
	<u>\$ 59,781</u>	<u>\$ 66,835</u>

## 6. Guarantees

The Company has outstanding guarantees amounting to \$24,830 (December 31, 2005 - \$25,668) in support of financial and performance related obligations for the Nathpa Jhakri hydroelectric project in India, which has also been guaranteed by Hochtief AG ("Hochtief"), the parent of the Company's principal shareholder. The Company and Hochtief have signed an indemnity agreement whereby the Company has agreed to pay Hochtief any amounts Hochtief is required to pay pursuant to this guarantee.

In connection with the Cross Israel Highway project, the Company has provided two joint and several guarantees, a continuous guarantee, which guarantees the performance of the concessionaire in which the

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Company has a 25% interest and a leakage guarantee, which is a guarantee by the operator of the toll highway, in which the Company has a 30.60% interest, to the concessionaire and covers toll capture and collection rates generated from users of the highway during the operating period. These guarantees extend to the end of the concession period which ends in 2029. The continuous guarantee is in the amount of US\$8,100 (CAD\$9,053 at current rates) (December 31, 2005 - US\$8,100 or CAD\$9,420) and is renewed annually to its full amount, irrespective of any drawings made thereunder. The leakage guarantee came into effect when construction was completed and is renewable annually for the lesser of NIS33,000 plus escalation to-date (CAD\$11,825 at current rates) (December 31, 2005 - NIS33,000 plus escalation or CAD\$11,397) or 6% of annual toll revenue.

In addition to the above, the Company has provided letters of credit in the amounts of US\$200 (CAD\$224 at current rates), in support of working capital requirements of the operator of the toll highway, and NIS2,400 (CAD\$622 at current rates) to support a bid bond that was required by the concessionaire in connection with the construction of an extension to the Cross Israel Highway. These letters of credit are secured by cash.

The Company has also issued performance guarantees of \$988 (December 31, 2005 - \$4,965) in respect of certain other international projects supported by guarantees issued to Aecon by EDC.

In addition, the Company has also issued, in the normal course of operations, guarantees amounting to \$15,092 (December 31, 2005 - \$10,616) in support of financial and performance related obligations for certain domestic projects.

Under the terms of many of the Company's joint ventures' contracts with project owners, each of the partners is jointly and severally liable for performance under the contracts. Circumstances that could lead to a loss include a partner's inability to contribute additional funds to the venture in the event that the project incurs a loss or additional costs that the Company could incur should the partner fail to provide the contractually committed services and resources. At September 30, 2006, 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 \$478,943 (December 31, 2005 - \$142,276), a substantial portion of which is supported by performance bonds. In the event that the Company assumed this additional work it would have the right to receive the partner's share of billings to the project owners pursuant to the joint venture contract.

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

Details regarding the Company's investment and related obligations in the Quito International Airport Project are described in note 2(g).

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### 7. Capital stock

	2006		2005	
	Number of shares issued	Amount	Number of shares issued	Amount
Balance - January 1	31,180,609	\$ 95,985	30,524,609	\$ 93,829
Common shares issued on exercise of options	275,000	990	276,000	1,014
Common shares issued less expenses of \$1,500 (i)	4,500,000	26,625	-	-
Common shares issued on conversion of debentures (ii)	2,147,566	8,567	-	-
Balance - March 31	38,103,175	132,167	30,800,609	94,843
Common shares issued on exercise of options	-	-	275,000	990
Common shares issued less expenses of \$nil (i)	180,000	1,080	-	-
Balance - June 30	38,283,175	133,247	31,075,609	95,833
Common shares issued on exercise of options	-	-	105,000	152
Additional expenses related to common shares issued in the first and second quarters (i)	-	(6)	-	-
Balance - September 30 (iii)	38,283,175	\$ 133,241	31,180,609	\$ 95,985

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

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

(iii) In accordance with the recommendations of the CICA on accounting for share purchase loans receivable from employees, such loans except in certain circumstances are required to be presented as deductions from shareholders' equity. Accordingly, loans totalling \$1,084 (December 31, 2005 - \$1,084) are presented as a deduction from capital stock. Interest received on such loans in the three months ending September 30, 2006 of \$10 after income taxes (2005 - \$7) and in the nine months ended September 30, 2006 of \$28 after income taxes (2005 - \$20) is accounted for as a capital transaction in shareholders' equity.

