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# Aecon Group Inc. Second Quarter Report 2007

Six Months ended June 30, 2007

AECON

Dear Fellow Shareholders,

On behalf of Aecon's Board of Directors, I am pleased to report another strong quarter, highlighted by a number of record highs for Aecon.

The second quarter was characterized by strong revenues, improved margins, growing backlog and higher earnings. These improved results continue a trend that has emerged over the past several quarters of significant year-over-year earnings growth, reflecting the strong market conditions in Aecon's key sectors and reinforcing the success of the strategic path we adopted in 2005.

Revenues set a second quarter record for Aecon at $338 million, an increase of 31 per cent over the same period last year, as growth in the Infrastructure, Industrial and Concessions segments offset a small decline in the Buildings segment. First half revenues of $580 million were also a new high for Aecon.

At the same time, gross margin as a percent of revenues increased to 9.6 per cent this quarter from 6.8 per cent in the second quarter of 2006, reflecting solid margin growth in the Infrastructure, Industrial and Concessions segments.

These strong gains drove net income for the second quarter to $9.7 million, making it the strongest second quarter Aecon has ever reported. Similarly, net income of $6.8 million in the first half of the year represents Aecon's highest-ever first half earnings.

With all segments reporting increases, backlog at June 30 surpassed $1.2 billion for the first time in Aecon's history, while new contract awards in the first half surpassed $1.0 billion, also a new high for Aecon.

Within the Infrastructure segment, demand remains above historical norms in the key roadbuilding, utilities construction and heavy civil markets in Ontario. I also note that Aecon's civil construction business in Alberta continues to strengthen and is expected to generate profit contributions in 2007 after posting near break-even results last year in its first year of operation.

Internationally, the sale of Aecon's right to participate in the construction joint venture building the new extension of the Cross Israel Highway is adding to segment earnings this year. In addition, construction of the new Quito Airport is progressing well, and we expect to begin booking construction profits later this year.

The Buildings segment continues to operate in a very competitive market in the Greater Toronto Area where market conditions and Aecon's competitive positioning are not yet as strong as those in the Infrastructure and Industrial segments. As a result, we expect contributions from the Buildings segment to decline this year.

However, the substantial new business awards recorded this quarter in the Buildings segment, and the strong pipeline of new business opportunities in the second half of the year, are expected to result in segment backlog at year-end reaching the highest level in five years, boding well for the mid-term outlook in this segment.

Aecon's Industrial segment continues to benefit from growth in Alberta's oilsands sector and from the drive to increase electrical generation capacity in Ontario. The ongoing strength of these two markets, combined with Innovative Steam Technologies' improving results, continue to generate a positive outlook for the segment.

The Concessions segment is expected to generate improved contributions in 2007, benefiting from a full year of income from the existing airport in Quito. In addition, the Cross Israel Highway continues to perform well, with traffic ramping up as anticipated. The recent financial close of an extension to the highway resulted in the monetization of approximately US$10 million for Aecon and efforts to monetize a further portion of our investment in the concession continue. The continued strong performance of this asset reinforces our view that it holds significant value in excess of its book value.

In conclusion, the net income reported this quarter brings Aecon's earnings over the past twelve months to a level in excess of the 75 cents per share target that we had announced for fiscal 2008. Although Aecon may be required to begin tax effecting earnings once again in 2008, we continue to believe that Aecon's growing backlog and the ongoing strength of its core markets, especially in the energy and transportation infrastructure sectors, bode well for continued pre-tax earnings growth beyond 2007.

Thank you for your continued support of Aecon.

(signed) John M. Beck
Chairman and Chief Executive Officer
August 7, 2007

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

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. ("Aecon") should be read in conjunction with the Company's 2007 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 2006. This interim MD&A has been prepared as of August 7, 2007. Additional information on Aecon is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and includes the Company's Annual Information Form and other securities and continuous disclosure filings.

## Introduction

Aecon operates in four principal segments within the construction industry – Infrastructure, Buildings, Industrial and Concessions.

The Infrastructure segment includes all aspects of the construction of both public and private infrastructure, including roads and highways, principally within the Province of Ontario but also in the Province of Alberta, as well as toll highways, dams, tunnels, bridges, airports, marine facilities, transit systems and hydro-electric power projects, domestically and, on a select basis, 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. The Infrastructure segment includes construction activities associated with the development of the new Quito airport project.

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

The Industrial segment encompasses all of Aecon's industrial construction and manufacturing activities including in-plant construction and module assembly in the energy, manufacturing, 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 ("OTSG") 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 OTSG throughout the world through its subsidiary Innovative Steam Technologies Inc. ("IST").

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 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 June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Revenues** | **$ 338.3** | **$ 258.7** | **$ 580.1** | **459.3** |
| Gross margin [1] | 32.3 | 17.6 | 51.2 | 24.0 |
| **Operating profit (loss) [2]** | **14.1** | **1.4** | **14.3** | **(6.6)** |
| Interest expense | 3.1 | 2.4 | 5.4 | 5.1 |
| Income taxes | 1.2 | 0.1 | 1.8 | 0.2 |
| Non-controlling interests | 0.1 | - | 0.3 | - |
| **Net income (loss) for the period** | **9.7** | **(1.0)** | **6.8** | **(11.9)** |
| Return on revenue [3] | 4.2% | 0.6% | | |
| Backlog – June 30 | $ 1,208 | $ 812 | | |

**(1)** Gross margin is calculated as revenues less direct costs and expenses before deducting MG&A, depreciation and amortization, foreign exchange, interest, gains (losses) on sale of assets, income taxes, and non-controlling interests.

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

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

Revenues in the second quarter of 2007 were $338 million, representing an increase of $80 million over the same period last year. Revenues increased in the Infrastructure, Industrial and Concessions segments by $53 million, $25 million, and $9 million, respectively, and decreased in the Buildings and Corporate segments by $1 million and $6 million, respectively. For the first six months of the year, revenues of $580 million were $121 million higher than in 2006, as, once again, increases in the Infrastructure, Industrial and Concessions segments offset declines in the Buildings and Corporate segments. Results for each of the four principal operating segments are discussed separately under Reporting Segments.

Gross margin as a percentage of revenues increased from 6.8% in the second quarter of 2006 to 9.6% in the current quarter, as significantly increased margins in the Infrastructure, Industrial and Concession segments offset a margin decline in the Buildings segment. For the six months, gross margin increased from 5.2% to 8.8% with improvements in all segments except Buildings. Of the $14.7 million increase in gross margin in the current quarter, approximately $6 million came from concession operations at the existing Quito airport within the Concessions Segment, while the Infrastructure and Industrial segments reported improvements of $4 million, and $6 million, respectively. Overall, these increases resulted from a combination of factors including higher volumes, an improved revenue mix and tighter cost controls, but most importantly from favourable market conditions that are allowing improved pricing in certain market segments. Gross margin declined in the Buildings segment by $2 million in the second quarter principally as a result of lower revenue volumes and the impact of restructuring costs in the Toronto operating unit of approximately $0.8 million that result from the continued implementation of the strategic focus to improve operating

results within this segment. The year-to-date margin increase arose primarily for the same reasons as in the second quarter.

Marketing, general and administrative expenses ("MG&A") amounted to $15.5 million in the second quarter of 2007, which is $1.7 million higher than last year. Higher volumes in most segments, the expansion of operations in Western Canada, and higher information technology costs and performance-related incentive costs contributed to the increase. For the six months, MG&A amounted to $30.5 million, which is $3.6 million higher than the same period last year. The $3.6 million increase arose essentially for the same reasons cited above for the second quarter. However, while the dollar amount of MG&A expenses increased, MG&A as a percentage of revenues decreased from 5.3% in the second quarter of 2006 to 4.6% in 2007 and from 5.8% for the six months of 2006 to 5.3% in 2007. These percentage improvements, combined with the increases in gross margin percentage, contributed to the better overall return on revenues in the second quarter and first half of 2007.

Depreciation and amortization expense in the current quarter of $6.3 million was $4.4 million higher than last year, and depreciation and amortization expense of $11.2 million for the six months was $7.4 million higher than last year. The increase results from the amortization of concession rights related to the existing Quito airport, which amounted to $4.0 million in the current quarter versus zero in 2006, and $7.2 million year-to-date versus zero in 2006.

The net gain on sales of assets in both the second quarter and year-to-date was $3.4 million compared to $0.1 million last year. This contribution reflects the $3.4 million pre-tax gain from the sale by Aecon of its right to participate in the joint venture that is constructing an extension to the Cross Israel Highway.

Interest expense in the current quarter of $3.1 million was $0.7 million higher than the same quarter last year, and interest expense of $5.4 million for the six months was $0.4 million higher than last year. Increased borrowings used to finance the acquisition of The Karson Group in the first quarter of 2007 were the primary reason for the higher interest costs. These higher borrowings offset the benefit of reduced borrowings going into 2007, mostly as a result of cash proceeds received from a $27.7 million equity issue in March 2006 and the conversion during the same month of $7.7 million of convertible debentures into common shares.

Set out in note 4 of the June 30, 2007 Interim Consolidated Financial Statements is a reconciliation between the expected tax expense/recovery in 2007 and 2006 based on statutory income tax rates and the actual reported tax expense in 2007 and 2006. The income tax provision in the second quarter was impacted by a $0.8 million tax expense related to the $3.4 million pre-tax gain referenced above.

Net income for the quarter ended June 30, 2007 was $9.7 million, representing a $10.7 million improvement over the same period in 2006. For the six months ended June 30, 2007, net income amounted to $6.8 million compared to a net loss of $11.9 million in 2006, representing an $18.7 million increase in earnings.

With all segments reporting increases, backlog at June 30, 2007 was $1,208 million or $396 million higher than the same time last year. New contract awards of $710 million were booked in the second

quarter, which compares with $414 million in the second quarter of 2006, while total new contract awards of $1,002 million were booked in the first six months, compared to $694 million during the first six months of 2006. Both the period ending backlog and the contract awards for the quarters represent record levels for Aecon. Further details for each of the segments are included in the discussion below under Reporting Segments.

It is notable that significant and increasing commitments made to Aecon based on general contracts, supplier of choice, and alliance agreements do not show up as backlog for external reporting purposes, primarily due to the degree of uncertainty regarding the exact amount of work than can be expected under these arrangements. Therefore, to the extent that the volume of work to be performed under these arrangements is expected to be significant, Aecon's effective backlog at any given time is greater than what is reported. Because it is one of Aecon's strategic directives to focus on general contract, supplier of choice and alliance arrangements with clients, the amount of effective backlog that is not included in reported backlog is expected to continue to increase.

## REPORTING SEGMENTS

## INFRASTRUCTURE

**Financial Highlights**

| $ millions | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Revenues** | **$ 161.7** | $ 108.4 | **$ 256.8** | $ 164.3 |
| **Segment operating profit (loss)** [1] | **8.7** | 2.0 | **6.6** | (2.5) |
| **Capital charges and allocations of corporate overheads** [4] | **(4.8)** | n/a | **(8.9)** | n/a |
| **Segment profit (loss) before income taxes**[4] | **3.8** | n/a | **(2.3)** | n/a |
| **Return on revenue** [2] | **5.4%** | 1.9% | **2.6%** | (1.5)% |
| **Backlog - June 30** [3] | **$ 531** | $ 451 | | |

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

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

**(3)** Included in backlog at June 30, 2007, is $111 million related to the new Quito airport project. Although Aecon's 50% share of the remaining construction revenues from this project are estimated at $192 million, the amount reported as backlog has been reduced by $81 million or 42.3%. This reduction is to reflect the fact that since Aecon has a 42.3% interest in the concession joint venture for which the new airport is being constructed, it cannot report backlog that effectively arises from transacting with itself.

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

Revenues from the Infrastructure segment increased from $108 million in the second quarter of 2006 to $162 million in the same period of 2007, an increase of $53 million. Revenues from roadbuilding, utilities, and other heavy civil operations were up $23 million, $5 million, and $25 million, respectively.

Roadbuilding operations benefited from the continuation of construction work on a number of large projects in Ontario including the recently awarded project to widen Highway 407 northwest of Toronto between Highway 427 and Highway 401. The acquisition in the first quarter of 2007 of The Karson Group, a major aggregate, asphalt and civil construction company in Eastern Ontario, also contributed to the increase in revenues.

The increase in utilities revenues is mostly due to higher volumes of communications and highway lighting work, offset partially by lower gas pipeline installation work. This operating unit continues

to expand its share of the utilities engineering and utilities locate markets, which are new strategic focus areas for Aecon, both of which contributed to revenue growth during the second quarter.

