AECON GROUP INC.

ANNUAL REPORT 2008

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

DECEMBER 31, 2008

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The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. ("Aecon") should be read in conjunction with the Company's December 31, 2008 Consolidated Financial Statements and Notes. This MD&A has been prepared as of March 3, 2009. Additional information on Aecon is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and includes the Company's Annual Information Form and other securities and continuous disclosure filings.

INTRODUCTION

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

The Infrastructure segment includes all aspects of the construction of both public and private infrastructure, including roads and highways, as well as toll highways, dams, tunnels, bridges, airports, marine facilities, transit systems and hydroelectric power projects, primarily in Canada and, on a selected basis, internationally. This segment also includes the mining, manufacture and supply of asphalt and aggregate products, and the construction and/or installation of utility distribution systems for natural gas, telecommunications and electrical networks, as well as water and sewer mains, traffic signals and highway lighting. The design and construction of the new Quito airport project is included in the Infrastructure segment.

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

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

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

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

Year ended December 31 $ millions	2008	2007
	$	$
Revenues	1,877.0	1,492.7
Gross Margin(1)	211.1	142.4
EBITDA(2)	124.7	82.7
Operating Profit(3)	97.2	60.8
Interest Expense	(9.3)	(11.2)
Earnings before taxes(4)	87.9	49.6
Income taxes	(26.8)	(0.4)
Net income for the year	59.3	48.3
Return on revenue(5)	5.2%	4.1%
Backlog – December 31	1,254	1,234

(1) Gross margin is calculated as revenues less direct costs and expenses. Marketing, general and administrative expenses, depreciation and amortization, foreign exchange, interest, gains or losses on sale of assets, income taxes, and non-controlling interests are not included in the calculation of gross margin.
(2) EBITDA represents earnings or loss before interest expense, income taxes, depreciation and amortization, and non-controlling interests.
(3) Operating profit (loss) represents the profit (loss) from operations, before interest expense, income taxes and non-controlling interests.
(4) Earnings before taxes represent income before income taxes and non-controlling interests.
(5) Return on revenue is calculated as operating profit as a percentage of revenues.

Revenues in 2008 were a record $1,877 million, representing an increase of $384 million, or 26%, over the previous year. Revenues increased in the Infrastructure, Buildings, Industrial, and Concessions segments by $50 million, $75 million, $214 million, and $15 million, respectively. Results for each of the four principal operating segments are discussed separately under Reporting Segments.

Gross margin increased from $142 million or 9.5% of revenues in 2007 to $211 million or 11.2% of revenues in 2008, as gross margin improved in all operating segments except Buildings. Of the $69 million increase in gross margin in 2008, the Infrastructure, Industrial and Concessions segments reported improvements of approximately $11 million, $53 million and $6 million, respectively, while the Buildings segment reported a decrease of $1 million. The gross margin increases resulted primarily from higher volumes and from the commencement of profit recognition in 2008 on some large projects, including the project to construct the new Quito airport. Improved margin percentages in some market segments, particularly in the Western Canada and Ontario operations of Industrial, also contributed to the gross margin improvement. The decline in gross margin in the Buildings segment resulted from weaker performance in the Montreal operating unit.

Marketing, general and administrative expenses ("MG&A") as a percentage of revenues increased from 4.8% in 2007 to 5.1% in 2008. Higher revenues in a number of segments, the acquisition of Leo Alarie & Sons ("Alarie") in late 2007, increased compensation expense (including higher share based compensation expense), expanded boiler product offerings by the Industrial segment's IST operations, and higher operating and restructuring costs in the Buildings segment's Montreal operations, all contributed to the increase in MG&A. Despite the increases in MG&A, operating profit as a percentage of revenues increased in 2008 compared to 2007.

Depreciation and amortization expense of $27 million in 2008 was $6 million higher than in 2007. The increase occurred mainly in the Infrastructure segment and resulted primarily from higher depreciation charges on equipment acquired as part of the 2007 acquisition of Alarie. Also contributing to the increase was a goodwill impairment charge in 2008 for $1 million related to the Buildings segment's Montreal operations.

The net gain from the sale of assets in 2008 was $0.1 million compared to a gain of $7.8 million during 2007. The 2007 gain included $3.4 million from the sale by Aecon of its right to participate in the joint venture that is constructing an extension to the Cross Israel Highway and $4.3 million which Aecon received from Hochtief (Aecon's former largest shareholder) in connection with the sale of their interest in Aecon in 2006.

Interest expense of $9.3 million in 2008 was $2.0 million lower than in 2007. The conversion to common shares of all the outstanding convertible debentures, which occurred mostly in the fourth quarter of 2007 and in the first quarter of 2008, was the primary reason for the lower interest costs. The repayment of Aecon's term loan facility in the second quarter of 2008 also reduced interest costs year-over-year. Partially offsetting these savings in interest costs was interest on debt borrowed to finance the 2007 acquisition of Alarie.

Interest income of $8.1 million in 2008 was $2.1 million higher than in 2007. The higher interest income in 2008 was a result of having significantly higher cash balances on hand throughout 2008 as compared to 2007. These higher cash balances reflect improved operations in 2008 and 2007, higher advance payments from clients, particularly within joint ventures, and net cash proceeds of $69.6 million from an equity issue in April 2008.

Earnings before taxes for the year ended December 31, 2008 were $87.9 million, representing a $38.4 million improvement over 2007.

Set out in note 6 of the 2008 Consolidated Financial Statements is a reconciliation between the expected income tax recovery/(expense) in 2008 and 2007 based on statutory income tax rates and the actual income tax recovery/(expense) reported for both these periods. In 2008, there was an income tax expense of $26.8 million on pre-tax income of $87.9 million, compared to an income tax expense of $0.4 million on pre-tax income of $49.6 million in 2007. The low tax expense in 2007 was due to the fact that income taxes that would normally have been recorded on income from Canadian controlled entities were offset by the reversal of tax valuation allowances recorded in prior periods. Without the benefit of this reversal, tax expense in 2007 would have been higher by $14.6 million. As at December 31, 2008, Aecon has an estimated $65 million in income tax losses that are available to offset cash income taxes otherwise payable on future domestic earnings.

Overall, net income for the year ended December 31, 2008 was a record $59.3 million or $1.20 per share on a fully diluted basis, which compares with $48.3 million or $1.16 per share in 2007.

Backlog at December 31, 2008 was $1,254 million, representing a $20 million increase over the same time in 2007. New contract awards of $1,897 million were booked in 2008, which compared with $1,941 million in 2007.

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

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

REPORTING SEGMENTS

INFRASTRUCTURE

Financial Highlights

Year ended December 31 $ millions	2008	2007
	$	$
Revenues	**739.4**	688.9
Segment operating profit[1]	**23.7**	23.5
Capital charges and allocations of corporate overhead[2]	**(22.7)**	(18.6)
Segment profit before income taxes	**1.0**	4.9
Return on revenue[3]	**3.2%**	3.4%
Backlog – December 31[4]	**470**	372

(1) Segment operating profit (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) Corporate allocations represent charges from the Corporate segment to each division for Corporate overhead costs and capital charges related to the cash, working capital and long-term capital invested in each segment.

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

(4) Included in backlog at December 31, 2008 is $100 million (2007 – $98 million) related to the new Quito airport project. Although Aecon's 50% share of the remaining construction revenues from this project is estimated at $174 million (2007 – $170 million), the amount reported as backlog has been reduced by $74 million (2007 – $72 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 revenue, and therefore does not report backlog, that effectively arises from transacting with itself.

For the year ended December 31, 2008, Infrastructure segment revenues of $739 million were $50 million, or 7%, higher than in 2007. Revenues from roadbuilding, utilities and heavy civil operations increased year-over-year by $41 million, $8 million and $2 million, respectively.

The majority of the growth in Infrastructure revenues occurred in Western Canada where the expansion of the segment's Alberta roadbuilding, utilities and heavy civil operations in 2008 produced revenue increases of $36 million, $8 million, and $23 million, respectively. In roadbuilding operations, increased revenues were also reported by the Alarie and Karson operations in Ontario. In the fourth quarter of 2007, Aecon acquired the assets of Alarie, an integrated construction and materials company active throughout northern Ontario, and in the first quarter of 2007, acquired the Karson Group of Companies ("Karson"), a major aggregate, asphalt and civil construction company in Eastern Ontario. Partly offsetting these increases were reductions in revenues earned in the balance of Ontario roadbuilding operations, and a revenue decline from heavy civil operations in Ontario where a number of large power generation and tunneling projects came into peak production in 2007 and were not replaced with similar size projects in 2008, leading to higher revenues in 2007 compared to 2008.

The Infrastructure segment operating profit of $23.7 million in 2008 represents a $0.3 million, or 1%, increase over 2007. Heavy civil operations in 2008 benefited from the recognition of profits on the Quito international airport construction project, which reached 33% completion in 2008, whereas no profits were recognized on this project in 2007. However, the 2008 year-over-year comparison for heavy civil operations was negatively impacted by a $3.4 million gain reported in 2007 on the sale of Aecon's right to participate in the construction of an extension to the Cross Israel Highway, and from lower operating profits from heavy civil operations in Ontario where, as noted above, a number of large power generation and tunneling projects in Ontario came into peak production in 2007 and contributed to higher operating profits in 2007 compared to 2008. Operating profits from utilities operations improved, reflecting the positive impact on margins from revenue increases in Ontario and Alberta in 2008. Operating profits from roadbuilding operations declined, in part from the impact of record rainfalls that occurred across much of Ontario during 2008, and from a return to more traditional winter conditions in Ontario during the first quarter of 2008. Winter weather conditions in Ontario during first quarter of 2007 were unseasonably moderate.

In the second quarter of 2008, the arbitration panel considering the first of two major claims launched by Aecon and its partner in respect of the Nathpa Jhakri hydroelectric project in India ruled substantially in Aecon's favour. The panel awarded the joint venture, Continental Foundation Joint Venture ("CFJV") (in which Aecon is a 45% partner), full extension of time as well as related indirect costs and interest resulting from project delays that the panel agreed were beyond CFJV's control and contractual responsibility. In its ruling, the panel also dismissed a counter-claim for liquidated damages filed against CFJV.

Based on the ruling, an agreement was reached in 2008 between CFJV and Satluj Jal Vidyut Nigam Limited ("SJVN"), the government agency responsible for the project, to accept the award of the arbitration panel subject to minor changes. Although SJVN had the right, until October 12, 2008, to appeal the ruling, it did not do so.

Resulting from the agreement, CFJV expects to receive approximately $10 million in claim settlements net of expenses, of which $4 million was received in 2008 with a further $6 million expected to be received in the first quarter of 2009. Also as a result of the agreement, SJVN commenced the payment of normal contract amounts that were due to CFJV, but which were being withheld pending resolution of the first claim. In addition, as a result of achieving a successful resolution to a portion of the claims related to the India project, funds that were previously on deposit to secure letters of credit were partly released by the issuing banks. The release of these deposits along with the partial payment received from the claim settlement, were used in 2008 to reduce the joint venture working capital loan balance from approximately $16 million to $6 million. In addition, approximately $13 million of the $25 million in letters of credit filed by Aecon to cover working capital and performance guarantees had been cancelled as at December 31, 2008 and a further $3 million are currently in the process of being cancelled.

A second claim for 2.26 billion Indian Rupees (approximately $57 million) and a counter-claim for liquidated damages by SJVN, both in respect of an adjacent and concurrent project to the one that was settled, remains with the arbitration panel and is expected to be resolved in 2009.

Although significant progress has been made in resolving the claims situation in India, a considerable amount of work remains to be done on the second claim and considerable uncertainty exists with respect to the ultimate settlement of all claim matters. As a result, the net amounts received from the arbitration process in 2008 were applied to reduce the carrying values of the unbilled work-in-progress balances of the joint venture.

After deducting capital charges and allocations of Corporate overheads, which increased by $4.2 million in 2008, the Infrastructure segment's operating profit before income taxes in 2008 was $1.0 million compared to $4.9 million in 2007. The higher capital charges in 2008 relate primarily to higher investments in working capital and long-term capital employed as a result of the Karson and Alarie acquisitions.

Backlog at December 31, 2008 was $470 million, which represents a $98 million increase over 2007. The improvement results primarily from higher backlog in roadbuilding operations, mostly in the segment's Alberta and Alarie operations. New contract awards totalled $838 million in 2008 compared to $640 million in 2007. The Alberta, Alarie and Quito airport operations were the largest contributors to the increase in new awards in 2008. In accordance with Aecon's backlog policy, similar to that for existing alliance type contracts with Bell Canada and Union Gas, among others, the reported amounts for new awards and backlog do not include the impact of the recent alliance agreement signed with Enbridge Gas Distribution Inc. in 2008. This alliance agreement with Enbridge has the potential to double Aecon's gas distribution revenues over the next few years.