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

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

On June 21, 2005, the Company's shareholders approved a new stock option plan (the 2005 Stock Option Plan) to replace the previous 1998 Stock Option Plan. The aggregate number of common shares that can be issued under the 2005 Stock Option Plan shall not exceed 2,500,000. As at September 30, 2006, 1,100,000 common shares were issued under the 2005 Stock Option Plan. Similar to the 1998 Stock Option Plan, each option issuance under the 2005 Stock Option Plan specifies the period for which the option thereunder is exercisable (which in no event shall exceed ten years from the date of grant) and shall provide that the option shall expire at the end of such period. The Company's Board of Directors will determine the vesting period on the dates of option grants. Details of common shares issued upon the exercise of options under the 2005 Stock Option Plan, as well as details of changes in the balance of options outstanding are detailed below:

2005 Stock Option Plan	Nine months ended September 30, 2006	
	Shares	Weighted average exercise price
Options outstanding - January 1	100,000	\$ 5.51
Granted	1,000,000	6.25
Options outstanding - March 31	1,100,000	6.18
Options outstanding - June 30	1,100,000	6.18
Options outstanding - September 30	1,100,000	\$ 6.18
Options exercisable at end of period	250,000	\$ 6.25

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

Options granted in	Number of shares	Exercise price	Expiry date
2005	100,000	\$5.51	November 7, 2010
2006	1,000,000	\$6.25	March 27, 2011

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

The Company has adopted fair value accounting for options granted after 2001 to employees and records compensation expense upon the issuance of stock options under its 1998 and 2005 Stock Option Plans. The fair



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value is estimated on the date of grant using the Black-Scholes fair value option-pricing model and compensation expense is amortized over the three-year vesting period of the options. During the three months ended September 30, 2006, compensation expense was increased by \$206 (2005 - \$nil) and contributed surplus was increased by the same amount, on account of options granted under the 2005 Stock Option Plan. During the nine months ended September 30, 2006, compensation expense of \$808 (2005 - \$nil) was recognized and contributed surplus was increased by the same amount, on account of options granted under the 2005 Stock Option Plan.

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

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

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

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	2006		2005	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding - January 1	525,000	\$ 4.58	1,181,000	\$ 4.05
Exercised	(275,000)	3.60	(276,000)	3.67
Options outstanding - March 31	250,000	5.66	905,000	4.19
Exercised	-	-	(275,000)	3.60
Options outstanding - June 30	250,000	5.66	630,000	4.42
Exercised	-	-	(105,000)	3.60
Options outstanding - September 30	250,000	\$ 5.66	525,000	\$ 4.58
Options exercisable at end of period	183,333	\$ 5.45	375,000	\$ 4.12

Options were exercised under the 1998 Stock Option Plan during the three months ended September 30, 2005 for 105,000 shares for which share capital was increased by \$152. For the nine months ended September 30, 2006, 275,000 options were exercised (2005 - 656,000) for which share capital was increased by \$990 (2005 - \$2,156). Options currently outstanding have the following exercise prices and expiry dates:

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

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

During the three months ended September 30, 2006, compensation expense of \$16 (2005 - \$39), and contributed surplus was increased by the same amount, on account of options granted under the 1998 Stock Option Plan. During the nine months ended September 30, 2006, compensation expense of \$49 (2005 - \$118) was recognized and contributed surplus was increased by the same amount, on account of options granted under the 1998 Stock Option Plan.

Details of the calculations of income and loss per share are set out below. For purposes of calculating basic income or loss per share, the number of common shares has been reduced by 1,584,963 (September 30, 2005 - 1,584,963) common shares on account of share purchase loans receivable from employees. For purposes of calculating diluted income or loss per share, these shares have been treated as options.