Heavy civil operations provided the largest revenue increase in the segment, increasing from $6 million in the second quarter of 2006 to $31 million in the second quarter of 2007. The revenue increase was driven primarily by power generation and tunneling projects in Ontario and from the expansion of heavy civil operations in Alberta. Revenues of approximately $7 million in the second quarter from the construction of the new Quito airport, which commenced construction during the third quarter of 2006, also contributed to the increase.

For the six months ended June 30, 2007, the Infrastructure segment generated revenues of $257 million compared to revenues of $164 million for the same period last year, an increase of $93 million. Revenues from roadbuilding, utilities and other heavy civil operations were up $34 million, $8 million, and $51 million, respectively. The increases in roadbuilding, utilities, and other heavy civil operations arose principally for the reasons cited in the second quarter commentary. Favourable winter weather conditions in Ontario in the first quarter of 2007 also contributed to the higher revenue levels.

The Infrastructure segment operating profit of $8.7 million in the second quarter of 2007 represents a $6.6 million improvement over 2006. A large portion of this improvement resulted from increased revenues and higher margins from heavy civil operations. A $3.4 million pre-tax gain on the sale of Aecon's right to participate in the joint venture building an extension to the Cross Israel Highway also contributed significantly to the quarter-over-quarter profit improvement.

It should be noted that, thus far, construction profits have not been recorded on the new Quito airport project. Under Aecon's accounting policy for large multi-year contracts, profit is recognized only when construction progress reaches a stage of completion sufficient to reasonably determine the probable results. Based on this policy, profit from construction profit of the new Quito airport is not expected to be recognized until late 2007. Construction completion currently stands at approximately 14%.

For the six months ended June 30, 2007, the Infrastructure segment produced an operating profit of $6.6 million compared to an operating loss of $2.5 million in the first half of 2006, an improvement of $9.1 million. The bulk of the improvement relates to heavy civil operations where both the volume of work performed and margin levels have grown year-over-year and also from the above noted $3.4 million pre-tax gain related to the Cross Israel Highway extension.

Backlog at the end of June 2007 was $531 million, which represents an $80 million increase from the same time last year. New contract awards totaled $248 million for the second quarter of 2007 and $373 million year-to-date. Although awards are lower than in 2006, when the impact of the Quito airport construction project, which added $133 million to awards in June, 2006, is removed, the 2007 awards levels represent a current quarter increase of $72 million and a six-month increase of $8 million compared to the same periods in 2006. The majority of the new awards received occurred in roadbuilding operations where several major contract awards were received in the first six months of 2007.

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

## BUILDINGS

### Financial Highlights

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| **$ millions** | **2007** | 2006 | **2007** | 2006 |
| **Value of work managed** | **$ 158.1** | $ 154.4 | **$ 269.7** | $ 277.6 |
| **Revenues** | **$ 79.2** | $ 80.1 | **$ 142.4** | $ 167.5 |
| **Segment operating profit (loss)** | **(1.0)** | 1.2 | **(1.2)** | 0.7 |
| **Capital charges and allocations of corporate overheads** | **(0.5)** | n/a | **(0.8)** | n/a |
| **Segment profit (loss) before income taxes** | **(1.5)** | n/a | **(2.1)** | n/a |
| **Return on revenue** | **(1.3)%** | 1.5% | **(0.9)%** | 0.4% |
| **Backlog – June 30** | **$ 349** | $ 178 | | |

Revenues in the Buildings segment in the second quarter of 2007 were $79 million, or $1 million lower than 2006. Revenues in the segment's Ottawa and Montreal operations were up quarter-over-quarter by $24 million and $7 million, respectively. Offsetting these increases were declines in the Toronto and Seattle operations of $20 million and $11 million, respectively. Ottawa revenues increased primarily as a result of two large project awards in the fall of 2006 which ramped up to full production in the first half of 2007. Toronto and Seattle operations were impacted by reduced and/or delayed new work awards during the second half of 2006 and early 2007 which significantly impacted construction activities during the first half of 2007. In the case of Seattle, these delays in new work awards are expected to reverse in the second half of 2007.

For the six months ended June 30, 2007, the Buildings segment reported revenues of $142 million compared to revenues of $168 million last year. The $25 million year-over-year decline occurred for reasons similar to those cited above for the second quarter revenue reduction.

Segment operating profit in the second quarter of 2007 was $2.2 million lower than last year. While operations in Ottawa, Atlantic Canada and Vancouver continued to show operating profit improvements, these improvements were offset mostly by a decline in Toronto operations where operating profits declined $2.8 million quarter-over-quarter. The Toronto results were impacted by several factors including lower margins caused by the reduced revenue levels and from the impact of $0.8 million from restructuring costs incurred as part of the ongoing implementation of the strategic plan to improve the operating results of this business.

For the six months ended June 30, 2007, the Buildings segment generated an operating loss of $1.2 million, down $1.9 million from the same period in 2006. Declines in the Toronto and Seattle operations of $3.7 million and $0.7 million, respectively, offset improvements in the balance of the Buildings operating units. Similar to the second quarter, lower volumes and restructuring costs in the segment's Toronto operations were the primary causes for the decline in operating profits.

Backlog of $349 million at the end of the second quarter of 2007 was $172 million higher than at the same time last year. Significant new contract awards totaling $259 million were recorded in the second quarter, which compares with awards of only $24 million in the same period of 2006, while awards of $301 million in the first six months compared to $57 million in the first half of 2006. The Toronto, Ottawa and Montreal operations reported the largest increases, with new awards booked in the current quarter of $113 million, $72 million and $60 million, respectively.

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

## INDUSTRIAL

**Financial Highlights**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| **$ millions** | **2007** | 2006 | **2007** | 2006 |
| **Revenues** | **$ 92.6** | $ 67.8 | **$ 166.7** | $ 120.8 |
| **Segment operating profit** | **7.0** | 2.1 | **9.9** | 2.5 |
| **Capital charges and allocations of corporate overheads** | **(2.1)** | n/a | **(4.3)** | n/a |
| **Segment profit before income taxes** | **4.9** | n/a | **5.6** | n/a |
| **Return on revenue** | **7.5%** | 3.1% | **6.0%** | 2.1% |
| **Backlog – June 30** | **$ 330** | $ 183 | | |

Second quarter revenues in the Industrial segment of $93 million were $25 million higher than in the same period in 2006. Revenues increased quarter-over-quarter in all operating units. In 2007, revenues of $41 million from construction operations in Ontario were up $11 million from the prior year, mostly as a result of increases in work in the nuclear sector. Revenues from the segment's Western Canada operations this quarter were $32 million compared to $28 million in 2006, with revenue increases from site construction projects offsetting revenue declines from module assembly and pipe fabrication projects. Fabrication revenues of $12 million from the segment's Ontario and Eastern Canada operations were $3 million higher than in 2006, primarily from volume growth in Eastern Canada. Revenues of $9 million for the second quarter from IST, which sells and licenses the

technology for "once through" heat recovery steam generators ("OTSG"), were up $7 million from the prior year reflecting the impact of new orders received in late 2006 and in the first half of 2007.

For the six months ended June 30, 2007, the Industrial segment reported revenues of $167 million compared to revenues of $121 million last year, a $46 million increase. Similar to the second quarter, increases in revenues were reported in all operating units.

In the second quarter of 2007, the Industrial segment generated an operating profit of $7.0 million compared to $2.1 million last year. Of the $4.9 million improvement, Ontario Construction, Western Canada and IST operations were up $1.0 million, $1.9 million, and $2.5 million, respectively. Fabrication, which was down $0.4 million from last year, was the only unit to report a decline in earnings.

Ontario Construction operating profits in the second quarter increased from $1.7 million in 2006 to $2.7 million in 2007, driven primarily by higher margins from work in the nuclear sector. Western Canada operating results increased from $2.2 million in 2006 to $4.1 million in 2006. Higher volumes of, and higher margin levels from, site construction projects, as well as better pricing on module assembly and pipe fabrication projects, contributed to the improvement in operating profits. The decline in Fabrication profits occurred in the segment's Eastern Canadian operations where higher margins were more than offset by higher operating costs. Notably, operating profits improved significantly this quarter in IST, driven by the significant increase in production volumes quarter-over-quarter. IST reported an operating profit of $0.2 million compared to a loss of $2.3 million in 2006.

For the six months, the Industrial segment generated an operating profit of $9.9 million compared to $2.5 million last year. Of the $7.4 million improvement, Ontario Construction, Western Canada, Fabrication operations and IST were up $2.2 million, $2.8 million, $0.3 million, and $2.3 million, respectively. The improvement in Ontario Construction and Western Canada operating results is largely a function of the higher volumes in 2007. The Fabrication operating results increased primarily as a result of the improvement in the Ontario operations, partially offset by decline in the fabrication operations in Eastern Canada where productivity issues negatively impacted operating results. For IST, the improvement in operating results is a direct result of the higher production volumes associated with the higher contract bookings and thus higher production levels in 2007, offset partially by unfavourable foreign exchange impacts in the current year.

Backlog at June 30, 2007 of $330 million is $147 million higher than at the same time last year. In Western Canada operations, backlog of $147 million is up $115 million from last year primarily because of new module assembly and pipe fabrication project awards. IST backlog of $48 million is up $40 million with the receipt of new awards in the fourth quarter of 2006 and first half of 2007. Although down slightly from last year, Ontario Construction backlog remains strong at $120 million. Overall, new contract awards of $197 million in the current quarter are $119 million higher than in 2006, and new awards of $311 million for the six months of 2007 are $178 million higher than 2006. Most of the increase in awards occurred in Western Canada and IST.

As discussed in the Consolidated Financial Highlights section, significant commitments made to Aecon based on general contracts, supplier of choice and alliance agreements do not necessarily show

up as firm backlog. Therefore, to the extent that the volume of work to be performed under these arrangements is expected to be significant, Aecon's effective backlog at any given time is greater than what is reported.

## CONCESSIONS

### Financial Highlights

| $ millions | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Revenues** | **$ 13.6** | $ 5.0 | **$ 27.3** | $ 10.6 |
| **Segment operating profit (loss)** | **1.2** | (1.2) | **2.6** | (1.9) |
| **Capital charges and allocations of corporate overheads** | **(2.1)** | n/a | **(4.2)** | n/a |
| **Segment loss before income taxes** | **(0.9)** | n/a | **(1.6)** | n/a |
| **Return on revenue** | **9.1%** | (24.2)% | **9.6%** | (18.0)% |

Revenues in the Concessions segment were $14 million in the current quarter, a $9 million increase compared to 2006. For the first six months of 2007, revenues were $27 million, a $17 million increase over the same period in 2006. In both the second quarter of 2007 and year-to-date, the majority of the revenue increase came from the Quito airport project, which generated revenues of $8 million in the second quarter of 2007 and $16 million for the first half of 2007. Since the reporting of revenues from the Quito airport concessionaire began in the third quarter of 2006, no amounts were reported during the first two quarters of 2006.

Aecon's long-term investment in Derech Eretz Highways (1997) Ltd. ("Derech Eretz"), the company owning the concessionaire rights to the Cross Israel Highway, is carried at cost and, as a result, income is only recognized to the extent of dividends received (i.e. a profit distribution) or when a portion of this investment is sold. As such, even though the Cross Israel Highway is performing well, and is generating strong operating cash flow, Aecon has not reported any revenues and profits from this investment. The project remains on track to deliver an expected 15% after tax internal rate of return ("IRR") on Aecon's investment. In July 2007, Derech Eretz redeemed a portion of its subordinated debt of which Aecon's share was approximately US$10 million. For accounting purposes, this repayment is being treated as a return of capital and, as such, will have no impact on Aecon's reported earnings. After reducing the carrying value of Aecon's investment in Derech Eretz by the US$10 million, the balance will be approximately $32 million.

The segment operating profit of $1.2 million in the second quarter of 2007 was an improvement of $2.5 million compared to the same quarter last year, while the operating profit of $2.6 million for the six months was $4.5 million higher than in 2006. The Quito airport concessionaire, which includes the results from operating the existing airport while the new airport is being constructed, was the main contributor to the improvement in operating profit. Net operating margin earned from the Quito airport project, before amortization charges, was $11.1 million in the first six months. After deducting amortization expenses ($7.2 million) on concession rights related to the existing airport, the

operating profit contribution of the Quito airport concessionaire was $4.0 million in the first six months of 2007. As noted above, results from the Quito airport concessionaire were not included in Aecon's results in the first half of 2006.