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

BUILDINGS

Financial Highlights

Year ended December 31 $ millions	2008	2007
	$	$
Revenues	461.0	385.9
Segment operating profit	0.4	4.4
Capital charges and allocations of corporate overhead	(0.1)	(1.2)
Segment profit before income taxes	0.2	3.2
Return on revenue	0.1%	1.1%
Backlog – December 31	534	480

Revenues in the Buildings segment of $461 million in 2008 were $75 million, or 19%, higher than in 2007. All operating units with the exception of Ottawa reported increases in year-over-year revenues with the largest increases occurring in Toronto ($75 million) and Seattle ($22 million). A large contributing factor to the increase in revenues was the substantial increase in Buildings' backlog at the beginning of 2008 – $480 million compared with $191 million at the beginning of 2007. This higher backlog contributed to increased production on a number of large projects throughout the year. Ottawa recorded a $54 million decline in revenues due primarily to two large projects that were in full production in 2007 and have since been substantially completed.

Segment operating profit of $0.4 million in 2008 compares with a profit of $4.4 million in 2007. Most of the decrease in operating profits occurred in Montreal and Ottawa, and was partly offset by an increase in Toronto. The decline in Montreal of $9.8 million was primarily due to profit writedowns on some projects, increased operating costs related to the relocation and restructuring of this unit's operations in 2008, and a goodwill impairment loss of $1.2 million. Management has analyzed the circumstances that caused this unacceptable performance in Montreal and a substantive restructuring is now underway to improve future performance. Ottawa reported a $1.6 million decline in operating profit, which is consistent with the decline in revenues noted above. The increase – $3.8 million – in operating profits from Toronto is reflective of the higher volumes noted above and the impact of $0.8 million in restructuring costs incurred in 2007. Ongoing efforts to improve the profitability levels of the Toronto operations have clearly taken hold.

After deducting capital charges and allocations of corporate overheads, the Buildings segment operating profit before income taxes for 2008 was $0.2 million compared to a profit of $3.2 million in 2007.

Backlog of $534 million at the end of 2008 was $54 million higher than at the same time in 2007 with the largest increase in backlog occurring in the segment's Toronto operations, which ended the year with a record backlog level of $347 million, and the largest decrease occurring in Seattle. New contract awards totaling $516 million were recorded in 2008, which compares with awards of $675 million in 2007.

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

INDUSTRIAL

Financial Highlights

Year ended December 31 $ millions	2008	2007
	$	$
Revenues	612.4	398.1
Segment operating profit	75.0	36.2
Capital charges and allocations of corporate overheads	(3.8)	(7.5)
Segment profit before income taxes	71.3	28.7
Return on revenue	12.3%	9.1%
Backlog – December 31	250	384

Revenues in 2008 of $612 million from the Industrial segment were $214 million or 54% higher than in the same period in 2007. While all operating units reported higher revenues, the segment's construction operations in Ontario had the largest increase in revenues. In 2008, revenues from construction operations in Ontario were up $135 million over last year, mostly as a result of increased work in the power, nuclear, automotive and gas sectors. Revenues from the segment's Western Canada operations increased $43 million in 2008 as increased revenues from module assembly and pipe fabrication projects in the oilsands offset decreases in revenues from site construction projects. Revenues in 2008 for IST of $76 million were up $30 million over the previous year, reflecting the impact of new orders received in 2007 and 2008.

In 2008, the Industrial segment generated an operating profit of $75.0 million compared to $36.2 million in 2007. Of the $38.9 million or 107% improvement, the majority of the increase occurred in Ontario construction operations and in Western Canada operations where profits increased by $19.9 million and $16.7 million, respectively. These higher operating profits are mostly a function of the higher volumes and generally improved margins in 2008. The results for 2008 also benefited from the commencement of profit recognition on the East Windsor Cogeneration project which reached 20% completion during 2008.

After deducting capital charges and allocations of corporate overheads which decreased by $3.7 million in 2008, the Industrial segment's operating profit before income taxes was $71.3 million compared to $28.7 million in 2007.

Backlog at December 31, 2008 of $250 million was $134 million lower than at the same time last year with the largest decreases occurring in the Ontario Construction and Western Canada operations. The decline in backlog in Ontario Construction and Western Canada is largely due to workoff on large projects during 2008 that has not been replaced. Also of note, IST's backlog of $52 million at the end of 2008 was one of the highest year end balances in its history. Overall, new contract awards of $479 million in 2008 were $118 million lower than in 2007. Most of the decrease in new awards occurred in Western Canada where award levels for 2008 are down compared to the previous year when a large module assembly contract was secured and added to backlog in 2007, and in Ontario Construction where a large award for a cogeneration project was received in late 2007.

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

CONCESSIONS

Financial Highlights

Year ended December 31 $ millions	2008	2007
	$	$
Revenues	72.1	57.5
Segment operating profit	10.6	4.0
Capital charges and allocations of corporate overheads	(9.9)	(7.9)
Segment profit (loss) before income taxes	0.7	(4.0)
Return on revenue	14.7%	6.9%

Revenues in 2008 of $72 million in the Concessions segment were up $15 million, or 25%, compared to 2007. The majority of the increase in revenues came from Aecon's proportionate share of the revenues from operating the Cross Israel Highway which is being carried out on a fee for service basis by a company in which Aecon holds a 30.6% interest.

Aecon's long-term concession investment in the Cross Israel Highway, through its 25% interest in Derech Eretz Highways (1997) Ltd. ("Derech Eretz") is carried at cost and, as a result, income is only recognized to the extent of dividends received (i.e. a profit distribution) or when a portion of this investment is sold. As such, even though the Cross Israel Highway is performing well and is generating strong operating cash flow, Aecon has not reported any revenues and profits from this investment. Average weekday traffic on the highway in December 2008 surpassed 97,000 vehicles, a 4.5% increase over December 2007. The project remains on track to deliver an expected 14% after-tax internal rate of return on Aecon's investment.

Segment operating profit of $10.6 million in 2008 increased by $6.6 million or 167% over 2007, due to improvements in operating profits from the Quito airport concessionaire, which includes the results from operating the existing Quito airport while the new airport is being constructed, and higher results from Aecon's interest in the company that operates the Cross Israel Highway. Nearly 4.5 million passengers passed through the existing Quito airport in the twelve months of 2008, a 6.9% increase over the same period in 2007. It should be noted that operating profits from the operations of the existing Quito airport are required to be invested to finance the development and construction costs of the new airport.

After deducting capital charges and allocations of corporate overheads, the Concessions segment had an operating profit before income taxes for 2008 of $0.7 million, which compared to an operating loss before income taxes of $4.0 million in 2007.

Aecon does not include in its reported backlog expected revenues from operations management contracts and concession agreements. As such, while Aecon expects future revenues from its concession assets, no concession backlog is reported at December 31. Therefore, the Concessions segment's 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 2008 Consolidated Financial Statements.

CORPORATE AND OTHER

Financial Highlights

Year ended December 31 $ millions	2008	2007
	$	$
MG&A	(20.5)	(16.3)
Other income (expense)[1]	(0.1)	3.1
Interest income	8.1	6.0
Segment operating loss	(12.5)	(7.2)
Capital charges and allocations of corporate overheads	36.6	35.2
Segment profit before income taxes	24.1	28.0

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

Corporate segment operating loss in 2008 was higher than in 2007 by $5.3 million. Negatively impacting the year-over-year comparison was a $4.3 million gain included in other income (expense) in 2007 which is discussed in the Consolidated Financial Highlights section above. Also, impacting the operating loss in 2008 was marketing, general and administrative expenses ("MG&A") which were higher than 2007 by $4.2 million. The largest increase in MG&A resulted from higher share-based compensation expense related to the granting of stock options awards in the third quarter of 2008. Also impacting the segment operating loss in 2008 was a favourable increase of $0.9 million in year-over-year foreign exchange impacts, and a $2.1 million increase in interest income in 2008.

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

Quarterly Financial Data

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

(Unaudited)				2008				2007
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	$	$	$	$	$	$	$	$
Revenues	602.7	534.7	437.7	302.0	482.3	430.4	338.3	241.8
Net income (loss)	20.4	23.1	15.6	0.3	22.5	19.0	9.7	(3.0)
Earnings (loss) per share:								
Basic	0.41	0.46	0.32	0.01	0.56	0.51	0.26	(0.08)
Diluted	0.40	0.45	0.31	0.01	0.50	0.44	0.24	(0.08)

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

	2008		2007	
	Quarterly Total	Annual Amount	Quarterly Total	Annual Amount
	$	$	$	$
Earnings per share:				
Basic	1.20	1.23	1.25	1.28
Diluted	1.17	1.20	1.10	1.16

The analysis of operating results for each of the first three quarters of 2008 is included in the Management Discussion and Analysis incorporated in the Interim Reports to Shareholders for each quarter.

For the fourth quarter of 2008, revenues amounted to $603 million, which is $120 million, or 25%, higher than the same period in 2007, as revenues increased in the Infrastructure, Buildings, Industrial and Concessions segments by $52 million, $4 million, $41 million, and $10 million, respectively.

Gross margin of $72 million in the last quarter of 2008 was $24 million higher than the same quarter in 2007. All operating segments with the exception of Buildings generated increased operating margins, generally as a result of strong industry conditions and higher revenue volumes. In addition, the Infrastructure segment margins benefited from profit recognition on a few large multi-year contracts which reached 20% completion during the fourth quarter of 2008.

MG&A as a percentage of revenues increased from 5.1% in the fourth quarter of 2007 to 5.6% in the same quarter of 2008 primarily as a result of higher performance-related incentive costs, higher costs associated with the growth in revenues, particularly in the Alberta operations of the Infrastructure segment, and from the Alarie operations acquired in late 2007.

Operating profit in the fourth quarter of 2008 was $34.8 million compared to $26.2 million during the same period in 2007. The $8.6 million, or 33%, improvement was primarily a function of the higher operating margins noted above, offset in part by the previously noted $4.3 million gain that was recorded in the fourth quarter of 2007.

Revenues and operating profit (loss) by segment for the fourth quarters of 2008 and 2007 are set out in the table below ($ millions).

	Quarter 4 2008		Quarter 4 2007	
	Revenue	Operating profit (loss)*	Revenue	Operating profit (loss)*
	$	$	$	$
Infrastructure	258	9.1	207	4.8
Buildings	135	(1.0)	131	3.2
Industrial	187	29.2	146	18.5
Concessions	25	3.5	15	0.2
Corporate	(2)	(6.0)	(16)	(0.6)
Consolidated	603	34.8	482	26.2

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

In the Infrastructure segment, fourth quarter 2008 revenues were $52 million higher than in 2007. Revenues from roadbuilding, utilities and heavy civil operations increased in the fourth quarter by $32 million, $6 million and $14 million, respectively, compared to the corresponding three months of 2007. Similar to the full year's results, the largest increases in revenues occurred in the Alberta roadbuilding and heavy civil operating units and in the Alarie operations in Ontario.

The Infrastructure segment earned an operating profit in the fourth quarter of 2008 of $9.1 million compared to $4.8 million in the prior year. The segment's operating results were favourably impacted by higher quarterly revenues, the commencement of profit recognition on a few large multi-year contracts which reached 20% completion in 2008, including the Quito airport project, and favourable quarter-over-quarter foreign exchange rate impacts on international projects.

Revenues in the Buildings segment of $135 million were $4 million higher than in the fourth quarter of 2007. Continuing the revenue trends experienced throughout the year, the largest revenue increase occurred in Toronto, and was partly offset by revenue declines in Ottawa and Seattle as some large projects wound down activity after peak production levels in 2007 and early 2008.

The Buildings segment produced an operating loss of $1.0 million in the fourth quarter of 2008, which is an operating profit decrease of $4.2 million over the same quarter last year. The majority of the operating profit decline occurred as a result of lower volumes in Ottawa and Seattle, and from further project writedowns and a goodwill impairment loss in the segment's Montreal operations. Overall the Montreal operations were down $3.6 million quarter-over-quarter.

The Industrial segment's revenues in the fourth quarter of 2008 were $187 million or $41 million higher than in 2007. Volume increases occurred in most operations with the largest increases coming from the Ontario construction and IST units. The reasons for the increases in revenues from these units are similar to those cited above in the section on the Industrial segment's results for all of 2008.

The Industrial segment recorded an operating profit of $29.2 million in the fourth quarter of 2008, which compares with an operating profit of $18.5 million in the last quarter of 2007. A combination of increased volumes and improved gross margin percentages in the fourth quarter of 2008 produced the improved results in this segment.