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### Three months ended September 30

	<b>2006</b>		
	<b>Income (numerator)</b>	<b>Shares (denominator)</b>	<b>Per share</b>
<b>Net earnings per share</b>			
Net income for the period	\$ 12,828	36,698,212	\$ 0.35
Effect of dilutive securities:			
Options	-	1,411,365	-
	<b>\$ 12,828</b>	<b>38,109,577</b>	<b>\$ 0.34</b>

	<b>2005</b>		
	<b>Income (numerator)</b>	<b>Shares (denominator)</b>	<b>Per share</b>
<b>Net earnings per share</b>			
Net income for the period	\$ 2,090	29,592,494	\$ 0.07
Effect of dilutive securities:			
Options	-	1,522,831	-
Convertible secured subordinated debentures bearing interest at prime rate plus 1.0% maturing on June 30, 2006	83	2,147,566	-
	<b>\$ 2,173</b>	<b>33,262,891</b>	<b>\$ 0.07</b>

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### Nine months ended September 30

	<b>2006</b>		
	<b>Income (numerator)</b>	<b>Shares (denominator)</b>	<b>Per share</b>
<b>Net earnings per share</b>			
Net income for the period	\$ 893	34,746,874	\$ 0.03
Effect of dilutive securities:			
Options	-	1,419,647	-
Convertible secured subordinated debentures bearing interest at prime rate plus 1.0% maturing on June 30, 2006	77	589,991	-
	<b>\$ 970</b>	<b>36,756,512</b>	<b>\$ 0.03</b>
			<b>2005</b>
	<b>Income (loss) (numerator)</b>	<b>Shares (denominator)</b>	<b>Per share</b>
<b>Net loss per share</b>			
Net loss for the period	\$ (4,630)	29,394,024	\$ (0.16)
Effect of dilutive securities (i):			
Options	-	1,552,567	-
Convertible secured subordinated debentures bearing interest at prime rate plus 1.0% maturing on June 30, 2006	247	2,147,566	-
	<b>\$ (4,383)</b>	<b>33,094,157</b>	<b>\$ (0.16)</b>

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	<b>2005</b>		
	<b>Income (loss) (numerator)</b>	<b>Shares (denominator)</b>	<b>Per share</b>
<b>Loss per share before extraordinary items</b>			
Loss before extraordinary item	\$ (8,074)	29,394,024	\$ (0.27)
Effect of dilutive securities (i):			
Options	-	1,552,567	-
Convertible secured subordinated debentures bearing interest at prime rate plus 1.0% maturing on June 30, 2006	247	2,147,566	-
	<u>\$ (7,827)</u>	<u>33,094,157</u>	<u>\$ (0.27)</u>

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

In the three months ended September 30, 2005, basic and diluted earnings per share from extraordinary items amounted to \$nil, while for the nine months ended September 30, 2005, basic and diluted earnings per share from extraordinary items amounted to \$0.12. There were no extraordinary items in the period ending September 30, 2006.

## 8. Cash flow information

Change in other balances relating to operations:

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
(Increase) decrease in:				
Accounts receivable	\$ (43,556)	\$ (1,376)	\$ (49,118)	\$ (15,726)
Holdbacks receivable	7,219	(15,211)	11,835	(13,338)
Deferred contract costs and unbilled revenue	(17,233)	(13,498)	(18,093)	(26,945)
Inventories	(1,376)	(317)	(3,408)	250
Prepaid expenses	(2,848)	1,154	(8,643)	182
Increase (decrease) in:				
Accounts payable and accrued liabilities	6,905	19,122	(6,466)	29,617
Holdbacks payable	(32)	9,323	(3,284)	3,707
Deferred revenue	19,781	1,101	28,027	(16,309)
Income taxes payable	97	1,796	(1,366)	670
	<u>\$ (31,043)</u>	<u>\$ 2,094</u>	<u>\$ (50,516)</u>	<u>\$ (37,892)</u>

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

September 30, 2006 and 2005

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

Other supplementary information:

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Cash interest paid	\$ 1,949	\$ 2,326	\$ 6,120	\$ 5,021
Cash income taxes paid	\$ 189	\$ 240	\$ 2,598	\$ 2,308

Property, plant and equipment acquired and financed by means of capital leases during the three months ended September 30, 2006 amounted to \$413 (2005 - \$134) and \$1,550 (2005 - \$2,442) for the nine months ended September 30, 2006.

Investing and financing activities not requiring an immediate use of cash in the nine months ended September 30, 2006 included the acquisition of the concession rights to operate the existing Quito Airport and the related increase in concession related deferred revenue, both in the amount of \$64,086 (see note 2(c)).