Aecon does not include in its reported backlog expected revenues from operations management contracts and concession agreements. As such, while Aecon expects future revenues from its concession assets, no concession backlog is reported at June 30. Therefore, the effective backlog is greater than what is reported.

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

## CORPORATE AND OTHER

**Financial Highlights**

| | **Three Months Ended June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| **$ millions** | **2007** | 2006 | **2007** | 2006 |
| **Net Corporate expenses before interest income** | **$ (2.4)** | $ (3.3) | **$ (5.6)** | $ (6.4) |
| **Interest income** | **0.7** | 0.6 | **1.9** | 0.9 |
| **Segment operating loss** | **(1.7)** | (2.7) | **(3.7)** | (5.5) |
| **Capital charges and allocations of corporate overheads** | **9.5** | n/a | **18.3** | n/a |
| **Segment profit before income taxes** | **7.8** | n/a | **14.6** | n/a |

Net Corporate expenses (before interest income and corporate allocations to the operating segments) for the current quarter were $2.4 million compared to $3.3 million in 2006. The primary contributor to the reduction in corporate expenses was the favourable impact of foreign exchange gains and losses. In the current quarter, foreign exchange gains were $1.0 million compared to exchange losses in the same period last year of $0.3 million, resulting in an improvement of $1.3 million. These foreign exchange gains were partially offset by higher incentive costs in the current quarter.

Net Corporate expenses for the first six months of 2007 were $5.6 million compared to $6.4 million for the same period last year. Again, the primary contributor to the year-to-date reduction was the favourable impact of foreign exchange gains and losses, as discussed above.

Interest income earned in the second quarter of $0.7 million was only slightly higher than the same period last year, whereas interest income of $1.9 million in the first half of 2007 was $1 million higher than the same period in 2006. The higher interest income reported in the current six-month period is primarily related to Aecon's proportionate share of investment income earned by various joint ventures on their cash and investment balances. Cash balances held by joint ventures were

higher than normal, primarily because of significant advance client payments received in the first quarter.

### Quarterly Financial Data

The reader is referred to the Company's 2006 Management Discussion and Analysis for an analysis of the results of the eight quarters that ended December 31, 2006.

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

| (unaudited) | 2007 | | 2006 | | | | 2005 | |
|---|---|---|---|---|---|---|---|---|
| | Quarter 2 | Quarter 1 | Quarter 4 | Quarter 3 | Quarter 2 | Quarter 1 | Quarter 4 | Quarter 3 |
| Revenues | $ 338.3 | $ 241.8 | $ 338.0 | $ 316.0 | $ 258.7 | $ 200.6 | $ 323.5 | $ 340.8 |
| Net income (loss) | 9.7 | (3.0) | 10.6 | 12.8 | (1.0) | (10.9) | 3.5 | 2.1 |
| Earnings (loss) per share: | | | | | | | | |
| Basic | 0.26 | (0.08) | 0.29 | 0.35 | (0.03) | (0.36) | 0.12 | 0.07 |
| Diluted | 0.24 | (0.08) | 0.29 | 0.34 | (0.03) | (0.36) | 0.11 | 0.07 |

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Aecon holds a 42.3% economic interest in Corporacion Quiport S.A. ("Quiport JV"), an Ecuadorian company, whose main operations consist of managing and operating the existing Quito Airport, and the development, construction, operations and maintenance of the new Quito International Airport under a concession arrangement. Aecon's investment in the Quiport JV is accounted for by the proportionate consolidation method, whereby the Consolidated Financial Statements reflect, line by line, Aecon's pro-rata share of each of the assets, liabilities, revenues, expenses and cash flows of Quiport JV. Given the significant effect of Quiport JV on Aecon's Consolidated Financial Statements, and in order to provide additional information about the Quiport JV operations and assets, which act as security for project debt, Aecon provides consolidating balance sheet and cash flow worksheets in note 15 to the June 30, 2007 Interim Consolidated Financial Statements as additional information about its accounts, thereby enabling the reader to have a greater understanding of Aecon's underlying assets, earnings base and financial resources.

**Cash and Debt Balances**

Cash and cash equivalents at June 30, 2007 was $38.7 million, which compares with $50.1 million at December 31, 2006. Of these amounts, $37.3 million and $42.2 million, respectively, were on deposit in joint venture bank accounts, which Aecon cannot access directly.

Restricted cash of $33.8 million at June 30, 2007 (December 31, 2006 - $13.2 million) represents cash that was deposited as collateral for borrowings and letters of credit issued by Aecon. As such, this cash was not available for general operating purposes. Restricted marketable securities and term deposits of $2.2 million at June 30, 2007 (December 31, 2006 - $15.2 million) were all held within joint ventures and, similar to cash held by joint ventures, these securities cannot be accessed directly by Aecon. The net increase in restricted balances of $7.6 million arose primarily from advance payments received on certain joint venture projects.

Interest bearing debt amounted to $205.2 million at June 30, 2007, compared to $160.9 million at December 31, 2006, the composition of which is as follows ($ millions):

| | **June 30, 2007** | Dec. 31, 2006 |
|---|---|---|
| Bank indebtedness | **$ 14.9** | $ 15.0 |
| Current portion of long-term debt | **10.4** | 4.8 |
| Long-term debt – recourse | **51.2** | 14.7 |
| Long-term debt - non-recourse | **69.8** | 66.4 |
| Convertible debentures | **58.9** | 60.0 |
| **Total interest bearing debt** | **$ 205.2** | $ 160.9 |
| | | |
| Interest bearing debt held directly | **127.9** | 86.2 |
| Interest bearing debt of joint ventures | **77.3** | 74.7 |
| Total | **$ 205.2** | $ 160.9 |

Bank indebtedness of $14.9 million at the end of June 2007 included $7.5 million of borrowings representing Aecon's 45% share of funds borrowed by the Nathpa Jhakri hydro-electric project joint venture in India, and $7.4 million from Aecon's operating line of credit. Bank indebtedness of $15.0 million at the end of December 2006 included $8.2 million of borrowings on the India project, and $6.8 million from Aecon's operating line of credit.

At June 30, 2007, long-term debt and convertible debentures, including the current portion, totaled $190.3 million compared to $145.9 million at the end of 2006. The $44.4 million net increase results mainly from the additional debt incurred and assumed to finance the acquisition of The Karson Group in the first quarter of 2007 (see note 10 to the 2007 Interim Consolidated Financial Statements). Also, long-term debt increased by $8.9 million as a result of incremental borrowings under a new term debt facility that was established in the second quarter and by $3.5 million of non-recourse debt related to the Quito project.

In the second quarter, Aecon signed a new three-year credit agreement that replaced a number of existing credit facilities. The credit facility provided by a syndicate of lenders includes a three-year

term loan facility for $15,000, which is fully drawn, and a three-year committed revolving operating line of $50,000 to fund working capital and operating requirements. At June 30, 2007, $14 million of this facility was utilized to secure letters of credit. In addition to the term loan and operating line, a special letter of credit facility has been provided that enabled Aecon to replace guarantees related to a completed project in India previously provided by Hochtief AG. This additional facility increases the effective credit provided to $90 million. Further details relating to Aecon's operating lines are described in note 5 to the June 30, 2007 Interim Consolidated Financial Statements. Aecon also had $58.9 million outstanding in convertible debentures, details of which are described in note 7 to the June 30, 2007 Interim Consolidated Financial Statements.

Aecon's liquidity position and capital resources continue to strengthen, and are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future. Of note, Aecon's cash flows from operations in fiscal 2006 were approximately $26 million higher than in fiscal 2005, and continued to improve in the first half of 2007 with cash flows from operations approximately $27 million higher than in the first half of 2006.

Future equity investments of US$18 million by Aecon in the Quito airport concessionaire are expected to be funded by the periodic distribution of profits from construction of the new Quito airport. To date, Aecon has invested US$15.7 million in equity and has deposited US$1.5 million with Export Development Canada ("EDC") in support of letters of credit issued by EDC on the Quito airport project. These EDC deposits are included in restricted cash on the consolidated balance sheets at June 30, 2007.

## Summary Of Cash Flows

| | Consolidated Cash Flows | | Cash Flows Excluding Quiport JV | |
|---|---|---|---|---|
| | Six Months Ended June 30 | | Six Months Ended June 30 | |
| **$ millions** | **2007** | 2006 | **2007** | 2006 |
| **Cash provided by (used in):** | | | | |
| Operating activities | **$ 1.4** | $ (25.3) | **$ (4.2)** | $ (19.7) |
| Investing activities | **(40.2)** | (9.3) | **(29.2)** | (6.6) |
| Financing activities | **29.1** | 57.2 | **20.0** | 13.2 |
| Increase (decrease) in cash and cash equivalents | **(9.7)** | 22.6 | **(13.4)** | (13.0) |
| Effects of foreign exchange on cash balances | **(1.7)** | (0.3) | **(0.8)** | (0.3) |
| Cash and cash equivalents - beginning of period | **50.1** | 27.0 | **41.8** | 27.0 |
| Cash and cash equivalents - end of period | **$ 38.7** | $ 49.3 | **$ 27.6** | $ 13.7 |

## Operating Activities

Cash used by operating activities of $14.0 million in the second quarter of 2007 is $13.1 million better than last year, while cash provided by operating activities of $1.4 million in the first six months of 2007 was $26.7 million better than in the same period last year. The large year-over-year improvement is due to higher earnings in the current quarter (an improvement of approximately $11

million in the current quarter) and lower investments in working capital of approximately $2 million in the quarter. Included in cash flows from operating activities is the impact of the consolidation of Aecon's $6 million proportionate share of cash generated by Quiport (the Quito concession Joint Venture) operations. This cash arose primarily from operating the existing Quito airport.

**Investing Activities**

For the second quarter, investing activities resulted in a use of cash of $16.0 million, which compares with cash used of $6.7 million in 2006. Of the $16.0 million of cash used in the second quarter, the majority relates to construction of the new Quito airport (i.e. increase in concession rights of $10.1 million) in 2007. In the second quarter of 2006, the largest use of cash related to an increase in other assets of $4.5 million, which consisted mostly of additional start-up costs on the Quito airport project.

For the six months, investing activities resulted in a use of cash of $40.2 million, which compares with cash used of $9.3 million in 2006. Of the $40.2 million, $11.0 million represents Aecon's proportionate share of the cash used by Quiport which primarily relates to construction of the new Quito airport (i.e. increase in concession rights of $13.6 million). Also, during the first quarter of 2007, Aecon used $13.9 million of cash to partially fund the acquisition of the Karson Group (see note 10 to the June 30, 2007 Interim Consolidated Financial Statements), and also increased its restricted cash and marketable securities balances, primarily held in connection with the Quito project, by $9 million. In the first six months of 2006, the largest use of cash related to an increase in other assets of $6.9 million, and consisted mostly of start-up costs on the Quito airport project.

**Financing Activities**

In the second quarter of 2007, cash provided by financing activities amounted to $22.5 million, compared to $54.6 million in 2006. During 2007, issuances of long-term debt amounted to $34.3 million while repayments totalled $17.3 million, for a net change of $17.0 million. Of the increase in long-term debt, $9 million relates to Aecon's proportionately consolidated share of additional financing for the new Quito airport project. In addition, $15 million was borrowed in the current quarter under Aecon's new term debt facility, of which $6.1 million was used to repay existing debt and $8.9 million was used to fund current operations. The balance of the financing activities primarily related to increased utilization of Aecon's operating line of credit of $7.4 million. In the quarter ended June 30, 2006, cash generated from financing activities amounted to $54.6 million. The largest component ($39.3 million) related to Aecon's proportionately consolidated share of the financing for the new Quito International Airport Project. In addition, $10.0 million was borrowed on the Company's revolving term facility to fund current operations.

For the six months ended June 30, 2007, cash generated from financing activities amounted to $29.1 million, compared to $57.2 million in 2006. In addition to the second quarter financing items noted above, debt of $12.7 million was incurred in the first quarter to finance the acquisition of The Karson Group. During the first six months of 2006, Aecon issued common shares for net proceeds of approximately $27 million, plus an additional $1 million in proceeds were received upon the exercise of stock options. Also, increases in long-term debt in 2006 included the financing for the new Quito International Airport Project of $39.3 million (as noted above) less a net repayment of $11.9 million of long term debt outstanding on the Company's revolving term facility.