Revenues in the Concessions segment of $25 million in the last quarter of 2008 were up $10 million from the same quarter in 2007, with higher revenues reported from both the Quito airport concessionaire and the operator of the Cross Israel Highway. Operating profit of $3.5 million for the fourth quarter of 2008 represents a $3.3 million improvement over the same quarter last year with most of the revenue and operating profit improvements relating to the Quito airport concessionaire.

The Corporate segment operating loss in the fourth quarter of 2008 was higher than in the same quarter of 2007 by $5.3 million. A $4.3 million gain included in other income (expense) in 2007, which is discussed in the Consolidated Financial Highlights section above, was the primary reason for the quarter-over-quarter change.

Overall, net income for the fourth quarter of 2008 amounted to $20.4 million or $0.40 per share on a fully diluted basis, which compares with $22.5 million or $0.50 per share in the fourth quarter of 2007.

Selected Annual Information

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

	2008	2007	2006
	$	$	$
Total revenues	**1,877.0**	1,492.7	1,113.3
Earnings before extraordinary items and discontinued operations	**59.3**	48.3	11.5
Per share:			
Basic	**1.23**	1.28	0.33
Diluted	**1.20**	1.16	0.31
Net earnings	**59.3**	48.3	11.5
Per share:			
Basic	**1.23**	1.28	0.33
Diluted	**1.20**	1.16	0.31
Total assets	**1,188.9**	910.7	716.3
Total long-term financial liabilities	**182.7**	180.6	158.2
Cash dividends declared per common share	**0.20**	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 airport under a concession arrangement. Aecon's investment in its joint ventures, including Quiport JV, are accounted for by the proportionate consolidation method, whereby the Consolidated Financial Statements reflect, line by line, Aecon's pro-rata share of each of the assets, liabilities, revenues, expenses and cash flows of Quiport JV. Given the significant effect of Quiport JV and other joint ventures on Aecon's Consolidated Financial Statements, Aecon provides supplemental financial information in note 27 to the 2008 Consolidated Financial Statements as additional information about its accounts, thereby enabling the reader to have a greater understanding of Aecon's underlying assets, earnings base and financial resources.

Cash and Debt Balances

Cash and cash equivalents at December 31, 2008 were $292.9 million, which compares with $134.6 million at December 31, 2007. Of these amounts, $62.0 million and $42.7 million, respectively, were on deposit in joint venture bank accounts, which Aecon cannot access directly.

Restricted cash of $28.2 million at December 31, 2008 (December 31, 2007 – $34.6 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. These restricted balances arose primarily from advance payments received on certain joint venture projects where such payments have, in turn, been secured by letters of credit which are, at least in part, collateralized by this restricted cash.

Total debt of $182.8 million at December 31, 2008 compares to $187.3 million at December 31, 2007, the composition of which is as follows ($ millions):

	Dec. 31, 2008	Dec. 31, 2007
	$	$
Bank indebtedness	2.6	7.0
Current portion of long-term debt	16.4	17.5
Long-term debt – non-recourse	118.7	68.6
Long-term debt – recourse	45.2	64.1
Convertible debentures	–	30.1
Total debt	182.8	187.3
Debt held directly	86.7	110.6
Debt of joint ventures	96.1	76.7
Total	182.8	187.3

Bank indebtedness of $2.6 million at December 31, 2008 compares to $7.0 million at the end of December 31, 2007, and represents Aecon's 45% share of funds borrowed by the Nathpa Jhakri hydroelectric project joint venture in India in respect of this now completed project.

At December 31, 2008, the long-term debt component of total debt, including the current portion, totalled $180.2 million compared to $180.3 million at December 31, 2007. Included in the December 31, 2007 balance was $30.1 million of convertible debentures which were converted into common shares in the first quarter of 2008. Other changes in long-term debt included a $13 million repayment on Aecon's term debt facility, a $3 million net repayment on the note payable issued in connection with the acquisition of Karson in 2007, an increase in non-recourse debt of $23 million resulting from the proportionate consolidation of Aecon's share of non-recourse borrowings to finance the Quito airport project, and an increase of $28 million in non-recourse project debt related to the Phase I Rouge Valley Health System ("Rouge Valley Health") and the Toronto Rehabilitation Institute University Centre ("Toronto Rehab") projects.

On April 17, 2008, the Company issued 4,000,000 common shares at $18.25 per share for gross proceeds of $73 million. Net proceeds, after deducting agents' fees and expenses of the issue, were approximately $69.6 million.

Aecon's liquidity position and capital resources continued to strengthen in 2008 and are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future. Of note, Aecon's cash flow from operations in the twelve months of 2007 was approximately $99 million higher than in fiscal 2006, and continued to improve in 2008 with cash flow from operations being approximately $46 million higher than in 2007. This improvement in its liquidity position has, among other benefits, allowed Aecon to broaden and increase its surety capacity. In 2008, Aecon added a co-surety partner to its surety program and in the process has more than doubled its available surety capacity. In addition, in August 2008, Aecon signed a new three-year senior credit facility with a syndicate of lenders. The new $100 million revolving operating line of credit replaces Aecon's previous facility, which included a $15 million three-year term loan and a $50 million three-year revolving operating line. The new facility, which expires on June 15, 2011, also extends by one year (until December 15, 2009) the expiry date of a special letter of credit facility in connection with certain financial and performance guarantees of the Nathpa Jhakri joint venture in India. Further details relating to Aecon's operating lines are described in note 10 to the December 31, 2008 Consolidated Financial Statements.

On January 15, 2009, Aecon acquired South Rock Ltd., an infrastructure construction company in Alberta focusing primarily on the Southern Alberta roadbuilding market. Under the share purchase deal, Aecon assumed South Rock Ltd.'s existing debt of approximately $9 million and, subject to certain post closing adjustments, paid cash of approximately $35 million for all the outstanding shares of South Rock.

On February 2, 2009, Aecon and Lockerbie & Hole Inc. ("Lockerbie") announced an agreement that contemplates Aecon will acquire, by plan of arrangement, all of the issued and outstanding common shares of Lockerbie for a total consideration of approximately $220 million. Under the terms of the proposed transaction, Lockerbie shareholders will receive $8.00 in value for each Lockerbie common share, comprised of, at the election of each shareholder, cash or common shares of Aecon or a combination thereof, subject to pro-ration such that 75% of the total consideration will be paid in cash and 25% of the total consideration will be paid in Aecon's common shares. Closing is expected to occur in early April 2009 and is subject to regulatory approval, approval by Lockerbie's shareholders, court approval and certain other conditions. This transaction will be financed by Aecon without any additional debt through the payment of cash and the issuance of approximately $55 million worth of Aecon's shares which, subject to adjustment at closing, will involve the issuance of approximately 5.4 million shares from treasury representing approximately 9% of Aecon's proforma diluted shares. Aecon's liquidity position and capital resources are expected to remain strong after the Lockerbie acquisition is completed.

In the first quarter of 2008, Aecon announced an increase in its dividend payout level. Annual dividends increased to $0.20 per share, to be paid in quarterly payments of $0.05 per share, representing a 43% increase over the $0.14 per share ($0.07 semi-annually) dividend rate that was established in late 2007.

Aecon's remaining equity investment of US$3.5 million in the Quito airport concessionaire is expected to be generated from profits from construction of the new Quito airport. To date, Aecon has invested cash of US$30.2 million as equity in the concessionaire for a total investment in the Quito airport concessionaire of approximately US$45 million, which includes Aecon's share of the earnings of the existing airport, all of which are being directly invested in the cost of constructing the new airport. Aecon has also deposited US$3.7 million with Export Development Canada ("EDC") to support letters of credit issued by EDC on the Quito airport project. Also, in accordance with an agreement with EDC, Aecon has US$1.0 million in a segregated account to secure future equity investment requirements in the Quito airport concessionaire. These EDC deposits are included in restricted cash on the Consolidated Balance Sheet at December 31, 2008.

Summary of Cash Flows

Consolidated Cash Flows
Year Ended December 31

$ millions	2008	2007
	$	$
Cash provided by (used in):		
Operating activities	**143.9**	97.5
Investing activities	**(53.3)**	(52.0)
Financing activities	**60.0**	43.6
Increase in cash and cash equivalents	**150.5**	89.0
Effects of foreign exchange on cash balances	**7.7**	(4.5)
Cash and cash equivalents – beginning of year	**134.6**	50.1
Cash and cash equivalents – end of year	**292.9**	134.6

Operating Activities

Cash provided by operating activities of $144 million in the 2008 was $46 million better than last year. The year-over-year improvement is due to higher cash earnings (an improvement of approximately $43 million in 2008) and lower investments in working capital.

Investing Activities

In 2008, investing activities resulted in a use of cash of $53 million, which compares with cash used of $52 million in 2007. Of the cash used in 2008, $43 million represents Aecon's proportionate share of the cash used by Quiport JV for the construction of the new Quito airport (i.e. increase in concession rights). These cash outlays were, for the most part, financed by non-recourse project debt (see Financing Activities below). In 2008, a reduction in the amount of restricted cash required to be deposited as collateral for borrowings and letters of credit was also a source of cash from investing activities. During 2007, Aecon used $33 million of cash to partially fund the acquisition of Karson and to purchase the assets of Alarie, another $22 million to finance its proportionate share of the cash used by Quiport JV for construction of the new Quito airport, and $8 million to increase its investments in restricted cash and marketable securities balances primarily held in connection with the Quito project. Partially offsetting these outflows in 2007 was a $10 million return of capital on Aecon's long-term investment in Derech Eretz.

Financing Activities

In 2008, cash provided by financing activities amounted to $60 million, compared to cash provided of $44 million in the prior year. During 2008, the largest source of financing related to Aecon's issuance of common shares for net proceeds of approximately $71 million. Also during 2008, issuances of long-term debt amounted to $34 million while repayments totalled $26 million, for a net change of $8 million. Of the increase in long-term debt, $7 million related to Aecon's proportionately consolidated share of additional non-recourse financing for the new Quito airport project and $28 million related to non-recourse project financing for the Rouge Valley Health and Toronto Rehab projects. Repayments of long-term debt in 2008 included repayment of Aecon's term loan facility of $13 million, as well as a $4 million scheduled principal repayment on a note payable issued in connection with the acquisition of Karson. This increase in cash was partially offset by dividends paid of $10 million in the year. During 2007, net issuances of long-term debt amounted to $51 million of which $15 million relates to Aecon's proportionately consolidated share of additional financing for the new Quito airport project, $15 million was borrowed in the second quarter of 2007 under Aecon's new term debt facility, of which $6 million was used to repay existing debt, and debt of $13 million was incurred in the first quarter of 2007 to finance the acquisition of Karson and additional debt of $16 million was borrowed in the fourth quarter of 2007 to finance the acquisition of the Alarie assets.

NEW ACCOUNTING STANDARDS

Several new Canadian accounting standards adopted in 2008 and 2007 are described in note 2 to the 2008 Consolidated Financial Statements.

In addition, note 2 to the 2008 Consolidated Financial Statements includes new CICA Handbook sections which became effective on or after January 1, 2009 for Aecon. Aecon does not anticipate any significant impact in 2009 on the Company's financial position or on the results of its operations from adoption of these new standards.

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board confirmed that Canadian public companies will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011.

Aecon is currently evaluating this new requirement and is in the process of creating a detailed plan to convert to IFRS. Aecon has performed an initial project scoping exercise to identify the more significant differences between Canadian Generally Accepted Accounting Principles (CGAAP) and IFRS. The Company is focusing its efforts during the first two quarters of 2009 on these major areas of differences which are expected to involve the majority of the work for the transition to IFRS. The financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Aecon has hired a full-time project manager to lead its transition to IFRS. A steering committee with representation from operations, finance, information technology, investor relations and legal services was formed to provide overall guidance to the project as well as receive regular updates on the project's progress.

Aecon's audit committee will receive quarterly updates on the progress, cost and major milestones of the project.

The Company has established an IFRS technical committee to provide initial approval of IFRS accounting policies for recommendation to the audit committee. The technical committee will review the judgments and policy recommendations of the IFRS implementation team. The technical committee will meet monthly, starting in first quarter of 2009.

To date, the Company has completed a detailed plan for the 2009 portion of the transition project.

SUPPLEMENTAL DISCLOSURES

Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures as at the financial year ended December 31, 2008. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2008 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities.

Internal Control Over Financial Reporting

As at the financial year ended December 31, 2008, the Chief Executive Officer and Chief Financial Officer evaluated the design and operating effectiveness of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operating effectiveness of internal control over financial reporting was effective as at December 31, 2008 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent period ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Contractual Obligations

Aecon has commitments for equipment and premises under operating leases and has principal repayment obligations under long-term debt as follows (in thousands of dollars):

	Lease Payments	Long-term Debt Repayments
	$	$
2009	20,094	16,387
2010	15,483	36,592
2011	11,633	31,517
2012	6,999	16,281
2013	3,785	18,988
Beyond	10,012	60,447
	68,006	180,212

At December 31, 2008, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was $1,328 million. This consists of the reported backlog of $1,254 million plus an additional $74 million representing Aecon's share of the Quito project revenues not included in reported backlog revenues.