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

In March 2006, the Company's largest shareholder exercised its option to convert convertible debt with a face value of \$7,731 into 2,147,566 common shares at a conversion price of \$3.60 per share. In addition, share capital was increased by \$836 representing the equity portion of the convertible debentures that was previously classified as a separate component of shareholders' equity (notes 5 and 7).

As described in note 3, the shareholders of Derech Eretz purchased certain options held by project lenders. The Company's pro rata share of the purchase price was \$1,460 (US\$1,250) and was financed by a loan from the other shareholders in Derech Eretz.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

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

### 9. Employee future benefit expenses

Employee future benefit expenses for the three and nine months ended September 30 are as follows:

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Defined benefit plan expense:				
Company sponsored pension plans	\$ 406	\$ 423	\$ 1,295	\$ 1,309
Defined contribution plan expense:				
Company sponsored pension plans	482	332	1,413	1,172
Multi-employer pension plans	4,976	7,300	13,894	16,999
Total employee future benefit expenses	\$ 5,864	\$ 8,055	\$ 16,602	\$ 19,480

### 10. Segmented information and business concentration

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

#### *Infrastructure*

This segment includes all aspects of the construction of both public and private infrastructure, including roads and highways, principally within the Province of Ontario, as well as toll highways, dams, tunnels, bridges, airports, marine facilities, transit systems and hydro-electric power projects, domestically and internationally. This segment includes the mining, manufacture, and supply of asphalt and aggregate products, and the construction and/or installation of utility distribution systems for natural gas, telecommunications and electrical networks, as well as water and sewer mains, traffic signals and highway lighting, also principally within the Province of Ontario. Services provided in the Infrastructure segment include construction of large civil infrastructure projects in Canada and, on a selective basis, internationally.

# **Aecon Group Inc.**

## Notes to Consolidated Financial Statements

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

### *Buildings*

This segment specializes in the construction and renovation of commercial, institutional and multi-family residential buildings, including retail complexes, office buildings, industrial buildings, airport terminals, entertainment facilities, schools, embassies, hospitals, and high rise condominium buildings among others. Work in this segment is concentrated primarily in Canada and the north-western United States. Services include general contracting and fee for service construction management, as well as building renovation and facilities management.

### *Industrial*

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

### *Concessions*

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



# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

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

Information by reportable segment is as follows:

As at September 30 and for the three months then ended

	2006					
	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total
Revenues	\$ 173,250	\$ 71,383	\$ 64,483	\$ 12,279	\$ (5,356)	\$ 316,039
EBITDA (i)	\$ 12,903	\$ 1,452	\$ 4,833	\$ 2,951	\$ (2,374)	\$ 19,765
Depreciation and amortization	1,084	114	475	3,352	228	5,253
Segment operating profit (loss)	\$ 11,819	\$ 1,338	\$ 4,358	\$ (401)	\$ (2,602)	\$ 14,512
Interest and income taxes						(1,684)
Net income						\$ 12,828
Total assets	\$ 270,734	\$ 79,860	\$ 105,825	\$ 154,421	\$ 37,913	\$ 648,753
Intangible assets and goodwill	\$ 2,743	\$ 2,535	\$ 3,750	\$ 87,357	\$ -	\$ 96,385
Capital expenditures	\$ 434	\$ 145	\$ 412	\$ -	\$ 111	\$ 1,102
Cash flow from (used in) operating activities (i)	\$ 12,715	\$ 1,452	\$ 4,787	\$ 2,951	\$ (4,086)	\$ 17,819

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

September 30, 2006 and 2005

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

	<b>2005</b>					
	<b>Infrastructure</b>	<b>Buildings</b>	<b>Industrial</b>	<b>Concessions</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenues	\$ 137,270	\$ 114,454	\$ 82,990	\$ 7,220	\$ (1,141)	\$ 340,793
EBITDA (i)	\$ 5,652	\$ 1,594	\$ 2,926	\$ (506)	\$ (2,791)	\$ 6,875
Depreciation and amortization	1,168	110	454	-	222	1,954
Segment operating profit (loss)	\$ 4,484	\$ 1,484	\$ 2,472	\$ (506)	\$ (3,013)	\$ 4,921
Interest and income taxes						(2,831)
Net income						\$ 2,090
Total assets	\$ 204,894	\$ 106,134	\$ 75,617	\$ 60,303	\$ 62,195	\$ 509,143
Intangible assets and goodwill	\$ 2,643	\$ 1,893	\$ 3,750	\$ -	\$ -	\$ 8,286
Capital expenditures	\$ 566	\$ 59	\$ 156	\$ -	\$ 484	\$ 1,265
Cash flow from (used in) operating activities (i)	\$ 3,796	\$ 1,594	\$ 2,872	\$ 2,844	\$ (5,550)	\$ 5,556