## NEW ACCOUNTING STANDARDS

The CICA has issued four new accounting standards: CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; Section 1530, Comprehensive Income; and Section 3251, Equity. These standards are substantially harmonized with U.S. GAAP and were effective for Aecon beginning January 1, 2007. The principal impacts of the standards are as follows:

Financial assets are classified as available for sale, held to maturity, trading, or loans and receivables. Financial liabilities are classified as trading or other. Upon adoption of the new standards, all financial assets and financial liabilities were recorded on the balance sheet at fair value with the corresponding charge or credit going to retained earnings. Subsequent balance sheet measurement of these financial assets and liabilities depends on their classification for reporting purposes. Assets that are classified as "held-to-maturity assets", which covers fixed-maturity instruments that Aecon intends to and is able to hold to maturity, are accounted for at amortized cost using the effective interest method. Loans and receivables are also accounted for at amortized cost using the effective interest method. Trading assets continue to be accounted for at fair value with realized and unrealized gains and losses reported through net income. The majority of the remaining assets are classified as available for sale and measured at fair value with unrealized gains and losses recognized through other comprehensive income. Certain assets and liabilities may be designated as trading under the fair value option.

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

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

Application of these standards has not had a material impact on Aecon's balance sheet and statement of operations other than a $0.4 million reduction in opening retained earnings to reflect fair value adjustments related to accounts receivable holdback and accounts payable holdback balances. See note 2 to the 2007 Interim Consolidated Financial Statements for further details.

## SUPPLEMENTAL DISCLOSURES

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

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

### Changes in Internal Controls Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting that occurred during the most recent interim periods ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting except for the acquisition of The Karson Group during the first quarter for which internal controls have yet to be fully evaluated.

### Contractual Obligations

At December 31, 2006, the Company had commitments totalling $204.7 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 12 to the 2006 Consolidated Financial Statements). The only material changes since year end were the additional debt incurred as part of the purchase of the operations of the Karson Group (approximately $35 million), the additional net debt borrowings of approximately $9 million under the new credit facility, and additional non-recourse debt on the Quito project of $3.5 million.

At June 30, 2007, Aecon had contractual obligations to complete projects that were in progress. The revenue value of these contracts was $1,289 million. This consists of the reported backlog of $1,208 million plus an additional $81 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, Israel and Quito, Aecon has provided various financial and performance guarantees and letters of credit, which are described in note 6 to the 2007 Interim Consolidated Financial Statements.

There was no material change in the funded status of Aecon's pension plans during the first six months of 2007. Details relating to Aecon's defined benefit plans are set out in note 19 to the Company's 2006 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 June 30, 2007, the Company had net outstanding contracts to sell EURO 12.1 million and US$13.6 million (December 31, 2006 - sell US$0.8 million) on which there was a net unrealized exchange gain of $0.9 million (2006 - net loss of $0.03 million). The net unrealized exchange gain (loss) represents the estimated amount the Company would have received/paid if it terminated the contracts at the end of the respective periods. Financial instruments are discussed in note 13 to the 2007 Interim Consolidated Financial Statements.

**Related Party Transactions**

There were no significant related party transactions since December 31, 2006.

Refer to note 12 to the 2007 Interim Consolidated Financial Statements for details of 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 2006 Consolidated Financial Statements and in the 2006 Annual MD&A.

**Outstanding Share Data**

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

(in thousands of dollars, except share amounts)

| | June 30, 2007 | August 7, 2007 |
|---|---|---|
| Number of common shares outstanding (1) | 37,979,982 | 37,993,315 |
| Paid-up capital of common shares outstanding (2) | $ 131,345 | $ 131,433 |
| Outstanding securities exchangeable or convertible into common shares: | | |
| Number of stock options outstanding | 1,111,150 | 1,101,150 |
| Number of common shares issuable on exercise of stock options | 1,111,150 | 1,101,150 |
| Increase in paid-up capital on exercise of stock options | $ 6,761 | $ 6,698 |
| Principal amount of convertible debentures outstanding (see note 7 to the 2007 Interim Consolidated Financial Statements) | $ 58,863 | $ 58,839 |
| Number of common shares issuable on conversion of convertible debentures | 8,266,982 | 8,263,649 |
| Increase in paid-up capital on conversion of convertible debentures | $ 58,863 | $ 58,839 |

(1) Number of common shares outstanding excludes shares held by the trustee of Aecon's LTIP plan (see note 8 to the 2007 Interim Consolidated Financial Statements).

(2) As described in note 8 to the 2007 Interim Consolidated Financial Statements, and in accordance with the recommendations of The Canadian Institute of Chartered Accountants, share capital has been reduced by $0.5 million on account of share purchase loans receivable from employees and by $3.5 million to reflect shares held by the trustee of the LTIP plan.

## OUTLOOK

As the second half of 2007 begins, most of the key trends that shaped Aecon's outlook in the first half of the year remain in place.

Infrastructure Segment

The outlook for Aecon's Infrastructure segment continues to be strong. Demand in the key roadbuilding, utilities construction and heavy civil construction markets in Ontario remain above historical norms and is expected, particularly within the heavy civil sector, to drive increased segment earnings in Ontario. In addition, the first quarter acquisition of The Karson Group will add to Aecon's 2007 earnings in both the roadbuilding and materials sectors.

Aecon's new civil construction business in Alberta also continues to strengthen and is expected to generate profit contributions in 2007 after posting near break-even results last year in its first year of operation.

Internationally, the sale of Aecon's right to participate in the joint venture constructing the new 'Section 18' extension of the Cross Israel Highway has added to this segment's profit contribution in 2007. And, as previously stated, construction of the new Quito Airport is scheduled to reach 20% completion late in 2007, which will trigger the recording of profit from the project. Aecon is a 50% partner in the joint venture that is constructing this US$414 million airport, which is scheduled for completion in 2010.

The potential resolution of some of the contract issues surrounding two completed projects, the Nathpa Jhakri hydro-electric project in India and the Eastmain hydro-electric project in northern Quebec, may have positive cash and working capital impacts, but neither is expected to have any material impact on earnings, and such resolutions may yet not occur until 2008.

Buildings Segment

The Buildings segment continues to operate in a very competitive market, especially in the Greater Toronto Area (GTA) where market conditions and Aecon's competitive positioning are not yet as strong as those in the Infrastructure and Industrial segments.

As reported last quarter, a decline in contribution from segment operations in the GTA (due in part to completion of a large project at Pearson International Airport and the cost of a recent restructuring implemented as part of management's plan to improve the competitive profile and profitability of this business), is expected to result in a drop in segment contributions in 2007.

However, due to a substantial increase in new business awards this quarter, segment backlog is now higher than at any time since early 2005. Further, a strengthening pipeline of new business opportunities in the second half of the year is expected to result in segment backlog at year end reaching its highest level in five years.

This improved sales and backlog outlook, evidence that Aecon's re-focused strategy in the Buildings segment is achieving positive results, and continued strong results from segment operations in Seattle, Vancouver, Ottawa, Montreal and Halifax, contribute to a strengthened mid-term outlook for the Buildings segment.

Notable and positive trends in the segment continue to include the growth of healthcare related construction, particularly in Ontario, but also in Quebec and Atlantic Canada, the growing demand for LEED certified construction (a particular focus of Aecon's Quebec business), the strong Native gaming market in the U.S. Pacific northwest, and significant growth in the Vancouver buildings market.

Industrial Segment

Aecon's Industrial segment continues to benefit from growth in Alberta's oil and gas sector and from the drive to increase electrical generation capacity in Ontario. The ongoing strength of these two markets, combined with IST's improving outlook, continues to drive the segment's focus on the energy sector.

IST's backlog at the end of the second quarter is the highest it's been since 2001, and is expected to result in improved operating results through the balance of 2007. In addition, the expanded market created by its new joint venture to produce enhanced oil recovery steam generators for the oil and gas industry, and its recently announced cooperation agreement with Italian manufacturer Macchi, also serve to strengthen IST's mid-term outlook .

In Alberta, the ongoing high levels of investment in the energy sector (particularly in the oilsands), and the resulting strong module backlog, are expected to result in another good year in 2007.

In Ontario, Aecon's expanding maintenance activities at power facilities across the province, as well as its significant joint venture contract at the Bruce Nuclear facility and the government's ongoing commitment to expand generation capacity, are expected to result in continued strong profit contributions.

Concessions Segment

The Concessions segment should generate improved contributions in 2007 as a result of having the benefit of a full year of operations from the existing airport in Quito, Ecuador. Traffic at the airport continues to grow, with more than two million passengers passing through the airport in the first half of the year, an increase of almost 14% since the first half of 2006.

The Cross Israel Highway also continues to perform well, with traffic ramping up as anticipated. Average weekday trips in June surpassed 90,000, an increase of over 13% since June of last year. The recent financial close of the 'Section 18' extension resulted in the monetization of approximately US$10 million of Aecon's investment in the highway, and work continues to monetize a further portion of this investment. The continued strong performance of this asset reinforces management's view that it holds significant value in excess of Aecon's investment.

Backlog

Aecon's backlog of work on hand reached a record $1.208 billion at June 30, 2007, an increase of $396 million from the same time last year and $371 million from the end of the first quarter, reflecting the continued strengthening of Aecon's core markets. Backlog increases were recorded over the past 12 months in each of the three segments which report backlog data (expected revenues from operations management contracts and concession agreements are not included in Aecon's reported backlog).

Conclusion

The net income reported this quarter brings Aecon's earnings per share over the past twelve months to a level in excess of the target of $0.75 that management had established for fiscal 2008.

Although Aecon may be required to begin tax effecting earnings once again in 2008, management continues to believe that Aecon's growing backlog and the ongoing strength of its core markets, especially in the energy and transportation infrastructure sectors, bode well for continued pre-tax earnings growth beyond 2007. Management will now return to the practice of offering directional guidance on expected market and performance trends rather than specific EPS guidance.

## 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, and failure to achieve the targets associated with the construction of the new Quito Airport or operation of the existing Quito airport. Risk factors are discussed in greater detail in the section on "Risk Factors" in the Annual Information Form filed on March 30, 2007 and available at www.sedar.com. Forward-looking statements include information concerning possible or assumed future results of operations or financial position of Aecon, as well as statements preceded by, followed by, or that include the words "believes," "expects," "anticipates," "estimates", "projects," "intends," "should" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of Aecon and could cause those results to differ materially from those expressed in any forward-looking statements.

# Aecon Group Inc.

Consolidated Financial Statements
(Unaudited)

June 30, 2007 and 2006

## 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 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

August 7, 2007

# Aecon Group Inc.

Consolidated Balance Sheets

(in thousands of dollars) (unaudited)

| | June 30, 2007 | December 31, 2006 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ **38,653** | $ 50,109 |
| Restricted cash | **33,791** | 13,195 |
| Restricted marketable securities and term deposits | **2,186** | 15,224 |
| Accounts receivable | **233,823** | 208,689 |
| Holdbacks receivable | **59,269** | 58,282 |
| Deferred contract costs and unbilled revenue | **93,617** | 90,312 |
| Inventories | **16,316** | 9,045 |
| Prepaid expenses | **7,222** | 6,511 |
| | **484,877** | 451,367 |
| **Property, plant and equipment** | **83,343** | 53,348 |
| **Future income tax assets** | **19,046** | 19,046 |
| **Concession rights** (note 3) | **115,651** | 120,088 |
| **Long-term investment** | **42,733** | 42,733 |
| **Other assets** | **27,736** | 29,705 |
| | $ **773,386** | $ 716,287 |

# Aecon Group Inc.

Consolidated Balance Sheets *...continued*

(in thousands of dollars) (unaudited)

| | June 30, 2007 | December 31, 2006 |
|---|---|---|
| **Liabilities** | | |
| **Current liabilities** | | |
| Bank indebtedness | $ **14,887** | $ 15,036 |
| Accounts payable and accrued liabilities | **189,430** | 190,020 |
| Holdbacks payable | **29,525** | 30,666 |
| Deferred revenue | **79,115** | 64,444 |
| Income taxes payable | **4,654** | 2,044 |
| Future income tax liabilities | **22,011** | 23,160 |
| Current portion of long-term debt (note 5) | **10,407** | 4,797 |
| | **350,029** | 330,167 |
| **Non-recourse project debt** (note 5) | **69,717** | 66,252 |
| **Other long-term debt** (note 5) | **51,319** | 14,868 |
| **Other liabilities** | **3,119** | 3,062 |
| **Other income tax liabilities** | **14,174** | 13,994 |
| **Concession related deferred revenue** | **68,230** | 74,353 |
| **Convertible debentures** (note 7) | **58,863** | 59,988 |
| | **615,451** | 562,684 |
| **Non-controlling interests** | **381** | - |
| **Commitments and contingencies** (note 6) | | |
| **Shareholders' Equity** | | |
| Capital stock (note 8) | **131,345** | 131,975 |
| Contributed surplus (note 8) | **1,443** | 1,329 |
| Convertible debentures (note 7) | **4,141** | 4,146 |
| Retained earnings | **22,921** | 16,543 |
| Accumulated other comprehensive loss (note 2) | **(2,296)** | (390) |
| | **157,554** | 153,603 |
| | $ **773,386** | $ 716,287 |