Off-Balance Sheet Arrangements

In connection with its joint venture operations in Quito, India and Israel, Aecon has provided various financial and performance guarantees and letters of credit, which are described in note 11 to the 2008 Consolidated Financial Statements.

Aecon's defined benefit pension plans (the "Pension Plans") had a combined deficit of $2.0 million at December 31, 2008 (2007 – $0.7 million). These deficits include experience and other actuarial gains and losses which, in accordance with Canadian generally accepted accounting principles, are not immediately recognized in the accounts of the Company but are amortized over the average remaining service life of employees. At December 31, 2008, unrecognized liabilities amounted to $7.2 million (2007 – $2.8 million). Details relating to Aecon's defined benefit plans are set out in note 20 to the 2008 Consolidated Financial Statements.

The current actuarial valuation of the Pension Plans for statutory and contribution purposes was completed as at December 31, 2007. Under current pension benefits regulations, the next actuarial valuation of the Pension Plans must be performed with a valuation date of no later than December 31, 2010.

In light of recent economic conditions, Aecon contributed the maximum allowable under the Income Tax Act (Canada) to its main defined benefit plan in 2008. In contributing the maximum amount, going concern and solvency special payments will be eliminated and future contributions to this plan (until the next valuation is filed in 2011) will consist of only normal cost contributions. No change in contributions will be required before 2011 and any change thereafter will reflect December 31, 2010 market conditions.

As a result of the significant increase in "AA" bond yields over the past year, the reported pension obligation amount and future service cost of the Pension Plans has been considerably reduced. However, this reduction in estimated pension obligations only partially offsets the significant reduction in investment market values experienced by the Pension Plans in the past year. The net effect of these changes has contributed to a year-over-year decrease in the funded position of the Pension Plans of $1.3 million at December 31, 2008 (see above). In addition, these economic impacts also affect Aecon's pension expense in 2009 which is expected to increase by approximately $0.7 million when the 2008 experience and other actuarial losses begin to be amortized into income.

It is important to note that the accounting for pension plans involves a number of assumptions including those that are disclosed in note 20 to the Consolidated Financial Statements. As a result of the uncertainty associated with these estimates, there is no assurance that the plans will be able to earn the assumed rate of return on plan assets, and furthermore, market driven changes may result in changes to discount rates and other variables which would result in Aecon being required to make contributions to the plans in the future that may differ significantly from estimates. As a result, there is a significant amount of measurement uncertainty involved in the actuarial valuation process. This measurement uncertainty may lead to potential fluctuations in financial results attributable to the selection of actuarial assumptions and other accounting estimates involved in the determination of pension expense and obligations. Two of the more significant actuarial and accounting assumptions impacting the reporting of pension plans are the discount rate assumption and the expected return on assets assumption. As at December 31, 2008, Aecon has used a discount rate of 7% and an expected return on assets of 6.25% in its pension plan calculations for financial statement purposes. The impact of a 0.5% decrease in both the discount rate and the expected return on assets assumptions would have resulted in an increase in the Pension Benefit Obligation of approximately $1.6 million at December 31, 2008 and an increase in the estimated 2009 pension expense of approximately $0.4 million.

From time to time Aecon enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. At December 31, 2008, the Company had net outstanding contracts to sell euro 3.3 million, sell US$16.0 million, buy euro 0.1 million and buy US$0.7 million (December 31, 2007 – sell euro 6.7 million, sell US$24.0 million and buy US$12.0 million, sell US$0.8 million) on which there was a net unrealized exchange loss of $1.9 million (December 31, 2007 – net gain of $1.0 million). The net unrealized exchange gain (loss) represents the estimated amount the Company would have received (paid) if it terminated the contracts at the end of the respective periods. Financial instruments are discussed in note 22 to the 2008 Consolidated Financial Statements.

In connection with a US dollar denominated term loan facility, Aecon entered into an interest rate swap with a financial institution on October 1, 2007 to help manage its exposure to interest rate volatility. By entering into the interest rate swap, the Company agreed to receive interest at a variable rate and pay interest at a fixed rate. Coincident with the repayment of the term loan facility in the second quarter of 2008, this interest rate swap contract was terminated.

Related Party Transactions

During 2008, $1.1 million of loans receivable from employees were repaid, reducing the balance to nil. Refer to note 21 to the 2008 Consolidated Financial Statements for details of related party transactions and balances.

Critical Accounting Estimates

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

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

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

In the preparation of the Consolidated Financial Statements, various other estimates are required, which are either subjective, could be materially different under different conditions or using different assumptions, or which require complex judgments. The more significant estimates are related to the accounting for income taxes, concession rights to operate the existing Quito airport, employee benefit plans and the accounting for pension expense, and the allocation of the purchase price to the fair value of assets acquired and liabilities assumed on acquisitions. The Company's accounting for income taxes is described in note 6 to the 2008 Consolidated Financial Statements and under Tax Accrual Risks in the following section of the MD&A, entitled Risks and Uncertainties. The significant actuarial assumptions used in accounting for pension expense are set out in note 20 to the 2008 Consolidated Financial Statements and are discussed above in the Off-Balance Sheet Arrangements section of the 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)	December 31, 2008	March 3, 2009
Number of common shares outstanding [(1)]	50,899,290	50,899,290
Paid-up capital of common shares outstanding [(2)]	$262,644	$262,644
Outstanding securities exchangeable or convertible into common shares:		
Number of stock options outstanding	1,993,484	1,993,484
Number of common shares issuable on exercise of stock options	1,993,484	1,993,484
Increase in paid-up capital on exercise of stock options	$22,441	$22,441
Principal amount of convertible debentures outstanding (see note 12 to the 2008 Consolidated Financial Statements)	$ –	$ –
Number of common shares issuable on conversion of convertible debentures	$ –	$ –
Increase in paid-up capital on conversion of convertible debentures	$ –	$ –

(1) The number of common shares outstanding as per the above table at December 31, 2008 includes 691,366 shares (March 3, 2009 – 691,366 shares) held by the trustee of Aecon's Long-Term Incentive Plan ("LTIP").
The number of common shares outstanding at December 31, 2008 for financial statement purposes, after deducting the above LTIP shares, was 50,207,924 shares (March 3, 2009 – 50,207,924 shares) (see note 16 to the 2008 Consolidated Financial Statements).

(2) As described in note 16 to the 2008 Consolidated Financial Statements, and in accordance with the recommendations of The Canadian Institute of Chartered Accountants, share capital at December 31, 2008 has been reduced by $7.6 million to reflect shares held by the trustee of the LTIP plan.

RISKS AND UNCERTAINTIES

Current Global Financial Conditions

Recent events in global financial markets have had a profound impact on global, North American and Canadian economies. Many industries have been impacted by the changes in market conditions to varying degrees. Some of the key impacts of the current financial market turmoil include contraction in credit markets and resulting widening of credit risk as well as enhanced volatility in commodity, equity and foreign exchange markets. A continued or worsened slowdown in financial markets or other economic conditions, including without limitation, constraints in credit or surety markets, a sustained slump in economic activity in the Alberta oilsands, the availability of private and public sector funding for infrastructure projects, pressure on margins arising from an altered competitive landscape or an increased risk of corporate bankruptcy in the markets in which Aecon operates, may adversely affect the Company in ways which are impossible to predict as of the date hereof given the unprecedented nature of the current crisis.

Large Project Risk

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

Joint ventures are typically formed to undertake a specific project, jointly controlled by the partners and are dissolved upon completion of the project. Aecon selects its joint venture partners based on a variety of criteria including relevant expertise, past working relationships as well as analysis of the prospective partners' financial and construction capabilities. Joint venture agreements spread risk between the partners and they generally state that companies supply their proportionate share of operating funds and that they share profits and losses in accordance with specified percentages. Nevertheless, each participant in a joint venture is usually liable to the client for completion of the entire project in the event of a default by any of its partners. Therefore, in the event that a joint venture partner fails to perform their obligations due to financial or other difficulties, Aecon may be required to make additional investments or provide additional services which may reduce or eliminate profit, or even subject Aecon to significant losses with respect to the joint venture.

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

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

As described more fully in notes 11 and 15 to the 2008 Consolidated Financial Statements, Aecon has a number of commitments and contingencies. If Aecon was called upon to honor these obligations, its financial results would be adversely affected.

The Nathpa Jhakri project in India, although now complete, incurred significant delays in respect of which the joint venture, in which Aecon has a 45% interest, submitted requests for extensions of contract time as well as claims for significant compensation arising from the costs of delays. The joint venture has submitted for arbitration various claims against the owner, Satluj Jal Vidyut Nigam Ltd. ("SJVN") (formerly Nathpa Jhakri Power Corporation Limited), the most significant of which is to cover the joint venture's cost of extra work and delays related to these same matters. In 2005, the joint venture was advised by SJVN of its intention to levy liquidated damages against the joint venture for alleged delay damages resulting from not completing the contract on time. Since the delay in the completion of the project was caused by numerous items outside of the joint venture's control and contractual responsibility, including, among many other things, a catastrophic flood in 2002, the joint venture believes that these claims for liquidated damages are unsubstantiated, unwarranted and without legal merit. Currently, no provision has been made for liquidated damages, nor has any amount been recognized for potential recoveries under the claims. This treatment is in accordance with the Company's accounting policy, which is to recognize revenues from claims only when resolved. As discussed in further detail above under the Infrastructure section of the MD&A, the arbitration process is nearly complete and a decision on the second of two major claims is expected in 2009. For further information refer to note 15 to the 2008 Consolidated Financial Statements. In the event the joint venture is unsuccessful in its claims for additional compensation and request for extension of contract time, the joint venture could be faced with potential liquidated damages claims by SJVN for which the Company is jointly and severally liable. If such possible claims were to materialize and be successful, the financial results and the financial position of Aecon would be adversely affected.

In addition, as at December 31, 2008, the Company had outstanding guarantees and letters of credit totaling approximately $12 million in support of financial and performance related obligations for the Nathpa Jhakri project. If such guarantees were to be called upon and/or if Aecon was not able to collect its undistributed profits, Aecon's financial results and its financial position would be adversely affected. Construction of the Nathpa Jhakri project is fully complete and the warranty period has expired.

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

In addition, a significant portion of Aecon's capital (approximately $42 million) is invested, directly or indirectly, in the Cross Israel Highway. As a result, any material diminution in the value of the Cross Israel Highway would adversely affect the financial results and condition of the Company.

Aecon is a partner with Hochtief Construction AG in a joint venture that constructed a hydroelectric facility in northern Quebec for Société d'énergie de la Baie James, a subsidiary of Hydro-Quebec (the "Eastmain Project"). The Eastmain Project although complete, incurred extra costs, primarily because of customer changes to the original contract scope. The Company is currently in litigation with Hydro-Quebec seeking a recovery of these extra costs. The Company believes that it has adequate reserves included in the carrying value of its accounts to cover potential non-recoveries that may arise from this project.

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 airport under a concession arrangement with Corporacion Aeropuerto y Zona Franca del Distrito Metropolitano de Quito ("CORPAQ").

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

More specifically as it relates to the Quito airport concessionaire, as with other private concessions in Ecuador, the Quito airport project came under heightened scrutiny by the new Federal administration. Along with this scrutiny came a series of public criticisms by the administration against the Municipality of Quito, primarily directed at the lack of contribution by the Municipality, through the airport project, towards a national airport modernization program, as well as a recommendation by the State Comptroller's office that the Municipality should renegotiate the Quito airport concession contract. While there is no indication thus far that the administration intends to take any unilateral action that would run contrary to the contracts that Aecon and its partners have in place, the political environment reconfirms that the project and related investments are occurring in a country in which there is elevated political risk and uncertainty generally. Therefore, political risk may adversely impact the project's financial performance and its overall financial viability, and the value of Aecon's investment in the Quito airport concessionaire (Quiport JV) could ultimately be impaired.

In connection with the Quito airport project, the Company has made equity investments and provided letters of credit in support of its remaining equity obligations and for various project contingencies. These letters of credit are supported by guarantees issued on behalf of the Company to the issuing banks by EDC and will remain in place until its equity obligations are fulfilled and the conditions giving rise to the contingencies are satisfied or cleared. In addition, the Company and Andrade Gutierrez have provided surety bonds, guaranteed joint and severally, to cover construction and concession related performance obligations, an advance payment bond and a retention release bond; in each case the Company's share is supported by guarantees issued by EDC. If Aecon was called upon to honor these obligations, or should the project incur significant cost overruns, its financial results and position would be adversely impacted. For further information on the Quito project, refer to note 5 in the 2008 Consolidated Financial Statements.