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

September 30, 2006 and 2005

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

For the nine months ended September 30

2006

	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total
Revenues	\$ 337,555	\$ 238,871	\$ 185,236	\$ 22,887	\$ (9,196)	\$ 775,353
EBITDA (i)	\$ 12,632	\$ 2,319	\$ 8,302	\$ 1,048	\$ (8,297)	\$ 16,004
Depreciation and amortization	3,297	312	1,406	3,355	679	9,049
Segment operating profit (loss) (ii)	\$ 9,335	\$ 2,007	\$ 6,896	\$ (2,307)	\$ (8,976)	\$ 6,955
Interest and income taxes						(6,062)
Net income						\$ 893
Capital expenditures	\$ 790	\$ 235	\$ 683	\$ -	\$ 290	\$ 1,998
Cash flow from (used in) operating activities (i)	\$ 12,951	\$ 2,319	\$ 8,341	\$ 1,048	\$ (12,712)	\$ 11,947

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

September 30, 2006 and 2005

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

	<b>2005</b>					
	<b>Infrastructure</b>	<b>Buildings</b>	<b>Industrial</b>	<b>Concessions</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenues	\$ 296,271	\$ 299,796	\$ 190,704	\$ 13,212	\$ (3,340)	\$ 796,643
EBITDA (i)	\$ 9,085	\$ 2,453	\$ 3,836	\$ (1,669)	\$ (7,897)	\$ 5,808
Depreciation and amortization	3,323	323	1,387	-	655	5,688
Segment operating profit (loss)	\$ 5,762	\$ 2,130	\$ 2,449	\$ (1,669)	\$ (8,552)	120
Interest and income taxes						(8,194)
Loss before extraordinary item						\$ (8,074)
Extraordinary gain						\$ 4,122
Income taxes on extraordinary gain						(678)
Extraordinary gain, net of income taxes						\$ 3,444
Net loss						\$ (4,630)
Capital expenditures	\$ 1,323	\$ 173	\$ 716	\$ -	\$ 770	\$ 2,982
Cash flow from (used in) operating activities (i)	\$ 6,346	\$ 2,453	\$ 3,834	\$ 1,681	\$ (13,915)	\$ 399

(i) EBITDA represents earnings or loss before interest, income taxes, depreciation and amortization. Segment operating profit (loss) represents net income (loss) before interest and income taxes. Cash flow from (used in) operations is before the change in other balances related to operations. EBITDA, operating profit (loss), and cash flow from operating activities are not measures that have any standardized meaning prescribed by Canadian GAAP and are considered non-GAAP measures. Therefore, these measures may not be comparable to similar measures presented by other companies. These measures have been described and presented in order to provide shareholders and potential investors with additional information regarding the Company's finances and results of operations.

(ii) Included in the segment operating profit (loss) of the Industrial segment is income of \$699 from an investment accounted for by the equity method. Effective August 1, 2006, this investment has been accounted for using the proportionate method of consolidation.

# **Aecon Group Inc.**

## Notes to Consolidated Financial Statements

September 30, 2006 and 2005

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

### **11. Quito airport concession - additional information**

In accordance with the recommendations of The Canadian Institute of Chartered Accountants, the Company's investment in the Quito airport concession is currently accounted for by the proportionate consolidation method, whereby the consolidated financial statements reflect, line by line, the pro rata share of each of the assets, liabilities, revenues and expenses of the Quito airport concession. Given the significant effect of the Quito airport concession on the Company's consolidated financial statements and to provide additional information about the Quito airport concession operations and assets, which act as security for the debt described in note 2(e), the Company provides the following consolidating worksheets as additional information about its accounts, thereby enabling the reader to have a greater understanding of the Company's underlying assets, earnings base and financial resources.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