**Approved by the Board of Directors**

(signed) John M. Beck, Director

(signed) Michael A. Butt, Director

# Aecon Group Inc.

Consolidated Statements of Operations

**For the three months ended June 30, 2007 and 2006**

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

| | 2007 | 2006 |
|---|---|---|
| **Revenues** | $ **338,271** | $ 258,739 |
| **Costs and expenses** | **(305,966)** | (241,149) |
| | **32,305** | 17,590 |
| **Marketing, general and administrative expenses** | **(15,495)** | (13,802) |
| **Foreign exchange losses** | **(426)** | (1,037) |
| **Gain on sale of assets** (note 16) | **3,399** | 80 |
| **Depreciation and amortization** | **(6,336)** | (1,956) |
| **Interest expense** | **(3,060)** | (2,356) |
| **Interest income** | **678** | 551 |
| | **(21,240)** | (18,520) |
| **Income (loss) before income taxes and non-controlling interests** | **11,065** | (930) |
| **Income tax (expense) recovery** | | |
| Current | **(1,875)** | (58) |
| Future | **637** | - |
| | **(1,238)** | (58) |
| **Income (loss) before non-controlling interests** | **9,827** | (988) |
| **Non-controlling interests** | **(96)** | - |
| **Net income (loss) for the period** | $ **9,731** | $ (988) |
| **Net earnings (loss) per share** (note 8) | | |
| Basic | $ **0.26** | $ (0.03) |
| Diluted | $ **0.24** | $ (0.03) |
| **Average number of shares outstanding** (note 8) | | |
| Basic | **37,035,381** | 36,664,586 |
| Diluted | **46,907,228** | 38,073,526 |

# Aecon Group Inc.

## Consolidated Statements of Operations

**For the six months ended June 30, 2007 and 2006**

(in thousands of dollars) (unaudited)

| | 2007 | 2006 |
|---|---|---|
| **Revenues** | $ **580,056** | $ 459,314 |
| **Costs and expenses** | **(528,842)** | (435,347) |
| | **51,214** | 23,967 |
| **Marketing, general and administrative expenses** | **(30,455)** | (26,811) |
| **Foreign exchange losses** | **(561)** | (994) |
| **Gain on sale of assets** (note 16) | **3,387** | 77 |
| **Depreciation and amortization** | **(11,191)** | (3,796) |
| **Interest expense** | **(5,437)** | (5,085) |
| **Interest income** | **1,859** | 905 |
| | **(42,398)** | (35,704) |
| **Income (loss) before income taxes and non-controlling interests** | **8,816** | (11,737) |
| **Income tax (expense) recovery** (note 4) | | |
| Current | **(2,956)** | (198) |
| Future | **1,149** | - |
| | **(1,807)** | (198) |
| **Income (loss) before non-controlling interests** | **7,009** | (11,935) |
| **Non-controlling interests** | **(252)** | - |
| **Net income (loss) for the period** | $ **6,757** | $ (11,935) |
| **Net earnings (loss) per share** (note 8) | | |
| Basic | $ **0.18** | $ (0.35) |
| Diluted | $ **0.18** | $ (0.35) |
| **Average number of shares outstanding** (note 8) | | |
| Basic | **36,786,298** | 33,755,034 |
| Diluted | **46,594,895** | 36,072,150 |

(in thousands of dollars) (unaudited)

## Consolidated Statements of Comprehensive Income (Loss):

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| **Net income (loss) for the period** | **$ 9,731** | $ (988) | **$ 6,757** | $ (11,935) |
| **Other comprehensive income (loss), net of tax:** | | | | |
| Currency translation adjustments | **(1,856)** | - | **(1,906)** | - |
| **Comprehensive income (loss) for the period** | **$ 7,875** | $ (988) | **$ 4,851** | $ (11,935) |

## Consolidated Statements of Retained Earnings (Deficit):

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| **Retained earnings (deficit) - beginning of period** | **$ 13,182** | $ (5,939) | **$ 16,543** | $ 5,000 |
| Net income (loss) for the period | **9,731** | (988) | **6,757** | (11,935) |
| Change in accounting treatment for financial instruments (note 2) | **-** | - | **(400)** | - |
| Interest received on share purchase loans (note 8) | **8** | 10 | **21** | 18 |
| **Retained earnings (deficit) - end of period** | **$ 22,921** | $ (6,917) | **$ 22,921** | $ (6,917) |

## Consolidated Statements of Accumulated Other Comprehensive Loss:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Accumulated other comprehensive loss - beginning of period | **$ (440)** | $ - | **$ (390)** | $ - |
| Currency translation adjustments | **(1,856)** | - | **(1,906)** | - |
| **Accumulated other comprehensive loss - end of period** | **$ (2,296)** | $ - | **$ (2,296)** | $ - |

# Aecon Group Inc.

## Consolidated Statements of Cash Flows

**For the three months ended June 30, 2007 and 2006**

(in thousands of dollars) (unaudited)

| | 2007 | 2006 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net income (loss) for the period | $ **9,731** | $ (988) |
| Items not affecting cash - | | |
| Depreciation and amortization | **6,336** | 1,956 |
| Gain on sale of assets | **(3,399)** | (80) |
| Amortization of deferred financing charges | **-** | 169 |
| Amortization of commitment fees | **356** | - |
| Unrealized (gain) loss on foreign exchange | **(138)** | 984 |
| Non-cash interest on other income tax liabilities | **90** | 90 |
| Notional interest representing accretion | **694** | 208 |
| Defined benefit pension | **21** | (151) |
| Future income taxes | **(637)** | - |
| Stock-based compensation | **113** | 222 |
| | **13,167** | 2,410 |
| Change in other balances relating to operations (note 9) | **(27,122)** | (29,440) |
| | **(13,955)** | (27,030) |
| **Investing activities** | | |
| Decrease (increase) in restricted cash balances | **(3,852)** | (827) |
| Decrease (increase) in restricted marketable securities and term deposits | **237** | (182) |
| Purchase of property, plant and equipment | **(1,258)** | (367) |
| Proceeds on sale of property, plant, and equipment | **(105)** | 366 |
| Acquisition (note 10) | **(493)** | (192) |
| Concession rights (note 3) | **(10,088)** | (909) |
| Increase in other assets | **(518)** | (4,548) |
| Non-controlling interests | **99** | - |
| | **(15,978)** | (6,659) |
| **Financing activities** | | |
| Increase in bank indebtedness | **7,370** | 816 |
| Issuances of long-term debt | **34,330** | 49,300 |
| Repayments of long-term debt | **(17,291)** | (1,305) |
| Increase in concession related deferred revenue | **-** | 4,735 |
| Issuances of capital stock (note 8) | **243** | 1,080 |
| Repurchase of capital stock (note 8) | **(2,204)** | - |
| Interest received on share purchase loans (note 8) | **8** | 10 |
| | **22,456** | 54,636 |
| **(Decrease) increase in cash and cash equivalents** | **(7,477)** | 20,947 |
| **Effects of foreign exchange on cash balances** | **(1,594)** | (349) |
| **Cash and cash equivalents - beginning of period** | **47,724** | 28,744 |
| **Cash and cash equivalents - end of period** | $ **38,653** | $ 49,342 |

**Supplementary disclosure** (note 9)

# Aecon Group Inc.

## Consolidated Statements of Cash Flows

**For the six months ended June 30, 2007 and 2006**

(in thousands of dollars) (unaudited)

| | 2007 | 2006 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net income (loss) for the period | $ **6,757** | $ (11,935) |
| Items not affecting cash - | | |
| Depreciation and amortization | **11,191** | 3,796 |
| Gain on sale of assets | **(3,387)** | (77) |
| Amortization of deferred financing charges | **-** | 337 |
| Amortization of commitment fees | **376** | - |
| Unrealized gain (loss) on foreign exchange | **(187)** | 1,024 |
| Non-cash interest on other income tax liabilities | **180** | 180 |
| Notional interest representing accretion | **1,280** | 474 |
| Defined benefit pension | **(27)** | (306) |
| Future income taxes | **(1,149)** | - |
| Stock-based compensation | **226** | 635 |
| | **15,260** | (5,872) |
| Change in other balances relating to operations (note 9) | **(13,871)** | (19,473) |
| | **1,389** | (25,345) |
| **Investing activities** | | |
| Increase in restricted cash balances | **(22,097)** | (827) |
| Decrease (increase) in restricted marketable securities and term deposits | **13,071** | (88) |
| Purchase of property, plant and equipment | **(3,221)** | (896) |
| Proceeds on sale of property, plant, and equipment | **91** | 553 |
| Acquisition (note 10) | **(14,386)** | (192) |
| Concession rights (note 3) | **(13,586)** | (909) |
| Increase in other assets | **(488)** | (6,909) |
| Non-controlling interests | **399** | - |
| | **(40,217)** | (9,268) |
| **Financing activities** | | |
| Increase in bank indebtedness | **556** | 806 |
| Repayment of other loan payable (note 12 (c)) | **-** | (2,500) |
| Issuances of long-term debt | **47,029** | 49,300 |
| Repayments of long-term debt | **(17,694)** | (23,815) |
| Increase in concession related deferred revenue | **-** | 4,735 |
| Issuances of capital stock (note 8) | **854** | 28,695 |
| Repurchase of capital stock (note 8) | **(2,204)** | - |
| Repayment of share purchase loans (note 8) | **532** | - |
| Interest received on share purchase loans (note 8) | **21** | 18 |
| | **29,094** | 57,239 |
| **Decrease (increase) in cash and cash equivalents** | **(9,734)** | 22,626 |
| **Effects of foreign exchange on cash balances** | **(1,722)** | (286) |
| **Cash and cash equivalents - beginning of period** | **50,109** | 27,002 |
| **Cash and cash equivalents - end of period** | $ **38,653** | $ 49,342 |

**Supplementary disclosure** (note 9)

(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, 2006. 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 six-month periods ended June 30, 2007 are not necessarily indicative of results expected for the full fiscal year or any other future period.

## 2. Adoption of new accounting standards

Effective January 1, 2007, the Company adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook section 1530 "Comprehensive Income", Handbook section 3251 "Equity", Handbook section 3855 "Financial Instruments - Recognition and Measurement", and Handbook section 3865 "Hedges". The Company adopted these standards prospectively and accordingly, comparative amounts for prior periods have not been restated. See note 2 to the March 31, 2007 Interim Consolidated Financial Statements for a summary of the new accounting standards.

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

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

## 3. Concession rights

The Company has recorded concession rights as follows:

| | June 30, 2007 | December 31, 2006 |
|---|---|---|
| **Concession rights to operate the Existing Quito Airport, net of accumulated amortization of $13,299 (December 31, 2006 - $7,105)** | **$ 47,788** | $ 59,717 |
| **Concession rights to operate the new Quito Airport** | **67,863** | 60,371 |
| | **$ 115,651** | $ 120,088 |

**(a) Background information**

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

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

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

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

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

At June 30, 2007, $67,863 (December 31, 2006 - $60,371) representing the Company's proportionate share of the costs to construct the New Quito Airport have been recorded as Concession Rights to operate the New Quito Airport. Amortization of the Concession Rights to operate the New Quito Airport will commence after construction of the New Quito Airport is completed. As a result, there is no amortization expense recorded in the current period results.

The Company's investment in the Quito airport concession is accounted for by the proportionate consolidation method, whereby the consolidated financial statements reflect, line by line, the pro rata share of each of the assets, liabilities, revenues and expenses of the Quito airport concession. As a result, the consolidated financial statements include the Company's proportionate share of the non-recourse project debt used to finance the construction of the new airport (see note 5).