During previous years, Quiport JV exercised its right under its concession contract to increase tariffs for services rendered to the airlines using the Existing Quito Airport. These increased tariffs have on previous occasions been challenged by certain airlines. Should Quiport's rights to recent or future tariff increases be restricted or reduced, the reported value of concession rights related to the Existing Quito Airport could ultimately be impaired.

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

Concessionaire Risk

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

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

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

On a going forward basis, a sustained global economic slump may, directly or indirectly, impact the ability of Aecon to make the necessary financing arrangements to pursue all of the concession opportunities it would otherwise be interested in.

Oilsands

Recent delays, scope reductions and/or cancellations in previously announced or anticipated projects in the Alberta oilsands demonstrate that economic activity in the oilsands may be impacted by a variety of factors including: the current global economic crisis; the fluctuation in world oil prices; cost overruns on announced projects; fluctuations in the availability of skilled labour; lack of sufficient governmental infrastructure to support growth; the potential introduction of new "green" legislation and a shortage of sufficient pipeline capacity to transport production to major markets. A sustained period of low world oil prices may result in material differences in previously projected oilsands development. Postponements or cancellations of investment in existing and new projects could have an adverse impact on Aecon's business and financial condition.

International/Foreign Jurisdiction Factors

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

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

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

Aecon's investment in Derech Eretz Highways (1997) Ltd. ("Derech Eretz") is denominated in New Israeli Shekels ("NIS") and, as such, the value of this investment fluctuates with changes in the relationship between the Canadian dollar and NIS. Similarly, although much less significant, Aecon's investments in India and Israel (other than its investment in Derech Eretz), which primarily represent undistributed profits from its now completed construction projects in these countries, are denominated in foreign currencies (mostly NIS, Rupees and United States dollars) and the value of these investments fluctuates as the value of the Canadian dollar changes relative to the values of these foreign currencies. For further information on currency risk, refer to note 22 in the 2008 Consolidated Financial Statements.

Contractual Factors

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

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

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

In certain instances, Aecon guarantees to a customer that it will complete a project by a scheduled date or that the facility will achieve certain performance standards. If the project or facility subsequently fails to meet the schedule or performance standards, Aecon could incur additional costs or penalties commonly referred to as liquidated damages. Although Aecon attempts to negotiate waivers of consequential or liquidated damages, on some contracts the Company is required to undertake such damages for failure to meet certain contractual provisions. Such penalties may be significant and could impact Aecon's financial position or results of future operations. Furthermore, schedule delays may also reduce profitability because staff may be prevented from pursuing and working on new projects. Project delays may also reduce customer satisfaction which could impact future awards.

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

Certain of Aecon's contractual requirements may also involve financing elements, where Aecon is required to provide one or more letters of credit, performance bonds, financial guarantees or equity investments. In light of both the actual and potential impact of the current economic situation on the credit and surety markets throughout the world, there can be no assurance that

Aecon will be able to obtain the necessary financing on favourable or commercially reasonable terms and conditions for such equity investments, nor that its available working capital and bonding facilities will be adequate in order to issue the required letters of credit and performance bonds. Further uncertainty in the credit and surety markets may, for reasons wholly unrelated to the business, affairs or results of the Company, impact the ability of Aecon to raise sufficient project based securities and financial instruments to pursue all of the opportunities it would be otherwise interested in.

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

Economic Factors

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

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

Internationally, Aecon is involved with the development of basic infrastructure, particularly in developing countries. As such, the Company's growth and profitability from this work depends largely on the pace of growth in these foreign jurisdictions and the ability of these countries to allow for the arrangement of long-term financing, which may on a going forward basis be impacted or constrained by the effects of the current global economic crisis.

Ongoing Financing Availability

Aecon's business strategy involves the selective growth of its operations through internal growth and acquisitions. Certain of Aecon's operating segments, particularly its Infrastructure and Industrial segments, require substantial working capital during their peak busy periods. As these businesses grow, Aecon is continually seeking to enhance its access to funding in order to finance the higher working capital associated with this growth. However, from time to time, Aecon is constrained in its ability to capitalize on growth opportunities to the extent that financing is either insufficient or unavailable. It is too early to ascertain whether the current economic situation will alter either in 2009 or beyond the ability of Aecon to raise sufficient financing to execute its short and long-term strategy.

Access to Bonding and Pre-qualification Rating

Many of Aecon's construction contracts require either sufficient bonding or pre-qualification rating. The surety industry has undergone significant consolidation in recent years, which has constrained overall industry capacity. The surety industry has also endured a certain degree of instability and uncertainty arising from the economic crisis, the long-term effects of which, if any, are difficult to predict. Furthermore, the issuance of bonds under surety facilities is at the sole discretion of the surety company. Although the Company believes it will be able to continue to maintain surety capacity adequate to satisfy its requirements, should those requirements be materially greater than anticipated, or should sufficient surety capacity not be available for reasons related to the current crisis or otherwise or should the cost of bonding rise substantially (whether Aecon specific or industry wide), this may have a material adverse effect on the ability of Aecon to operate its business or take advantage of all market opportunities.

Insurance Risk

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

Environmental and Safety Factors

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

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

Aecon is subject to and complies with federal, provincial and municipal environmental legislation in all of its manufacturing and construction operations. Aecon recognizes that it must conduct all of its business in such a manner as to both protect and preserve the environment in accordance with this legislation. At each place where work is performed, Aecon develops and implements a detailed quality control plan as the primary tool to demonstrate and maintain compliance with all environmental regulations and conditions of permits and approvals. Management is not aware of any pending environmental legislation that would be likely to have a material impact on any of its operations, capital expenditure requirements or competitive position, although there can be no guarantee that future legislation (including without limitation the introduction of "green" legislation that may impact segments of Aecon's business such as work in Alberta's oilsands) will not be proposed, and if implemented, it may have a material impact on the Company and its financial results.

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

Litigation Risk

Disputes are common in the construction industry and as such, in the normal course of business, the Company is involved in various legal actions and proceedings which arise from time to time, some of which may be substantial. In view of the quantum of the amounts claimed and the insurance coverage maintained by the Company in respect of these matters, management of the Company does not believe that any of the legal actions or proceedings that are presently known or anticipated by the Company is likely to have a material adverse effect on the Company's financial position. However, there is no assurance that the Company's insurance arrangements will be sufficient to cover any particular claim or claims that may arise in the future. Furthermore, the Company is subject to the risk of claims and legal actions for various commercial and contractual matters, primarily arising from construction disputes, in respect of which insurance is not available. Although as of the date hereof, Aecon has not seen a material shift, there can be no guarantee that one of the byproducts of the current economic crisis will not be a rise in litigation which, depending on the nature of the litigation, could impact Aecon's results.

Internal and Disclosure Controls

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

Labour Factors

A significant portion of Aecon's labour force is unionized and accordingly, Aecon is subject to the detrimental effects of a strike or other labour action, in addition to competitive cost factors.

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

Cyclical Nature of the Construction Business

Fluctuating demand cycles are common in the construction industry and can have a significant impact on the degree of competition for available projects. As such, fluctuations in the demand for construction services or the ability of the private and/or public sector to fund projects in the current economic climate could adversely affect backlog and margin and thus Aecon's results.

Dependence on the Public Sector

A significant portion of Aecon's revenues is derived from contracts with various governments or their agencies. Consequently, any reduction in demand for Aecon's services by the public sector whether from traditional funding constraints, the impact of the current economic crisis (including future budgetary constraints or an eroding tax base), changing political priorities, change in government or delays in projects caused by the election process would likely have an adverse effect on the Company if that business could not be replaced from within the private sector.

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

Potential Fluctuation in Financial Results

Aecon's quarterly and annual financial results may be impacted by a variety of factors including, without limitation: the recognition of revenue from existing large project contracts; the opportunity to compete for new large projects; costs or penalties associated with unanticipated delays in project completion; fluctuations in the general economic and business conditions in the markets in which Aecon operates, which may impact pricing levels of its services; actions by governmental authorities including government demand for the services provided by Aecon; government regulations and the associated expenditures required to comply with regulations; labour action involving Aecon's unionized workers; seasonal or materially adverse weather conditions; the risk associated with the use of lump sum and guaranteed maximum price contracts; geopolitical risks in the foreign jurisdictions in which Aecon operates as well as risk associated with foreign currency and exchange rates; and other circumstances affecting revenue and expenses. Aecon's operating expenses are incurred throughout the year. As a result, if expected revenues are not realized as anticipated, there may be significant variations in Aecon's quarterly and annual financial results.

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

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

Adjustments in Backlog

There can be no assurance that the revenues projected in Aecon's backlog at any given time will be realized, or if realized, that they will perform as expected with respect to margin. Projects may from time to time remain in backlog for an extended period of time prior to contract commencement, and after commencement may occur unevenly over current and future earnings periods. Project suspensions, terminations or reductions in scope do occur from time to time in the construction industry due to considerations beyond the control of a contractor such as Aecon and may have a material impact on the amount of reported backlog with a corresponding impact on future revenues and profitability. The current global economic crisis may lead to more project delays, reductions in scope and/or cancellations such as those experienced in the oilsands in the last quarter of 2008 and first quarter of 2009. A sustained economic slump may negatively affect the ability of the Company to replace its existing backlog which may adversely impact results.

Risk of Non-Payment

Credit risk of non-payment with private owners under construction contracts is to a certain degree minimized by statutory lien rights which give contractors a high priority in the event of foreclosures as well as progress payments based on percentage completion. However, there is no guarantee that these measures will in all circumstances mitigate the risk of non-payment from private owners and a significant default or bankruptcy by a private owner may impact results. The current economic crisis may give rise to a greater incidence of default (including cash flow problems) or corporate bankruptcy of clients, subcontractors or suppliers which could also impact results.

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

Tax Accrual Risks

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

During 2001, the Company received federal income tax reassessments relating to deductions claimed by predecessor companies between 1993 and 1999. The reassessments, which disallow previously claimed Canadian development expense ("CDE") deductions, amounted to $10.6 million. Provincial income tax reassessments related to the disallowed CDE and received to date amount to $0.8 million. Although the Company has filed Notices of Objection, it was required to pay 50% of the federal assessed amounts and 100% of the Ontario provincial assessments pending resolution of the objections. At December 31, 2008, the Company had paid $5.4 million resulting from these assessments. To-date, the Canada Revenue Agency has not responded to the Notices of Objection. The total potential federal and provincial reassessments, including income taxes, interest and penalties could be up to $19.3 million. The Company believes it has adequate income tax provisions to cover the ultimate outcome of these reassessments.

Reputation in the Construction Industry

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

Aecon Operates in a Highly Competitive Industry

Aecon carries on businesses in highly competitive product and geographic markets in Canada, the United States and internationally. Aecon competes with other major contractors as well as many mid-size and smaller companies across a range of industry segments. Each has its own advantages and disadvantages relative to Aecon. New contract awards and contract margin are dependent on the level of competition and the general state of the markets in which we operate. Fluctuations in demand in the segments in which we operate may impact the degree of competition for work. Competitive position is based on a multitude of factors including pricing, ability to obtain adequate bonding, backlog, financial strength, appetite for risk, and reputation for quality, timeliness and experience. Aecon has little control over and cannot otherwise affect these competitive factors. If the Company is unable to effectively respond to these competitive factors, results of operations and financial condition will be materially impacted. In addition, a prolonged economic slump may adversely affect one or more of Aecon's competitors or the markets in which it operates, resulting in increased competition in certain market segments, price or margin reductions or decreased demand for services, which may adversely affect results.

Increases in the Cost of Raw Materials

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

Subcontractor Performance

The profitable completion of some contracts, primarily within Aecon's Buildings division, depends to a large degree on the satisfactory performance of the subcontractors who complete different elements of the work. If these subcontractors do not perform to accepted standards, Aecon may be required to hire different subcontractors to complete the tasks, which may add additional costs to a contract, may impact profitability on a specific job, and in certain circumstances, lead to significant losses. The challenges created by the recent economic crisis may also give rise to an increased risk of subcontractor default. A major subcontractor default could materially impact results.

Protection of Intellectual Property and Proprietary Rights

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

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

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

OUTLOOK

Canada's economic outlook as of the first quarter of 2009 is one of uncertainty. The instability in world equity and debt markets, which dominated the financial and business news in the fourth quarter of 2008, continues. The news from many of Canada's key economic sectors including the auto sector, pulp and paper, and the oilsands continues to worsen.

Yet, Aecon's outlook for 2009 is also impacted by a number of important positive factors, including the company's highest-ever year end backlog, a strong balance sheet and a bidding pipeline that remains robust.