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

### Consolidating Balance Sheets

	At September 30, 2006			
	Consolidated Balance Sheet excluding Quito airport concession	Quito airport concession	Elimination	Consolidated Balance Sheet
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 31,122	\$ 5,633	\$ -	\$ 36,755
Other current assets	342,264	34,259	-	376,523
	373,386	39,892	-	413,278
Property, plant and equipment	53,360	-	-	53,360
Future income tax assets	20,100	-	-	20,100
Concession rights	-	87,182	-	87,182
Long-term investment	42,733	-	-	42,733
Other assets	30,373	1,727	-	32,100
Due from Quiport JV	14,749	-	(14,749)	-
Investment in Quiport JV	508	-	(508)	-
	\$ 535,209	\$ 128,801	\$ (15,257)	\$ 648,753
<b>Liabilities</b>				
Current liabilities	\$ 291,524	\$ 3,336	\$ -	\$ 294,860
Long-term debt	23,211	39,307	-	62,518
Due to Aecon	-	14,749	(14,749)	-
Other liabilities	2,877	-	-	2,877
Other income tax liabilities	13,904	-	-	13,904
Concession related deferred revenue	-	70,287	-	70,287
Convertible debentures	59,781	-	-	59,781
	391,297	127,679	(14,749)	504,227
<b>Shareholders' Equity</b>				
Capital stock	133,241	508	(508)	133,241
Contributed surplus	1,218	-	-	1,218
Convertible debentures	4,146	-	-	4,146
Retained earnings	5,307	614	-	5,921
	143,912	1,122	(508)	144,526
	\$ 535,209	\$ 128,801	\$ (15,257)	\$ 648,753

# Aecon Group Inc.

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

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

### Consolidating Statements of Cash Flows

	For the nine months ended September 30, 2006			
	Consolidated Cash Flows excluding	Quito airport concession	Elimination	Consolidated Cash Flows
	Quito airport concession	concession	Elimination	Cash Flows
<b>Cash provided by (used in):</b>				
Operating activities	\$ (11,612)	\$ (26,957)	\$ -	\$ (38,569)
Investing activities	4,321	(28,175)	15,257	(8,597)
Financing activities	11,543	60,765	(15,257)	57,051
<b>Increase in cash and cash equivalents for the period</b>	<b>4,252</b>	<b>5,633</b>	<b>-</b>	<b>9,885</b>
<b>Effects of foreign exchange on cash balances</b>	<b>(132)</b>	<b>-</b>	<b>-</b>	<b>(132)</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>27,002</b>	<b>-</b>	<b>-</b>	<b>27,002</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 31,122</b>	<b>\$ 5,633</b>	<b>\$ -</b>	<b>\$ 36,755</b>

## 12. Acquisition

In the third quarter of 2006, the Company acquired from its joint venture partner an additional 50% interest in the assets and liabilities of the Aecon FABCO joint venture in eastern Canada, raising its total interest in this operation to 100%. The net consideration paid by the Company and the net assets acquired amounted to \$1,100. The allocation of the purchase price for the acquisition of this investment has not been finalized due to estimates used in determining the fair value of the assets acquired and liabilities assumed.

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

The following is a summary of the acquisition:

### Net assets acquired

Cash	\$ 3,416
Working capital	533
Long-term receivable	1,693
	<u>\$ 5,642</u>

### Consideration

Cash	\$ 1,520
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### Extraordinary gain before income taxes

Income taxes	\$ 4,122
	678
<b>Extraordinary gain after income taxes</b>	<u>\$ 3,444</u>

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

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

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

In the first quarter of 2005, the Company increased its investment in Derech Eretz, the company owning the concession rights for the Cross Israel Highway, from 22.2% to 25%. The purchase price for the increased stake was \$4,348 (US\$3,500).

In the second quarter of 2004, the Company acquired the assets and operations of Cegerco CCI Inc., a general contracting company in the Montreal region, specializing in the construction and management of institutional, commercial and pharmaceutical building projects. In the second quarter of 2006, the Company paid \$192 (second quarter of 2005 - \$192) with respect to the short-term note payable of \$384 recorded in connection with that acquisition.