## 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:

| | Six months ended June 30 | |
|---|---|---|
| | **2007** | **2006** |
| Income (loss) before income taxes and non-controlling interests | **$ 8,816** | $ (11,737) |
| Statutory income tax rate | **36.1%** | 36.1% |
| Expected income tax (expense) recovery | **(3,183)** | 4,237 |
| Effect on income tax of: | | |
| Reduction (increase) in valuation allowance against future tax assets | **796** | (3,722) |
| Provincial and foreign rate differentials | **1,084** | (86) |
| Non-deductible expenses | **(235)** | (268) |
| Foreign exchange translation losses | **(213)** | (229) |
| Other | **(56)** | (130) |
| | **1,376** | (4,435) |
| Income tax (expense) | **$ (1,807)** | $ (198) |

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

## 5. Long-term debt

| | | June 30, 2007 | December 31, 2006 |
|---|---|---|---|
| Quiport JV project financing | | **$ 64,540** | $ 60,763 |
| Quiport JV CORPAQ debt | | **5,292** | 5,614 |
| **Non-recourse project debt** | | **69,832** | 66,377 |
| | | | |
| Capital leases and equipment loans | (a) | **21,225** | 11,082 |
| Term loan | (b) | **14,919** | - |
| Note payable | (c) | **17,452** | - |
| Mortgages | | **4,858** | 4,917 |
| Derech Eretz investment loan | | **1,438** | 1,457 |
| Investment loan | | **1,558** | 1,923 |
| Other | | **161** | 161 |
| **Other long-term debt** | | **61,611** | 19,540 |
| | | | |
| **Total long-term debt** | | **131,443** | 85,917 |
| Less: Amounts due within one year: | | | |
| - Non-recourse project debt | | **115** | 125 |
| - Other long-term debt | | **10,292** | 4,672 |
| | | **$ 121,036** | $ 81,120 |

The following describes the major changes to long-term debt during the six months ended June 30, 2007:

(a) On February 1, 2007, the Company entered into a term loan facility and borrowed $12,699 which was used to partially finance its acquisition of The Karson Group (see note 10). The term loan is secured by certain equipment of The Karson Group and bears interest rate at a fixed rate of 6.4%. The term loan will be amortized over a period of seven years with monthly payments.

(b) On June 8, 2007, the Company signed a new three-year credit agreement with a syndicate of lenders. The new credit facility includes a three-year term loan for $15,000, and a three-year revolving committed operating line for $50,000. The new facility replaced a number of existing loans and credit lines which totaled approximately $42,000. The new credit facility also includes a special letter of credit facility of approximately $25,000 used in relation to the Nathpa Jhakri hydro-electric project in India (see note 6). The credit agreement is secured by general security agreements over the assets of the Company including accounts receivable, holdbacks receivable, inventory, equipment, real estate assets and aggregate reserves on such properties. The facility has certain covenants to be calculated quarterly, and matures on June 15, 2010.

At June 30, 2007, the full amount of the $15,000 term loan had been borrowed under the agreement. This three-year term loan bears interest at prime plus 1.35% with interest payable monthly in arrears on the first day of each month. Commencing October 1, 2008, principal repayments of $500 are due quarterly with the remaining balance outstanding due on maturity. At June 30, 2007, the balance outstanding under the term loan facility, net of deferred financing charges of $81, was $14,919.

The three-year revolving operating line of $50,000 generally bears interest at prime plus 1.35%. Amounts outstanding under the operating line are reported as bank indebtedness on the Consolidated Balance Sheets. At June 30, 2007, bank indebtedness related to the revolving operating line was $7,379 and included cheques issued but not cleared of $15,691. Also at June 30, 2007, domestic letters of credits issued against the revolving operating line amounted to $14,102. As a result, $28,519 of the facility was available for drawdown by the Company.

The special letter of credit facility is being provided to replace guarantees in support of financial and performance related obligations for the Nathpa Jhakri hydro-electric project in India ("India Project") that were previously guaranteed by Hochtief AG ("Hochtief"), the parent of the Company's former principal shareholder. Letters of credit amounts available and outstanding under the special letter of credit facility total CAD$4,977 and US$18,776 (CAD$20,004) and expire on December 15, 2008.

(c) As partial consideration for the acquisition of The Karson Group in 2007 (see note 10), the Company issued a note payable in the amount of $21,225 to the vendor. This note payable is non-interest bearing and has been discounted at 8% to arrive at a fair value of $16,949 at the date of the acquisition. Commencing January 31, 2008, the note is payable in equal annual installments over a five-year period. During the three and six months ended June 30, 2007, the Company recorded interest expense of $338 and $565 respectively representing interest accretion on the note payable.

## 6. Guarantees

The Company has outstanding guarantees amounting to $25,656 (December 31, 2006 - $25,905) in support of financial and performance related obligations for the Nathpa Jhakri hydro-electric project in India. These guarantees are backed by letters of credit issued by the Company as described in note 5 (b).

In connection with the Cross Israel Highway project, the Company has provided two joint and several guarantees, a continuous guarantee, which guarantees the performance of the concessionaire in which the Company has a 25% interest and a leakage guarantee, which is a guarantee by the operator of the toll highway, in which the Company has a 30.60% interest, to the concessionaire and covers toll capture and collection rates generated from users of the highway during the operating period. These guarantees extend to the end of the concession period which ends in 2029. The continuous guarantee (at 100%) is in the amount of US$32,400 (CAD$34,520) (December 31, 2006 - US$32,400 or CAD$37,759) and is renewed annually to its full amount, irrespective of any drawings made thereunder. The Company has issued a letter of credit in the amount of US$8,100 (CAD$8,630) (December 31, 2006 - US$8,100 or CAD$9,440) to support its share of the continuous guarantee, and its partners have similarly posted letters of credit in support of their respective shares. The leakage guarantee (at 100%) came into effect when construction was completed and is renewable annually for the lesser of NIS33,000 plus escalation to-date (CAD$11,419) (December 2006 - NIS33,000 plus escalation or CAD$12,470) or 6% of annual toll revenue.

In addition to the above, the Company has provided letters of credit in the amounts of US$ 200 (CAD$213) (December 31, 2006 - US$200 or CAD$233), in support of working capital requirements of the operator of the toll highway, and NIS2,400 (CAD$600) (December 31, 2006 - NIS2,400 or CAD$663) to support a bid bond that was required by the concessionaire in connection with the construction of an extension to the Cross Israel Highway. These letters of credit are secured by cash.

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

In connection with the Quito Airport Project, the Company has provided letters of credit of US$19,700 (CAD$20,988) (December 31, 2006 - US$22,000 or CAD$25,639) in support of its remaining equity obligations and a letter of credit of US$30,203 (CAD$32,178) (December 31, 2006 - US$30,203 or CAD$35,199) for various project contingencies. These letters of credit are supported by guarantees issued on behalf of the Company to the issuing banks by Export Development Canada ("EDC") and will remain in place until its equity obligations are fulfilled and the conditions giving rise to the contingencies are satisfied or cleared. As a result of EDC issuing these guarantees, the Company was required to place in deposit with EDC the sum of US$1,500 (CAD$1,598) (December 31, 2006 - US$1,000 or CAD$1,165), which is classified as restricted cash on the consolidated balance sheets.

The Company has also issued letters of credit to secure advances received from the Quito construction joint venture in the sum of US$13,150 (CAD$14,010) (December 31, 2006 - US$9,500 or CAD$11,071). The cash received was used as collateral for the letters of credit.

In addition, the Company and Andrade Gutierrez have provided surety bonds, guaranteed joint and severally, to cover construction and concession related performance obligations of US$67,055 (CAD$71,440) (December 31, 2006 - US$67,055 or CAD$78,146), an advance payment bond of US$74,466 (CAD$79,336) (December 31, 2006 - US$74,466 or CAD$86,783) and a retention release bond of US$20,685 (CAD$22,038) (December 31, 2006 - US$20,685 or CAD$24,106), in each case the Company's share is supported by guarantees issued by EDC.

The Company has also issued performance guarantees of $7,719 (December 31, 2006 - $1,041) in respect of certain other international projects, which are supported by guarantees issued to the Company by EDC.

In addition, the Company has also issued, in the normal conduct of operations, letters of credit amounting to $13,377 (December 31, 2006 - $12,891) in support of financial and performance related obligations of certain domestic projects.

Under the terms of many of the Company's joint venture contracts with project owners, each of the partners is jointly and severally liable for performance under the contracts. At June 30, 2007, the value of uncompleted work for which the Company's joint venture partners are responsible, and which the Company could be responsible for assuming, amounted to approximately $368,502 (December 31, 2006 - $428,694), a substantial portion of which is supported by performance bonds. In the event the Company assumed this additional work, it would have the right to receive the partner's share of billings to the project owners pursuant to the joint venture contract.

The Company has, over time, sold portions of its business. Pursuant to the sale agreements, the Company may have 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.

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

## 7. Convertible debentures

Convertible subordinated debentures consist of:

| | | June 30, 2007 | December 31, 2006 |
|---|---|---|---|
| Debt component: | | | |
| Debenture maturing November 2, 2009 | **(a)** | **$ 28,330** | $ 28,872 |
| Debenture maturing March 17, 2010 | **(a)** | **30,533** | 31,116 |
| Debenture maturing June 30, 2006 | **(b)** | **-** | - |
| | | **$ 58,863** | $ 59,988 |
| Reported as: | | | |
| Long-term liability | | **$ 58,863** | $ 59,988 |
| Equity component: | | | |
| Debenture maturing November 2, 2009 | **(a)** | **$ 1,985** | $ 1,990 |
| Debenture maturing March 17, 2010 | **(a)** | **2,156** | 2,156 |
| Debenture maturing June 30, 2006 | **(b)** | **-** | - |
| | | **$ 4,141** | $ 4,146 |

(a) 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. During the quarter ended March 31, 2007, $70 of convertible debentures were converted into 9,333 common shares. At June 30, 2007, the face value of these convertible debentures which remains outstanding is $29,930 (December 31, 2006 - $30,000).

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. At June 30, 2007, the face value of these convertible debentures which remains outstanding is $32,500 (December 31, 2006 - $32,500).

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

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

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.

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

In 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 $62,430 at June 30, 2007 (December 31, 2006 - $62,500) and an annual notional interest representing the accretion of the carrying value of the debentures. For 2006, interest also included the amortization of deferred financing costs related to the debentures. On January 1, 2007, the unamortized portion of these costs was netted against the carrying value of the debentures. Interest recorded was as follows:

| | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Interest expense on face value | **$ 1,276** | $ 1,278 | **$ 2,553** | $ 2,654 |
| Notional interest representing accretion | **357** | 207 | **712** | 437 |
| Amortization of deferred financing costs | **-** | 147 | **-** | 294 |
| | **$ 1,633** | $ 1,632 | **$ 3,265** | $ 3,385 |

The liability portion of the debentures is as follows:

| | **June 30, 2007** | **December 31, 2006** |
|---|---|---|
| Financial liability component | **$ 56,517** | $ 58,354 |
| Notional interest representing accretion | **2,346** | 1,634 |
| | **$ 58,863** | $ 59,988 |

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

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

## 8. Capital stock

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Number of shares issued | Amount | Number of shares issued | Amount |
| Balance - January 1 | **38,069,829** | **$ 131,975** | 31,180,609 | $ 95,985 |
| Common shares issued on exercise of options | **100,000** | **710** | 275,000 | 990 |
| Common shares issued on conversion of debentures (i) | **9,333** | **75** | 2,147,566 | 8,567 |
| Repayment of share purchase loans (ii) | **-** | **532** | - | - |
| Common shares issued less expenses of $1,500 (iii) | **-** | **-** | 4,500,000 | 26,625 |
| Balance - March 31 | **38,179,162** | **133,292** | 38,103,175 | 132,167 |
| Common shares issued on exercise of options | **38,850** | **257** | - | - |
| Common shares purchased by the trust of the long-term incentive program (iv) | **(238,030)** | **(2,204)** | - | - |
| Common shares issued less expenses of $nil (iii) | **-** | **-** | 180,000 | 1,080 |
| Balance - June 30 (ii and iv) | **37,979,982** | **$ 131,345** | 38,283,175 | $ 133,247 |

(i) During the quarter ended March 31, 2007, $70 of convertible debentures maturing November 2009 was converted into 9,333 common shares at a conversion price of $7.50 per share (see note 7).