These seemingly contradictory realities combine to form an outlook for Aecon that is characterized by strong fundamentals in most markets, within an environment of uncertainty. Adding to the series of conflicting trends are:

- Record levels of government investment in transportation infrastructure – with strong indications of more to come. Among the highest profile examples of this trend are the public transit build-out in Toronto, a new border crossing at Windsor, major bridge and power projects in BC, and a number of transportation improvements in Alberta, from ring roads to light rail transit lines.
- A virtual halt to new capital spending in the oilsands, where the over-heated market of just six months ago has gone cold, and where restart dates for many of the delayed projects remain uncertain.
- Continued strong capital spending on social infrastructure (from which Aecon recently gained another new hospital project), as governments remain committed to their healthcare and education spending priorities.
- Forecasts that tight credit markets and reduced demand would delay investment in new electrical generation capacity in Ontario have started to give way to growing optimism that the new Green Energy Act will result in substantial new investment in renewable power across the province.
- Growing demand for water and wastewater systems across the country, as under-investment in this infrastructure over the years has become problematic in many communities.

These trends have combined to produce near record year end backlog in the Buildings and Infrastructure segments, but a 35% decline in the Industrial backlog from a year ago.

As such, the outlook for Aecon's Infrastructure segment remains strong. While the segment showed little profit growth in 2008, its backlog has strengthened significantly, with segment backlog at December 31, 2008 reaching $470 million, 26% higher than at the same time last year. In addition, the substantial backlog added as a result of Aecon's acquisition of South Rock in January 2009, along with strong new business awards in the utilities division (highlighted by the Enbridge Gas alliance in Ontario which does not form part of Aecon's backlog), and the continued strong bidding pipeline in transportation infrastructure, all bode well for strong results from this segment in 2009.

Similarly, record year end backlog of $534 million in the Buildings segment is almost three times the level reported two years ago. This strong backlog growth, and the significant upturn in profitability of the Toronto business unit, are evidence that the turnaround in Buildings has taken hold. With most of the negative impact from the setback encountered in the segment's Montreal operations now behind us, the outlook for Aecon's Buildings segment remains strong.

The Industrial segment has driven much of Aecon's increased profitability over the last two years, with 37% revenue growth in 2007 and 54% revenue growth in 2008, complemented by even stronger growth in margins. This has produced extraordinary results in the Industrial segment that are not expected to be matched in 2009, especially given the market conditions outlined above. Nonetheless, the contribution of Aecon's Industrial segment in 2009 is expected to remain significant, and the proposed acquisition of Lockerbie & Hole will strengthen Aecon's position in the western Canadian market. Notably, the addition of Lockerbie's commercial mechanical business will further increase Aecon's backlog in the social infrastructure sector, adding an important western Canadian component to an already healthy social infrastructure backlog in Central and Eastern Canada.

In the Concessions segment, traffic continues to grow on both the Cross Israel Highway and the Quito International Airport, although a close watch is being held for any potential fallout from the current economic turmoil. On the Cross Israel Highway, the realities of the current market have increased the likelihood that the asset will be held until improved market conditions allow the concession partners to realize full value. In Quito, construction is progressing well and the project continues to proceed on track in a challenging economic and political environment.

Overall, notwithstanding the current economic and financial environment, management continues to believe that its record year end backlog and the relative durability of its Infrastructure and Buildings markets bode well for continued strong financial performance throughout 2009 and into 2010.

FORWARD-LOOKING INFORMATION

In various places in Management's Discussion and Analysis and in other sections of this document, management's expectations regarding future performance of Aecon were discussed. These "forward-looking" statements are based on currently available competitive, financial and economic data and operating plans but are subject to risks and uncertainties. Recent events in global financial and credit markets have resulted in abnormally high market volatility and a level of uncertainty not seen in decades. The high level of uncertainty arising from this crisis may continue to impact the global, North American and Canadian economies in unpredictable ways and may impact the results of Aecon in a manner which is currently impossible to ascertain. In addition, 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" contained herein and available at www.sedar.com. Forward-looking statements include information concerning possible or assumed future results of operations or financial position of Aecon, as well as statements preceded by, followed by, or that include the words "believes," "expects," "anticipates," "estimates," "projects," "intends," "should" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of Aecon and could cause those results to differ materially from those expressed in any forward-looking statements.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

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AUDITORS' REPORT

MARCH 3, 2009

To the Shareholders of Aecon Group Inc.

We have audited the consolidated balance sheets of Aecon Group Inc. (the "Company") as at December 31, 2008 and 2007 and the consolidated statements of income, comprehensive income, retained earnings, accumulated other comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2008 AND 2007
(in thousands of dollars)

	2008	2007
	$	$
ASSETS		
Current assets		
Cash and cash equivalents (NOTE 3)	292,873	134,606
Restricted cash (NOTE 3)	28,194	34,628
Accounts receivable	259,431	228,438
Holdbacks receivable	92,584	71,523
Deferred contract costs and unbilled revenue	119,170	111,937
Inventories	23,582	15,702
Prepaid expenses	8,158	6,415
	823,992	603,249
Property, plant and equipment (NOTE 7)	102,333	97,105
Future income tax assets (NOTE 6)	20,622	36,140
Concession rights (NOTE 5)	167,996	109,283
Long-term concession investment (NOTE 8)	32,685	32,685
Other assets (NOTE 9)	41,236	32,190
	1,188,864	910,652
LIABILITIES		
Current liabilities		
Bank indebtedness (NOTE 3)	2,631	6,986
Accounts payable and accrued liabilities	319,840	266,693
Holdbacks payable	60,506	38,499
Deferred revenue	91,948	68,175
Income taxes payable	4,015	1,191
Future income tax liabilities (NOTE 6)	48,512	40,907
Current portion of long-term debt (NOTE 10)	16,387	17,533
	543,839	439,984
Non-recourse project debt (NOTE 10)	118,665	68,622
Other long-term debt (NOTE 10)	45,160	64,088
Other liabilities (NOTE 13)	3,375	3,077
Other income tax liabilities (NOTES 6 AND 15(D))	15,537	14,733
Concession related deferred revenue (NOTE 14)	77,574	63,692
Convertible debentures (NOTE 12)	–	30,114
	804,150	684,310
Non-controlling interests	2,449	933
Commitments and contingencies (NOTE 15)		
Shareholders' Equity		
Capital stock (NOTE 16)	262,644	162,691
Contributed surplus (NOTE 16)	2,828	1,592
Convertible debentures (NOTE 12)	–	2,101
Retained earnings	110,903	61,525
Accumulated other comprehensive income (loss) (NOTE 16)	5,890	(2,500)
	382,265	225,409
	1,188,864	910,652

Approved by the Board of Directors

John M. Beck, Director

Michael A. Butt, Director

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(in thousands of dollars, except per share amounts)

	2008	2007
	$	$
Revenues	1,876,986	1,492,747
Direct costs and expenses	(1,665,924)	(1,350,311)
	211,062	142,436
Marketing, general and administrative expenses	(96,010)	(71,896)
Foreign exchange gains (losses)	1,481	(1,646)
Gain on sale of assets (NOTE 25)	104	7,840
Depreciation and amortization (NOTE 9)	(27,493)	(21,915)
Interest expense (NOTE 17)	(9,275)	(11,234)
Interest income (NOTE 17)	8,080	5,972
	(123,113)	(92,879)
Income before income taxes and non-controlling interests	87,949	49,557
Income tax (expense) recovery (NOTE 6)		
Current	(3,696)	223
Future	(23,123)	(653)
	(26,819)	(430)
Income before non-controlling interests	61,130	49,127
Non-controlling interests	(1,788)	(824)
Net income for the year	59,342	48,303
Earnings per share (NOTE 16)		
Basic	1.23	1.28
Diluted	1.20	1.16
Average number of shares outstanding (NOTE 16)		
Basic	48,065,421	37,673,208
Diluted	49,805,700	46,922,459

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(in thousands of dollars)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2008	2007
	$	$
Net income for the year	59,342	48,303
Other comprehensive income (loss), net of tax		
Currency translation adjustments	8,446	(2,311)
Mark-to-market adjustments on available-for-sale investments	145	–
Cash flow hedges		
Net change in fair value of derivatives	(201)	201
Comprehensive income for the year	67,732	46,193

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	2008	2007
	$	$
Retained earnings – beginning of year	61,525	16,543
Net income for the year	59,342	48,303
Change in accounting treatment for financial instruments	–	(400)
Dividends (NOTE 16)	(9,968)	(2,977)
Redemption of convertible debentures (NOTE 12)	–	18
Interest received on share purchase loans (NOTE 16)	4	38
Retained earnings – end of year	110,903	61,525

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	2008	2007
	$	$
Accumulated other comprehensive loss – beginning of year	(2,500)	(390)
Currency translation adjustments	8,446	(2,311)
Mark-to-market adjustments on available-for-sale investments	145	–
Cash flow hedges (NOTE 22)	(201)	201
Accumulated other comprehensive income (loss) – end of year	5,890	(2,500)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(in thousands of dollars)

	2008	2007
	$	$
CASH PROVIDED BY (USED IN)		
Operating activities		
Net income for the year	59,342	48,303
Items not affecting cash		
Depreciation and amortization	27,493	21,915
Gain on sale of assets	(104)	(7,840)
Amortization of commitment fees	162	462
Unrealized loss on foreign exchange	142	218
Non-cash interest on other income tax liabilities	804	739
Notional interest representing accretion (NOTES 12 AND 13)	822	2,632
Defined benefit pension (NOTE 20)	(3,126)	(339)
Future income taxes	23,123	653
Stock-based compensation	1,690	454
Others	–	8
	110,348	67,205
Change in other balances relating to operations (NOTE 18)	33,565	30,277
	143,913	97,482
Investing activities		
Decrease (increase) in restricted cash balances (NOTE 3)	9,768	(23,509)
Decrease in restricted marketable securities and term deposits	–	15,257
Purchase of property, plant and equipment	(13,553)	(6,273)
Proceeds on sale of property, plant and equipment	1,062	8,025
Acquisitions (NOTE 19)	(1,175)	(33,229)
Investment in concession rights (NOTE 5)	(43,130)	(21,721)
Repayment of long-term concession investment (NOTE 8)	–	10,048
Increase in other assets (NOTE 9)	(7,660)	(1,575)
Increase in non-controlling interests	1,348	973
	(53,340)	(52,004)
Financing activities		
Decrease in bank indebtedness	(5,199)	(6,823)
Issuance of long-term debt	34,294	75,784
Repayments of long-term debt	(25,867)	(24,533)
Issuance of capital stock (NOTE 16)	70,729	1,261
Repurchase of capital stock (NOTE 16)	(4,145)	(2,204)
Repayment of share purchase loans (NOTE 16)	552	532
Redemption of convertible debentures	–	(500)
Dividends paid (NOTE 16)	(10,400)	–
Interest received on share purchase loans (NOTE 16)	4	38
	59,968	43,555
Increase in cash and cash equivalents during the year	150,541	89,033
Effects of foreign exchange on cash balances	7,726	(4,536)
Cash and cash equivalents – beginning of year	134,606	50,109
Cash and cash equivalents – end of year	292,873	134,606

Supplementary disclosures (NOTE 18)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007
(in thousands of dollars, except per share amounts)

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

USE OF SIGNIFICANT ACCOUNTING ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

ACCOUNTING FOR CONTRACTS

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

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

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

ACCOUNTING FOR OPERATIONS OF THE EXISTING QUITO AIRPORT AND THE QUITO CONSTRUCTION JOINT VENTURE

The Company holds a 42.3% effective interest in Corporacion Quiport S.A. ("Quiport JV") which holds the concession contract for the Quito Airport, and the Company also holds a 50% interest in the joint venture ("Construction JV") constructing the new Quito Airport. The Company accounts for these investments using the proportionate consolidation method, whereby the Company recognizes on its consolidated balance sheets its share of the assets and liabilities of both Quiport JV and Construction JV, and in its consolidated statements of income, its share of the revenues and expenses of these joint ventures. For foreign currency translation purposes, Quiport JV is reported as a self-sustaining operation with a measurement currency of US dollars, and Construction JV is reported as a fully integrated operation.

In accordance with GAAP, the Company's share of Construction JV's revenue and profits is reduced by the Company's proportionate ownership interest in Quiport JV. The profits eliminated will be effectively recognized over the life of the new Quito Airport concession period.

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

INVESTMENTS

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

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

GOODWILL

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

INCOME TAXES

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

EMPLOYEE BENEFIT PLANS

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

ASSET RETIREMENT OBLIGATIONS

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

LEASEHOLD INDUCEMENTS

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

STOCK-BASED COMPENSATION PLANS

The Company has stock-based compensation plans, as described in note 16. Stock options are issued at an exercise price no less than the market value of the Company's shares at the date of issuance. The Company uses fair value accounting for stock-based compensation.