### 13. Related party transactions and balances

In addition to related party transactions described elsewhere in the notes to these consolidated financial statements, the following summarizes additional transactions during the period. Related party transactions are recorded at their exchange amounts, which is the consideration agreed to by the parties.

- (a) Hochtief, the parent of Hochtief Canada Inc. ("HCI"), has issued guarantees in support of the financial and performance related obligations of the Nathpa Jhakri hydro-electric project in India in which the Company has a joint venture interest (note 6). The Company paid Hochtief \$190 during the nine months ended September 30, 2006 (2005 - \$201) in connection with these guarantees.
- (b) The Company is in a joint venture with Hochtief on the Eastmain hydro-electric powerhouse project in Quebec.
- (c) At December 31, 2005, the Company was indebted to Hochtief for a total of \$2,500 in the form of a short-term unsecured loan. The loan was provided to support a portion of the Company's working capital contribution requirements to the Eastmain joint venture, the hydro-electric powerhouse project in northern Quebec. On January 13, 2006, the Company repaid the remaining outstanding balance of \$2,500. Interest due was calculated on the amount outstanding at prime rate plus 1.5%. Interest expense recorded during the three months ended September 30, 2006 amounted to \$nil (2005-\$99) and \$39 (2005-\$109) for the nine months ended September 30, 2006.
- (d) During the nine months ended September 30, 2006, the Company paid interest and fees of \$97 (2005 - \$304) to HCI on the convertible subordinated debentures described in note 5.
- (e) During the nine months ended September 30, 2006, the Company received \$21 from Hochtief PPP Solutions GmbH with respect to bid costs, pursuant to an arrangement in place for the sharing of such costs.



# Aecon Group Inc.

## Notes to Consolidated Financial Statements

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

- (f) To the best of the Company's knowledge from information available to it and from public records, \$700 (December 31, 2005 - \$800) of the Company's \$32,500 convertible debentures issued on March 17, 2005 is currently held by officers and directors of the Company or parties related thereto.
- (g) During the three months ended September 30, 2006, the Company paid professional fees in the amount of \$nil (2005 - \$19), and \$53 during the nine months ended September 30, 2006 (2005 - \$44) to a consulting company in which a director of the Company is a partner.

### 14. Commitments and contingencies

In June 2005, the joint venture involved in the construction of the Nathpa Jhakri Project in India, in which the Company has a 45% interest, was advised by the owner, Satluj Jal Vidyut Nigam Ltd. ("SJVN") (formerly Nathpa Jhakri Power Corporation Limited) of its intention to levy liquidated damages against the joint venture in the amount of \$28,033 for alleged delay damages resulting from not completing the contract on time. Since the delay in the completion of the project was caused by numerous items outside of the joint venture's control and contractual responsibility, including, among many other things, a catastrophic flood in 2002, the joint venture believes that these claims for liquidated damages are unsubstantiated, unwarranted and without legal merit. The joint venture also believes that even in the unlikely situation that it might be found responsible (through arbitration hearings that are currently in progress) for some part of the delay, this did not result in any actual damages to SJVN, then as a matter of law, liquidated damages cannot be enforced. The joint venture's conclusion regarding the impermissibility of SJVN to enforce liquidated damages is supported by two independent legal opinions. The joint venture had previously submitted for arbitration claims of approximately \$111,939 against SJVN, the most significant of which is to cover the joint venture's cost of extra work and delays related to these same matters. This is in addition to \$8,795, which was previously received by the joint venture and is included in the joint venture's profit estimate for this project. These claims have been subsequently revised to an amount of \$88,707 as a result of findings during the course of the arbitration proceeding. Based on all of the above, no provision has been made for the liquidated damages nor has any amount been recognized for potential recoveries under the claims. This treatment is in accordance with the Company's accounting policy, which is to recognize revenues from claims only when resolved. The arbitration process is nearly complete and a judgment is expected in 2007.

It should be noted that all amounts quoted in the preceding paragraph are based on foreign currency amounts that have been translated into Canadian dollars at exchange rates effective on September 30, 2006.

With respect to commitments and contingencies relating to the Company's investment in the Quito International Airport Project, see note 2.

### 15. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the three months and nine months ended September 30, 2006.

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