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

(ii) In accordance with the recommendations of the CICA on accounting for share purchase loans receivable from employees, such loans, except in certain circumstances are required to be presented as deductions from shareholders' equity. Accordingly, loans totalling $552 (2006 - $1,084) are presented as a deduction from capital stock. Interest received on such loans in the three months ending June 30 of $8 after income taxes (2006 - $10) and in the six months ended June 30 of $21 after income taxes (2006 - $18) is accounted for as a capital transaction in shareholders' equity. During the quarter ended March 31, 2007, $532 of these loans was repaid.

(iii) On March 17, 2006, the Company issued 4,500,000 common shares at $6.25 per share. Net proceeds, after deducting agents' fees and expenses of the issue, were approximately $26,625. On April 18, 2006, an Over-Allotment Option was exercised and the Company issued an additional 180,000 common shares at

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

$6.25 per share. The exercise of the Over-Allotment Option raised the aggregate net proceeds under the offering to $27,705.

(iv) In accordance with the recommendations of the CICA Accounting Guideline No. 15 "Consolidation of Variable Interest Entities", share capital and shares outstanding have been reduced to reflect shares purchased by the Trust administrating the Company's Long-Term Incentive Plan. As at June 30, 2007, the Trust held 451,376 shares (December 31, 2006 – 213,346 shares) with a cost basis of $3,470 (December 31, 2006 - $1,266).

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

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

On June 21, 2005, the Company's shareholders approved a new stock option plan (the "2005 Stock Option Plan") to replace the previous 1998 Stock Option Plan. The aggregate number of common shares that can be issued under the 2005 Stock Option Plan shall not exceed 2,500,000. 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** | **Six months ended June 30** | | | | | |
|---|---|---|---|---|---|---|
| | **2007** | | | **2006** | | |
| | **Number of share options** | | **Weighted average exercise price** | **Number of share options** | | **Weighted average exercise price** |
| Balance outstanding - January 1 | **950,000** | **$** | **6.17** | 100,000 | $ | 5.51 |
| Granted | **50,000** | | **6.75** | 1,000,000 | | 6.25 |
| Exercised | **(66,667)** | | **6.06** | - | | - |
| Balance outstanding - March 31 | **933,333** | **$** | **6.21** | 1,100,000 | $ | 6.18 |
| Exercised | **(8,850)** | | **6.25** | - | | - |
| Balance outstanding - June 30 | **924,483** | **$** | **6.21** | 1,100,000 | | 6.18 |
| Options exercisable at end of period | **407,817** | **$** | **6.22** | 250,000 | $ | 6.25 |

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

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 | 83,333 | $5.51 | November 7, 2010 |
| 2006 | 791,150 | $6.25 | March 27, 2011 |
| 2007 | 50,000 | $6.75 | January 16, 2012 |

The options granted in 2005 and 2007 have a term of five years from the date of grant and vest on the anniversary date of the grant at the rate of one-third per annum of the total number of share options granted. The options granted in 2006 have a term of five years from the date of grant and vest one-quarter immediately and one-quarter per annum thereafter on the anniversary date of the grant.

The Company has adopted fair value accounting for options granted after 2001 to employees and records compensation expense upon the issuance of stock options under its 1998 and 2005 Stock Option Plans. The fair value is estimated on the date of grant using the Black-Scholes fair value option pricing model and compensation expense is amortized over the three-year vesting period of the options. During the three months ended June 30, 2007, compensation expense and contributed surplus were increased by $107 (2006 - $206), on account of options granted under the 2005 Stock Option Plan, and for the six months ended June 30, 2007, compensation expense and contributed surplus were increased by $215 (2006 - $602). As these options are exercised, the corresponding values previously charged to contributed surplus are reclassified to capital stock. In the current quarter, contributed surplus was decreased by $14 (2006 - $nil) and capital stock was increased by the same amount upon the exercise of options under the 2005 Stock Option Plan, and for the six months ended June 30, 2007, contributed surplus was decreased by $113 (December 31, 2006 - $nil) and capital stock was increased by the same amount. Proceeds arising from the exercise of these options are credited to capital stock.

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

| | **2007** |
|---|---|
| **Dividend yield** | **0%** |
| **Expected volatility** | **29%** |
| **Risk free interest rate** | **4%** |
| **Weighted average expected life (years)** | **3.5** |

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

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 216,667 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:

| | Six months ended June 30 | | | | | |
|---|---|---|---|---|---|---|
| | | | 2007 | | | 2006 |
| | Number of share options | | Weighted average exercise price | Number of share options | | Weighted average exercise price |
| Balance outstanding - January 1 | **250,000** | **$** | **5.66** | 525,000 | $ | **4.58** |
| Exercised | **(33,333)** | | **6.20** | (275,000) | | **3.60** |
| Balance outstanding - March 31 | **216,667** | **$** | **5.58** | 250,000 | $ | **5.66** |
| Exercised | **(30,000)** | | **6.30** | - | | **-** |
| Options outstanding – June 30 | **186,667** | **$** | **5.46** | 250,000 | $ | **5.66** |
| Options exercisable at end of period | **136,667** | **$** | **5.17** | 150,000 | $ | **5.26** |

Options were exercised under the 1998 Stock Option Plan during the three months ended June 30, 2007 for 30,000 shares (2006 – nil) for which share capital was increased by $189 (2006 - $nil). For the six months ended June 30, 2007, 63,333 options were exercised (2006 – 275,000) for which share capital was increased by $396 (2006 - $990). 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 | 70,000 | 6.30 | August 3, 2009 |
| 2004 | 16,667 | 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 June 30, 2007, compensation expense of $6 (2006 - $16), and contributed surplus was increased by the same amount, on account of options granted under the 1998 Stock Option Plan. During the six months ended June 30, 2007, compensation expense of $11 (2006 - $33) was recognized and contributed surplus was increased by the same amount, on account of options granted under the 1998 Stock Option Plan.

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

**Long-Term Incentive Plan**

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

Awards to participants are based on the financial results of the Company and are made in the form of Deferred Share Units ("DSUs") or in the form of restricted shares. Awards made in the form of DSUs will vest only upon the retirement or termination of the participant. Awards made in the form of restricted shares will vest annually over three years. Compensation charges related to the LTIP are expensed over the estimated vesting period of the awards. Awards made to retirement eligible individuals are assumed for accounting purposes to vest immediately. During the three months ended June 30, 2007, the Company recorded compensation charges of $600 (2006 - $19), and $900 (2006 - $60) during the six months ended June 30, 2007.

The LTIP Trust (the "Trust") holds 451,376 shares at June 30, 2007 (December 31, 2006 - 213,346 shares).

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

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

**Earnings per share**

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 941,166 (June 30, 2006 - 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.

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| **Net income (loss) for the period** | **$ 9,731** | $ (988) | **$ 6,757** | $ (11,935) |
| Interest on convertible debentures | **1,629** | - | **3,262** | 77 |
| **Diluted net earnings** | **$ 11,360** | $ (988) | **$ 10,019** | $ (11,858) |
| **Average number of common shares outstanding** | **37,035,381** | 36,664,586 | **36,786,298** | 33,755,034 |
| **Effect of dilutive securities (i):** | | | | |
| Options | **1,371,227** | 1,408,940 | **1,307,977** | 1,427,241 |
| Convertible debentures | **8,276,316** | - | **8,276,316** | 889,875 |
| Shares held in a trust account in respect of long-term incentive plan | **224,304** | - | **224,304** | - |
| **Average number of diluted common shares outstanding** | **46,907,228** | 38,073,526 | **46,594,895** | 36,072,150 |
| **Basic earnings (loss) per share** | **$ 0.26** | $ (0.03) | **$ 0.18** | $ (0.35) |
| **Diluted earnings (loss) per share** | **$ 0.24** | $ (0.03) | **$ 0.18** | $ (0.35) |

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

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

**Contributed Surplus**

Changes in contributed surplus for the three and six months ended June 30 are as follows:

| | 2007 | 2006 |
|---|---|---|
| Balance - January 1 | **$ 1,329** | $ 361 |
| Increase (decrease) in contributed surplus resulting from: | | |
| Granting of stock options | **113** | 413 |
| Exercise of stock options | **(99)** | - |
| Balance - March 31 | **1,343** | 774 |
| Granting of stock options | **114** | 222 |
| Exercise of stock options | **(14)** | - |
| Balance – June 30 | **$ 1,443** | $ 996 |

## 9. Cash flow information

Change in other balances relating to operations:

| | Three months to June 30 | | Six months to June 30 | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| (Increase) decrease in: | | | | |
| Accounts receivable | **$ (56,237)** | $ (41,861) | **$ (15,402)** | $ (5,562) |
| Holdbacks receivable | **(871)** | 3,243 | **(3,739)** | 4,616 |
| Deferred contract costs and unbilled revenue | **(5,114)** | (7,289) | **(3,867)** | (860) |
| Inventories | **(3,236)** | (1,295) | **(2,435)** | (2,032) |
| Prepaid expenses | **3,698** | (3,081) | **(955)** | (5,795) |
| Increase (decrease) in: | | | | |
| Accounts payable and accrued liabilities | **31,400** | 20,503 | **(1,579)** | (13,371) |
| Holdbacks payable | **(1,250)** | (5,539) | **1,102** | (3,252) |
| Deferred revenue | **4,590** | 7,235 | **12,495** | 8,246 |
| Income taxes payable | **(102)** | (1,356) | **509** | (1,463) |
| | **$ (27,122)** | $ (29,440) | **$ (13,871)** | $ (19,473) |

Other supplementary information:

| | Three months to June 30 | | Six months to June 30 | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Cash interest paid | **$ 1,949** | $ 1,837 | **$ 3,840** | $ 4,171 |
| Cash income taxes paid | **$ 75** | $ 1,597 | **$ 857** | $ 2,409 |

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

Property, plant and equipment acquired and financed by means of capital leases during the three months ended June 30, 2007 amounted to $116 (2006 - $371) and $553 (2006 - $1,137) for the six months ended June 30, 2007.

During the quarter ended March 31, 2007, $70 of convertible debentures maturing November 2009 were converted into 9,333 common shares at a conversion price of $7.50 per share.

Investing and financing activities not requiring an immediate use of cash in the three and six months ended June 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 $64,000 (see note 3 (b)).

In June 2006, the Company was reimbursed by Quiport JV for deferred development costs. The resulting decrease in other assets of $15,236 (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 statements of cash flows.

In March 2006, Hochtief exercised its option to convert convertible debt with a face value of $7,731 into 2,147,566 common shares at a conversion price of $3.60 per share. In addition, share capital was increased by $836 representing the equity portion of the convertible debentures that was previously classified as a separate component of shareholders' equity (notes 7 and 8).

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

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

## 10. Acquisition

In the first quarter of 2007, the Company acquired The Karson Group, a major aggregate, asphalt and civil construction company in Eastern Ontario.

Under the share purchase deal, the Company will assume The Karson Group's existing debt of $4,663 and pay $36,660, of which $21,225 will be financed by the vendor and paid over a 5 year term. The vendor take back note is non-interest bearing and has been discounted at 8% to arrive at a fair value of $16,949 at the date of the acquisition. The allocation of the purchase price for the acquisition of this investment has not been finalized pending final determination of the fair values of assets acquired and liabilities assumed.

The following is a summary of the acquisition:

| | | |
|---|---|---|
| **Net assets acquired** | | |
| Cash | $ | 1,520 |
| Working capital | | 5,354 |
| Property, plant and equipment | | 30,173 |
| Current portion of long-term debt | | (1,298) |
| Long-term debt | | (3,365) |
| | $ | 32,384 |
| **Consideration** | | |
| Cash | $ | 15,435 |
| Note payable | | 16,949 |
| | $ | 32,384 |

In 2004, the Company acquired the assets and operations of Cegerco CCI Inc., a general contracting company in the Montreal region, specializing in the construction and management of institutional, commercial and pharmaceutical building projects. In the second quarter of 2007, the Company paid $471 representing the additional consideration payable as a result of the achievement of certain financial targets by the Cegerco operations. In the second quarter of 2006, the Company paid $192 with respect to the short-term note payable recorded in connection with that acquisition.

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

## 11. Employee benefit plans

Employee future benefit expenses for the three and six months ended June 30 are as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Defined benefit plan expense: | | | | |
| Company sponsored pension plans | **$ 415** | $ 477 | **$ 816** | $ 889 |
| Defined contribution plan expense: | | | | |
| Company sponsored pension plans | **512** | 486 | **997** | 931 |
| Multi-employer pension plans | **6,944** | 5,478 | **12,014** | 8,918 |
| Total employee future benefit expenses | **$ 7,871** | $ 6,441 | **$ 13,827** | $ 10,738 |

## 12. Related party transactions and balances

In addition to related party transactions described elsewhere in the notes to these interim 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. Prior to November 30, 2006, Hochtief AG was indirectly the largest shareholder of the Company. On November 30, 2006 Hochtief sold all the shares it held in the Company.