FOREIGN CURRENCY TRANSLATION

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

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

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

EARNINGS PER SHARE

Basic earnings per share is calculated based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method to compute the dilutive effect of stock options and the "if converted" method to compute the dilutive effect of convertible securities. Under the treasury stock method, options are assumed to be exercised only when the exercise price is below the average price of the Company's stock, whereas under the "if converted" method, convertible securities are assumed to be converted at the beginning of the year (or at time of issuance, if later).

INTEREST CAPITALIZATION

Interest on funds used to finance the construction of concession assets is capitalized for periods proceeding the dates that the assets are available for use.

2) CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted the following new accounting standards that were issued by The Canadian Institute of Chartered Accountants ("CICA"):

CAPITAL DISCLOSURES

CICA Handbook Section 1535 "Capital Disclosures": This section establishes criteria for disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements to which it is subject; and (iv) if it has not complied, the consequences of such non-compliance. See note 24 for further details.

FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION

CICA Handbook Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation": Section 3862 modifies the disclosure requirements of Section 3861 and requires entities to provide disclosures in their consolidated financial statements that enable users to evaluate the significance of financial instruments on the entity's consolidated financial position and performance, and the nature and extent of risks arising from financial instruments and non-financial derivatives. Section 3863 "Financial Instruments – Presentation" carries forward unchanged the presentation requirements for financial instruments of Section 3861 "Financial Instruments – Disclosures and Presentation." See note 22 for further details.

INVENTORY

CICA Handbook Section 3031 "Inventory," which replaced Section 3030: The new section specifies the cost formula to be used in the valuation of inventories and defines the treatment of other costs eligible for inclusion in the calculation of inventory values.

There were no significant impacts on the Company's consolidated financial position or on the results of its operations from adoption of the above new standards.

FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

Effective January 1, 2007, the Company adopted CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement." Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the consolidated balance sheets when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. The Company recorded the following transition adjustment effective January 1, 2007 in the consolidated financial statements: accounts receivable holdbacks and accounts payable holdbacks have been fair valued with a resulting net charge after tax to retained earnings of $400.

FUTURE ACCOUNTING CHANGES

The CICA issued Handbook Section 3064, "Goodwill and Intangible Assets," which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. Section 1000, "Financial Statement Concepts," was also amended to provide consistency with this new standard. The new and amended standards will be effective on January 1, 2009 for the Company. The Company does not anticipate that the adoption of this standard will significantly impact its financial results.

The CICA has also issued Handbook Section 1582, "Business Combinations," which replaces Section 1581 and Section 1601, "Consolidated Financial Statements," and Section 1602, "Non-Controlling Interests," which together replace Section 1600. Under Section 1582, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of exchange. Furthermore, virtually all acquisition costs will be expensed which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and remeasured at fair value through earnings for each period until settled. Currently, only the contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill will be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from assets in the purchase price allocation. Sections 1601 and 1602 revise and enhance the standards for the preparation of consolidated financial statements subsequent to a business combination. All three sections come into effect for financial periods beginning January 1, 2011 with prospective application.

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian public entities will have to adopt International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011 (the "changeover date"). The Company will issue consolidated financial statements in accordance with IFRS commencing in the first quarter ended March 31, 2011, with comparative information. The impact of the adoption of IFRS on the consolidated financial statements of the Company will likely be significant and, as such, the Company has begun to develop its convergence plan in order to transition its financial statement reporting, presentation and disclosure for IFRS to meet the January 1, 2011 deadline. The Company continues the process of evaluating the potential impact of IFRS on its consolidated financial statements. The process will be on going as new standards and recommendations are issued by the International Accounting Standards Board and AcSB. It is not the Company's intention to early adopt IFRS prior to January 1, 2011.

(in thousands of dollars, except per share amounts)

3) CASH AND CASH EQUIVALENTS, RESTRICTED CASH, MARKETABLE SECURITIES AND TERM DEPOSITS, AND BANK INDEBTEDNESS

(a) Cash and cash equivalents as at December 31, 2008 include $62,003 (2007 – $42,658) on deposit in joint venture and affiliate bank accounts which the Company cannot access directly. Restricted cash of $28,194 at December 31, 2008 (2007 – $34,628) represents cash that was deposited as collateral for borrowings and letters of credit issued by the Company, and as such, this cash was not available for general operating purposes.

(b) Bank indebtedness at December 31, 2008 includes $2,631 (2007 – $6,986) representing the Company's proportionate share of bank loans of the joint venture that built the Nathpa Jhakri hydroelectric project in India, which bears interest at a weighted average rate of 11.84% (2007 – 9.3%). The full amount of the joint venture operating line and borrowings, amounting to $5,846 (2007 – $15,524), is secured by letters of credit that are guaranteed by the Company.

4) JOINT VENTURES

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

(a) The following table sets out the Company's proportionate share of the assets, liabilities, venturers' equity, revenues, expenses, net income (loss) and cash flows of these joint ventures. Included in expenses in the determination of net income (loss) of joint ventures are income taxes for those entities that are separately liable for the payment of taxes. Income taxes are not included for joint ventures where income taxes are the responsibility of the joint venture partners. Income taxes included in joint venture expenses amounted to an income tax expense of $3,469 (2007 – income tax recovery of $399).

	2008	2007
	$	$
Assets		
Current	146,536	118,594
Property, plant and equipment	1,720	2,643
Other	173,568	114,335
	321,824	235,572
Liabilities		
Current	84,098	66,572
Long-term	162,514	126,110
Venturers' equity	75,212	42,890
	321,824	235,572
Revenues	213,847	179,188
Expenses	199,086	183,510
Net income (loss)	14,761	(4,322)
Cash provided by (used in)		
Operating activities	39,863	16,068
Investing activities	(35,489)	(15,894)
Financing activities	8,491	4,336
	12,865	4,510

(b) The Company is either contingently or directly liable for obligations of its unincorporated joint ventures (notes 11 and 15). The assets of the joint ventures are available for the purpose of satisfying such obligations.

(c) The Company enters into transactions in the normal course of operations with its joint ventures, which are measured at the exchange amount, being the amount of consideration established and agreed to by the parties involved. During the year, the Company recognized revenues of $84,717 (2007 – $42,130) from its joint venture partners. At December 31, 2008, the Company has included in accounts receivable $13,284 (2007 – $4,275) owing from its joint ventures and has included in accounts payable and accrued liabilities $2,433 (2007 – $2,359) owing to its joint ventures.

(d) See note 27 for additional supplementary information.

5) CONCESSION RIGHTS

The Company has recorded concession rights as follows:

	2008	2007
	$	$
Concession rights to operate the Existing Quito Airport, net of accumulated amortization of $39,251 (2007 – $18,704)	30,585	38,135
Concession rights to operate the New Quito Airport	137,411	71,148
	167,996	109,283

(a) Background information

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

(b) Accounting for operations of the Existing Quito Airport

As consideration to develop and finance the New Quito Airport, Quiport JV was awarded the right to operate and to benefit from the operations of the Existing Quito Airport while the New Quito Airport is being constructed. In accordance with GAAP, an entity acquiring an "in-kind" asset must measure the asset at fair value as at the date of acquisition. Therefore, in accounting for the right to operate the Existing Quito Airport, Quiport JV fair valued this right and recorded an intangible asset (being the "Concession Rights") on its consolidated balance sheet. As at the date of financial close in 2006, the Company's proportionate share of this asset was assigned a value of $64,000, the then equivalent of US$57,337 following a valuation by an independent international accounting firm of the consideration received. Quiport JV amortizes these Concession Rights over the remaining term of the right to operate the Existing Quito Airport, and amortization is based on usage (estimated traffic volumes). The offsetting concession related deferred revenue balance (which is the value of the consideration 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 is being recognized in the normal fashion, is being reduced by the amount of the annual amortization charge related to the Existing Quito Airport Concession Rights.

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

At December 31, 2008, $137,411 (2007 – $71,148) representing the Company's proportionate share of the costs to construct the New Quito Airport has been recorded as Concession Rights to operate the New Quito Airport. Amortization of these Concession Rights will commence after construction of the New Quito Airport is completed. As a result, there is no amortization expense recorded in the current or prior 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 10).

(in thousands of dollars, except per share amounts)

6) INCOME TAXES

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

	2008	2007
	$	$
Income before income taxes and non-controlling interests	87,949	49,557
Statutory income tax rate	33.5%	36.1%
Expected income tax expense	(29,463)	(17,900)
Effect on income tax of:		
Reduction in the valuation allowance	3,404	14,631
Impact of change in substantively enacted tax rates on future tax balances	96	3,958
Provincial and foreign rate differentials	2,206	1,310
Non-deductible notional interest	(412)	(919)
Non-deductible stock-based compensation expenses	(1,011)	(164)
Other non-deductible expenses	(639)	(733)
Foreign exchange translation gains (losses)	142	(844)
Tax-exempt portion of capital gains (losses)	(826)	270
Other	(316)	(39)
	2,644	17,470
Income tax expense	(26,819)	(430)

The Company and certain subsidiaries have accumulated non-capital income tax loss carry-forwards of approximately $65,317 (2007 – $113,164), which may be used to reduce future taxable income and expire in the following years:

2009	$ 65
2010	131
2014	3,855
2015	7,169
2026	2,874
2027	22,156
2028	29,067
	$ 65,317

The components of future income taxes are as follows:

	2008	2007
	$	$
Canadian components:		
Net operating and capital losses carried forward	21,289	37,646
Reserves expensed for financial statement purposes		
and deducted for income tax purposes when paid	2,940	2,353
Property, plant and equipment:		
Net book value in excess of tax basis	(7,265)	(4,897)
Long-term contracts, including joint ventures(1)	(40,676)	(38,458)
Other temporary differences	412	46
Other long-term differences	1,026	6,794
Total future income tax assets, before valuation allowance	(22,274)	3,484
Valuation allowance:		
Balance beginning of year	(3,404)	(26,210)
Drawdown from current year operations	3,404	14,631
Drawdown to offset net future tax liability arising on the acquisition of a subsidiary company	–	8,175
Valuation allowance, end of year	–	(3,404)
Total Canadian future income tax (liabilities) assets	(22,274)	80
Foreign components:		
Long-term contracts, including joint ventures	(5,616)	(4,847)
Total foreign future income tax liabilities	(5,616)	(4,847)
Total future income tax liabilities, net	(27,890)	(4,767)
Classified as:		
Long-term future income tax assets	20,622	36,140
Current future income tax liabilities	(48,512)	(40,907)
Total future income tax liabilities	(27, 890)	(4,767)

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

The operations of the Company are complex and related tax interpretations, regulations and legislation are subject to change. The Company believes that the amounts reported as future income tax liabilities and as other income tax liabilities adequately reflect management's current best estimate of its income tax exposures (see also note 15(d)).

(in thousands of dollars, except per share amounts)

7) PROPERTY, PLANT AND EQUIPMENT

			2008
	Cost	Accumulated depreciation and amortization	Net
	$	$	$
Land and improvements	6,106	–	6,106
Buildings	21,693	6,050	15,643
Aggregate properties	38,736	6,138	32,598
Machinery and equipment	100,421	52,435	47,986
	166,956	64,623	102,333

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

Included in property, plant and equipment is equipment of $8,793 (2007 – $10,755) held under capital leases, with accumulated depreciation of $5,532 (2007 – $4,724).

8) LONG-TERM CONCESSION INVESTMENT

The long-term concession investment in the amount of $32,685 at December 31, 2008 (2007 – $32,685) represents the Company's 25% investment, which is carried at cost, in Derech Eretz Highways (1997) Ltd. ("Derech Eretz"), the company that owns the concessionaire rights to the Cross Israel Highway. Under the terms of the concession contract with the State of Israel and lender agreements, the Company is required to obtain approvals in order to sell all or a portion of this investment. In addition, existing shareholders have a right of first refusal to acquire this investment in the event of a sale and also are entitled to participate on a pro rata basis in the event of a sale to a third party. Pursuant to an agreement with the State of Israel, the Company's interest in Derech Eretz would be diluted to approximately 12% if options granted to the State of Israel are exercised.

In July 2007, Derech Eretz redeemed a portion of its subordinated debt of which the Company's share was $10,048. For accounting purposes, this repayment was treated as a return of capital and, as such, had no impact on the Company's reported earnings. After the partial redemption, the carrying value of this investment at December 31, 2008 is $32,685 and the Company's ownership interest remains at 25%.

9) OTHER ASSETS

		2008	2007
		$	$
Goodwill	(a)	**9,804**	12,451
Long-term receivables	(b)	**8,903**	7,019
Share investments	(c)	**7,972**	–
Income tax deposit (NOTE 15(d))		**5,414**	5,414
Pension assets (NOTE 20)		**5,253**	2,127
Commitment fees	(d)	**883**	871
Other	(e)	**3,007**	4,308
		41,236	32,190

(a) In 2008, goodwill was reduced by $1,735 reflecting an adjustment to the purchase price equation related to the acquisition of Leo Alarie and Sons Limited in late 2007. The reduction in goodwill was offset by increases in property, plant and equipment and working capital of $1,489 and $354, respectively. The net impact was an increase in the consideration paid of $108.