(a) During the three months ended June 30, 2007, the Company paid professional fees in the amount of $3 (2006 - $53), and $33 during the six months ended June 30, 2007 (2006 - $53) to a consulting company in which a director of the Company is a partner.

(b) Hochtief, the parent of Hochtief Canada Inc. ("HCI"), had 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. During the six months ended June 30, 2006, the Company paid Hochtief guarantee fees in the amount of $126.

(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 sic months ended June 30, 2006 amounted to $39.

(d) During the six months ended June 30, 2006, the Company paid interest of $97 to HCI on the convertible subordinated debentures described in note 7(b).

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

(e) During the six months ended June 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.

(f) To the best of the Company's knowledge from information available to it and from public records, as at June 30, 2007, $850 (December 31, 2006 - $2,150) of the Company's $32,500 convertible debentures maturing on March 17, 2010 is currently held by officers and directors of the Company or parties related thereto.

## 13. Financial instruments

Cash and cash equivalents, marketable securities, accounts receivable, and accounts payable and accrued liabilities approximate their fair values on a discounted cash flow basis because of the short-term nature of these instruments. The Company considers all highly liquid interest-earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. In general, investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. All cash equivalents and short-term investments are classified as available for sale and are recorded at market value; unrealized gains and losses (excluding other-than-temporary impairments) are reflected in OCI.

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

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

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

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

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

From time to time, the Company enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar, but does not hold or issue such financial instruments for trading purposes. At June 30, 2007, the Company had net outstanding contracts to sell EURO12,062 and US$13,609 (December 31, 2006 - sell US$802) on which there was a net unrealized exchange gain of $916 (December 31, 2006 - net loss of $31). The net unrealized exchange gain (loss) represents the estimated amount the Company would have received/paid if it terminated the contracts at the end of the respective periods. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For a derivative instrument designated as a fair-value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. For a derivative instrument designated as a cash-flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of OCI and is subsequently recognized in earnings when the hedged exposure affects earnings. The ineffective portion of the gain or loss is recognized in earnings. For options designated either as fair-value or cash-flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings. Gains and losses from changes in fair values of derivatives that are not designated as hedges for accounting purposes are recognized in earnings. While the Company considers the above contracts to be economic hedges, none of the above contracts were designated as accounting hedges, and as such the unrealized gains (losses) were recognized in net income in the period.

## 14. Segmented information and business concentration

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

*Infrastructure*

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

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

Province of Ontario. Services provided in the Infrastructure segment include construction of large civil infrastructure projects in Canada and, on a selective basis, internationally.

*Buildings*

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

*Industrial*

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

*Concessions*

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

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

Information by reportable segments is as follows:

**As at June 30 and for the three months then ended**

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | **2007** |
| | **Infrastructure** | **Buildings** | **Industrial** | **Concessions** | **Corporate and Other** | **Total** |
| Revenues | $ 161,739 | $ 79,184 | $ 92,594 | $ 13,605 | $ (8,851) | $ 338,271 |
| EBITDA (i) | $ 10,186 | $ (906) | $ 7,508 | $ 5,216 | $ (1,543) | $ 20,461 |
| Depreciation and amortization | (1,530) | (101) | (531) | (3,978) | (196) | (6,336) |
| Segment operating profit (loss) (i) | $ 8,656 | $ (1,007) | $ 6,977 | $ 1,238 | $ (1,739) | $ 14,125 |
| Capital charges and allocations of Corporate overheads (ii) | $ (4,818) | $ (499) | $ (2,125) | $ (2,108) | $ 9,550 | $ - |
| Segment profit (loss) before income taxes | $ 3,838 | $ (1,506) | $ 4,852 | $ (870) | $ 7,811 | $ 14,125 |
| Interest expense, income taxes and non-controlling interests | | | | | | (4,394) |
| Net income | | | | | | $ 9,731 |
| Total assets | $ 335,467 | $ 77,459 | $ 134,607 | $ 191,985 | $ 33,868 | $ 773,386 |
| Intangible assets and goodwill | $ 2,743 | $ 2,972 | $ 3,750 | $ 115,820 | $ - | $ 125,285 |
| Capital expenditures | $ 543 | $ 61 | $ 497 | $ - | $ 157 | $ 1,258 |
| Cash flow from (used in) operating activities (i) | $ 7,456 | $ (907) | $ 7,504 | $ 5,216 | $ (6,102) | $ 13,167 |

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

**As at June 30 and for the three months then ended**

**2006**

| | **Infrastructure** | **Buildings** | **Industrial** | **Concessions** | **Corporate and Other** | **Total** |
|---|---|---|---|---|---|---|
| Revenues | $ 108,408 | $ 80,145 | $ 67,755 | $ 5,009 | $ (2,578) | $ 258,739 |
| EBITDA (i) | $ 3,213 | $ 1,273 | $ 2,552 | $ (1,212) | $ (2,444) | $ 3,382 |
| Depreciation and amortization | (1,177) | (85) | (466) | (2) | (226) | (1,956) |
| Segment operating profit (loss) (ii) | $ 2,036 | $ 1,188 | $ 2,086 | $ (1,214) | $ (2,670) | $ 1,426 |
| Interest and income taxes | | | | | | (2,414) |
| Net loss | | | | | | $ (988) |
| Total assets | $ 216,045 | $ 85,048 | $ 84,109 | $ 180,516 | $ 43,126 | $ 608,844 |
| Intangible assets and goodwill | $ 2,743 | $ 2,547 | $ 3,750 | $ 80,323 | $ - | $ 89,363 |
| Capital expenditures | $ 219 | $ 14 | $ 29 | $ - | $ 105 | $ 367 |
| Cash flow from (used in) operations | $ 3,811 | $ 1,273 | $ 2,637 | $ (1,212) | $ (4,099) | $ 2,410 |

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

**As at June 30 and for the six months then ended**

**2007**

| | Infrastructure | Buildings | Industrial | Concessions | Corporate and Other | Total |
|---|---|---|---|---|---|---|
| Revenues | $ 256,847 | $ 142,384 | $ 166,711 | $ 27,330 | $ (13,216) | $ 580,056 |
| EBITDA (i) | $ 8,978 | $ (1,029) | $ 11,008 | $ 9,796 | $ (3,309) | $ 25,444 |
| Depreciation and amortization | (2,346) | (207) | (1,069) | (7,184) | (385) | (11,191) |
| Segment operating profit (loss) (i) | $ 6,632 | $ (1,236) | $ 9,939 | $ 2,612 | $ (3,694) | $ 14,253 |
| Capital charges and allocations of Corporate overheads (ii) | $ (8,933) | $ (836) | $ (4,332) | $ (4,180) | $ 18,281 | $ - |
| Segment profit (loss) before income taxes | $ (2,301) | $ (2,072) | $ 5,607 | $ (1,568) | $ 14,587 | $ 14,253 |
| Interest expense, income taxes and non-controlling interests | | | | | | (7,496) |
| Net income | | | | | | $ 6,757 |
| Capital expenditures | $ 1,426 | $ 250 | $ 1,295 | $ - | $ 250 | $ 3,221 |
| Cash flow from (used in) operating activities (i) | $ 5,851 | $ (1,032) | $ 11,019 | $ 9,796 | $ (10,374) | $ 15,260 |

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

**As at June 30 and for the six months then ended**

| | 2006 | | | | | |
|---|---|---|---|---|---|---|
| | **Infrastructure** | **Buildings** | **Industrial** | **Concessions** | **Corporate and Other** | **Total** |
| Revenues | $ 164,305 | $ 167,488 | $ 120,753 | $ 10,608 | $ (3,840) | $ 459,314 |
| EBITDA (i) | $ (271) | $ 867 | $ 3,469 | $ (1,903) | $ (5,018) | $ (2,856) |
| Depreciation and amortization | (2,213) | (198) | (931) | (3) | (451) | (3,796) |
| Segment operating profit (loss) (ii) | $ (2,484) | $ 669 | $ 2,538 | $ (1,906) | $ (5,469) | $ (6,652) |
| Interest and income taxes | | | | | | (5,283) |
| Net loss | | | | | | $ (11,935) |
| Capital expenditures | $ 356 | $ 90 | $ 271 | $ - | $ 179 | $ 896 |
| Cash flow from (used in) operations | $ 236 | $ 867 | $ 3,554 | $ (1,903) | $ (8,626) | $ (5,872) |

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

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

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

## 15. Quiport airport concession - additional information

In accordance with the recommendations of the CICA, the Company's investment in the Quito airport concession is currently accounted for by the proportionate consolidation method, whereby the consolidated financial statements reflect, line by line, the pro rata share of each of the assets, liabilities, revenues and expenses of the Quito airport concession. Given the significant effect of the Quito airport concession on the Company's consolidated financial statements and to provide additional information about the Quito airport concession operations and assets, which act as security for the project's debt, 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.

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

### Consolidating Balance Sheet

| | At June 30, 2007 | | | |
|---|---|---|---|---|
| | Consolidated Balance Sheet excluding Quito airport concession | Quito airport concession | Eliminations | Consolidated Balance Sheet |
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | $ 27,579 | $ 11,074 | $ - | $ 38,653 |
| Other current assets | 449,573 | 8,515 | (11,864) | 446,224 |
| | 477,152 | 19,589 | (11,864) | 484,877 |
| Property, plant and equipment | 83,343 | - | - | 83,343 |
| Future income tax assets | 17,943 | 1,103 | - | 19,046 |
| Concession rights | - | 143,923 | (28,272) | 115,651 |
| Long-term investment | 42,733 | - | - | 42,733 |
| Other assets | 27,736 | - | - | 27,736 |
| Investment in Quiport JV | 18,231 | - | (18,231) | - |
| | $ 667,138 | $ 164,615 | $ (58,367) | $ 773,386 |
| **Liabilities** | | | | |
| Current liabilities | $ 383,998 | $ 6,167 | $ (40,136) | $ 350,029 |
| Non-recourse project debt | - | 69,717 | - | 69,717 |
| Other long-term debt | 51,319 | - | - | 51,319 |
| Due to Aecon | - | 16,288 | (16,288) | - |
| Other liabilities | 3,119 | - | - | 3,119 |
| Other income tax liabilities | 14,174 | - | - | 14,174 |
| Concession related deferred revenue | - | 68,230 | - | 68,230 |
| Convertible debentures | 58,863 | - | - | 58,863 |
| | 511,473 | 160,402 | (56,424) | 615,451 |
| **Non-controlling interests** | 111 | 270 | - | 381 |
| **Shareholders' Equity** | | | | |
| Capital stock | 131,345 | 485 | (485) | 131,345 |
| Contributed surplus | 1,443 | - | - | 1,443 |
| Convertible debentures | 4,141 | - | - | 4,141 |
| Retained earnings | 19,205 | 3,716 | - | 22,921 |
| Accumulated other comprehensive loss | (580) | (258) | (1,458) | (2,296) |
| | 155,554 | 3,943 | (1,943) | 157,554 |
| | $ 667,138 | $ 164,615 | $ (58,367) | $ 773,386 |

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

**Consolidating Statement of Cash Flows**

| | For the six months ended June 30, 2007 | | | |
|---|---|---|---|---|
| | Consolidated Cash Flows excluding Quito airport concession | Quito airport concession | Eliminations | Consolidated Cash Flows |
| **Cash provided by (used in):** | | | | |
| Operating activities | $ (4,209) | $ 11,427 | $ (5,829) | $ 1,389 |
| Investing activities | (29,243) | (19,127) | 8,153 | (40,217) |
| Financing activities | 20,067 | 11,351 | (2,324) | 29,094 |
| **Increase in cash and cash equivalents for the period** | (13,385) | 3,651 | - | (9,734) |
| **Effects of foreign exchange on cash balances** | (795) | (927) | - | (1,722) |
| **Cash and cash equivalents - beginning of period** | 41,759 | 8,350 | - | 50,109 |
| **Cash and cash equivalents - end of period** | $ 27,579 | $ 11,074 | $ - | $ 38,653 |

## 16. Gain on sale of assets

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

## 17. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the three months and six months ended June 30, 2007.

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