In 2008, goodwill was also reduced by $1,151 as a result of the impairment of all remaining goodwill related to the acquisition of the Cegerco (Montreal) operations in the Buildings segment. This goodwill impairment loss has been included in depreciation and amortization expense on the consolidated statement of income during 2008.

(b) Long-term receivables of $8,903 (2007 – $7,019) include $7,409 (2007 – $5,877) representing an amount due from Derech Eretz. This receivable is collectible by June 30, 2029 and accrues interest at 8% per annum.

Also included in long-term receivables is $1,494 (2007 – $1,142) due from Derech Eretz Telecom Ltd., a wholly owned subsidiary of Derech Eretz. The receivable is payable in annual instalments including compounded interest at 6% annually. The payment amounts are not fixed and are based on the net cash flow of the borrower. Loan and interest payments are to be made on December 31 of each year and full payment must be made no later than December 31, 2009.

(c) Share investments of $7,972 represents investments in common shares that are classified as available-for- sale for accounting purposes.

(d) Commitment fees of $883 (2007 – $871) include $244 that relates to the Company's three-year revolving operating line facility described in note 10(f) and $639 related to non-recourse project financing for the Rouge Valley Health System and the Toronto Rehabilitation Hospital projects described in note 10(c) and (d). These charges are being amortized as interest expense over the term of the respective facilities.

(e) Other includes definite life intangible assets of $528 (2007 – $618). Also included in other are loans to directors, senior officers and employees in the amount of $nil (2007 – $520). These loans were unsecured and bore interest, which was payable quarterly, at Canada Revenue Agency's prescribed quarterly rates. These loans plus accrued interest were fully repaid during 2008. Loans advanced to directors, senior officers and employees for the purchase of the Company's shares are netted against capital stock (see note 16).

(in thousands of dollars, except per share amounts)

10) LONG-TERM DEBT

		2008	2007
		$	$
Non-recourse project debt			
Quiport JV project financing	(a)	87,931	64,490
Quiport JV CORPAQ debt	(b)	5,542	5,191
Rouge Valley Health System project debt	(c)	24,723	3,213
Toronto Rehabilitation Hospital project debt	(d)	6,011	–
		124,207	72,894
Other long-term debt			
Capital leases and equipment loans	(e)	28,807	33,933
Term loan	(f)	–	13,402
Note payable	(g)	15,091	18,192
Mortgages	(h)	6,226	6,633
Loans from Derech Eretz partners	(i)	5,462	3,787
Investment loan	(j)	419	1,402
		56,005	77,349
Total long-term debt		180,212	150,243
Less: Amounts due within one year			
Non-recourse project debt		5,542	4,272
Other long-term debt		10,845	13,261
		163,825	132,710

The following describes the components of long-term debt:

(a) The total financing commitment made by the Project Senior Lenders to Quiport JV is US$376,388. As at December 31, 2008, senior project financing advanced to Quiport JV by the Project Senior Lenders at 100% was US$164,593 (2007 – US$148,490). Included in the Company's consolidated balance sheets at December 31, 2008, is debt, net of transaction costs, of US$72,193 (CA$87,931) (2007 – US$65,055 or CA$64,490) representing the Company's proportionate share of Quiport JV debt. This debt is secured by the assets of Quiport JV and is otherwise without recourse to the Company.

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

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

No debt repayments are scheduled to be made during the construction period and all interest costs are capitalized during construction (see note 17).

(b) Quiport JV CORPAQ debt of US$4,550 (CA$5,542) (2007 – US$5,237 or CA$5,191) represents the Company's proportionate share of an amount due to CORPAQ by Quiport JV and related to construction of the Quito Airport project. This balance is expected to be paid in 2009. This non-interest bearing debt, which is denominated in US dollars, has been discounted at the rate of 10.65%.

(c) Project financing for the Rouge Valley Health System project at December 31, 2008, was $24,723 (2007 – $3,213). The total amount available to be borrowed over the construction period is $57,034 and repayment of the loan is due at the end of the project. Repayment will be entirely funded from a lump sum payment by Infrastructure Ontario upon completion of construction. This debt is secured by the assets of the project and is non-recourse to the Company. Interest on this debt, at an annual rate of 5.3%, is capitalized to the loan balance.

(d) Project financing for the Toronto Rehabilitation Hospital project at December 31, 2008, was $6,011 (2007 – $nil). The total amount available to be borrowed over the construction period is $101,848. An interim repayment of $53,177 on the loan is scheduled for May 19, 2010, with final repayment due at the end of the project. This debt is secured by the assets of the project and is non-recourse to the Company. Interest on this debt at an annual rate of 5.567% is capitalized to the loan balance.

(e) At December 31, 2008, capital leases and equipment loans bore interest at fixed and floating rates averaging 6.03% (2007 – 5.91%) per annum, with specific equipment provided as security. Included in these amounts are the following equipment loans:

On February 1, 2007, the Company entered into an equipment loan facility and borrowed $12,699, which was used to partially finance its acquisition of The Karson Group (see note 19). The term loan is secured by certain equipment of The Karson Group and bears interest at a fixed rate of 6.4%. The term loan will be repaid over a period of seven years with monthly payments. At December 31, 2008, the balance outstanding under the term loan net of transaction costs was $9,853 (2007 – $11,408).

On December 20, 2007, the Company entered into an equipment loan facility and borrowed $15,535 which was used to partially finance the acquisition of the assets of Leo Alarie and Sons Limited (see note 19). The term loan is secured by certain of the acquired equipment and bears interest at a fixed rate of 6.5%. The term loan will be repaid over a period of seven years with monthly payments. At December 31, 2008, the balance outstanding under the term loan net of transaction costs was $13,659 (2007 – $15,428).

(f) On August 13, 2008, the Company signed a new three-year senior credit facility with a syndicate of lenders. The new $100,000 revolving operating line of credit replaces the Company's previous facility, which included a $15,000 three-year term loan and a $50,000 three-year revolving operating line. The new facility, which expires June 15, 2011, also extends by one year (until December 15, 2009) the expiry date of a special $25,000 letter of credit facility used in connection with certain financial and performance obligations of the Nathpa Jhakri joint venture in India. The operating line of credit bears interest at prime plus 1.35% per annum. Standby fees are payable quarterly on the unused operating line balance at 25 basis points per year. During the year ended December 31, 2008, the Company recorded interest expense in relation to these standby fees of $64 (2007 – $nil).

In 2007, the full amount of the term loan was borrowed under the previous facility agreement and subsequently converted into a US dollar denominated loan. This three-year US dollar term loan bore interest at LIBOR plus 2.75% with interest payable monthly in arrears on the first day of each month. Commencing October 1, 2007, principal repayments of US$500 were due quarterly with the remaining balance outstanding due on maturity. During 2008, the Company repaid the term loan in full and as such the balance outstanding at December 31, 2008 was $nil (2007 – US$13,520 or CA$13,402).

(g) As partial consideration for the acquisition of The Karson Group in 2007, the Company issued a note payable in the amount of $21,225 to the vendor. This note payable, which is non-interest bearing and is secured by certain equipment of The Karson Group, was discounted at 8% to arrive at a fair value of $16,949 at the date of the acquisition. Commencing January 31, 2008, the note was payable in equal annual installments over a five-year period. During 2008, the Company recorded interest expense representing interest accretion on the note payable of $1,144 (2007 – $1,243).

(h) Mortgages are secured by certain of the Company's real estate assets. Amounts outstanding are at a fixed rate averaging 7.3% (2007 – 7.2%) per annum and require monthly principal and interest payments amortized over a period ranging from 5 to 25 years.

(i) At December 31, 2008, loans from the Company's partners in Derech Eretz totaled NIS16,858 (CA$5,462) (2007 – NIS14,777 or CA$3,787). These loans bear interest at 8% and are generally repayable as distributions from Derech Eretz are received.

(j) In 2006, the Company borrowed US$1,650 (CA$1,923) from Airport Development Corporation, a joint venture partner in the Quito Airport project. This loan, which is non-interest bearing, was used to fund a portion of the Company's equity contributions in the project and will be fully repaid by October 31, 2009. At December 31, 2008, the loan balance was US$344 (CA$419) (2007 – US$1,414 or CA$1,402).

The weighted average interest rate on long-term debt outstanding at the end of the year was 6.0% (2007 – 6.9%).

Repayments of long-term debt required within the next five years and thereafter are as follows:

2009	$ 16,387
2010	36,592
2011	31,517
2012	16,281
2013	18,988
Thereafter	60,447
	$ 180,212

11) GUARANTEES

The Company has outstanding guarantees amounting to $11,968 (2007 – $24,208) in support of financial and performance related obligations for the Nathpa Jhakri hydroelectric project in India. These guarantees are backed by letters of credit issued by the Company (see note 10(f)).

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 30.6% 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 (CA$39,463) (2007 – US$32,400 or CA$32,118) 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 (CA$9,866) (2007 – US$8,100 or CA$8,030) to support its share of the continuous guarantee, and its partners have similarly issued letters of credit to support their respective shares. The leakage guarantee (at 100%) came into effect when construction was completed and is renewable annually for the lesser of NIS33,000 plus escalation to date (CA$15,601) (2007 – NIS33,000 plus escalation or CA$11,990) or 6% of the annual toll revenue.

In addition to the above, the Company has provided letters of credit in the amount of NIS2,400 (CA$778) (2007 – NIS2,400 or CA$615) to support a performance bond that was required of the concessionaire in connection with the construction of an extension to the Cross Israel Highway. This letter of credit is secured by cash. Furthermore, the operator of the Cross Israel Highway project, in which the Company has a 30.6% interest, has provided letters of credit to the concessionaire in support of performance obligations related to the operations of the highway and to secure advances from the concessionaire. These letters of credit totaling NIS27,351 (CA$8,862) (2007 – NIS31,577 or CA$8,093) are issued utilizing the credit facilities of the operator and are partially secured by cash.

In connection with the Quito Airport project, the Company has provided letters of credit of US$14,325 (CA$17,448) (2007 – US$16,800 or CA$16,654) in support of its remaining equity obligations and a letter of credit of US$29,393 (CA$35,801) (2007 – US$30,203 or CA$29,940) for various project contingencies. These letters of credit are supported by guarantees issued on behalf of the Company to the issuing banks by Export Development Canada ("EDC") and will remain in place until its equity obligations are fulfilled and the conditions giving rise to the contingencies are satisfied or cleared. As a result of EDC issuing these guarantees, the Company was required to place on deposit with EDC the sum of US$1,500 (CA$1,827) (2007 – US$1,500 or CA$1,487), which is classified as restricted cash on the consolidated balance sheets. The Company has also issued a corporate guarantee in the amount of US$3,129 (CA$3,811) as security to cover 50% of a credit facility set up to assist in the partial release of holdback funds to the Quito construction joint venture with its partner issuing a corporate guarantee to support the 50% balance share.

The Company has also issued letters of credit to secure advances received from the Quito construction joint venture in the sum of US$10,500 (CA$12,789) (2007 – US$16,150 or CA$16,009). The cash received was used as collateral for the letters of credit.

In addition, the Company and its joint venture partner have provided surety bonds, guaranteed joint and severally, to cover construction and concession related performance obligations of US$67,055 (CA$81,673) (2007 – US$67,055 or CA$66,472), an advance payment bond of US$74,466 (CA$90,700) (2007 – US$74,466 or CA$73,818) and a retention release bond of US$20,685 (CA$25,194) (2007 – US$20,685 or CA$20,505). In each case, the Company's share is supported by guarantees issued by EDC. As a result of EDC issuing these guarantees, the Company was required to place on deposit with EDC the sum of US$2,000 (CA$2,436) (2007 – US$2,000 or CA$1,983), which is classified as restricted cash on the consolidated balance sheets.

The Company has also issued performance guarantees of $10,898 (2007 – $7,640), which are supported by guarantees issued to the Company by EDC in respect of certain international contracts for the manufacture and supply of equipment by its subsidiary, Innovative Steam Technologies Inc.

In addition, the Company has also issued, in the normal conduct of operations, letters of credit amounting to $37,210 (2007 – $14,867) in support of financial and performance related obligations of its North American operations.

In connection with the project financing for the Rouge Valley Health System project, the Company has provided a guarantee of additional financing costs (interest and fees) incurred by a wholly owned project company in the event of delays in the completion of construction. This guarantee is capped at $5,000. The Company has also provided a guarantee of the obligations of the project company under a $5,000 contingency loan facility established to finance additional costs associated with delays and working capital requirements due to delayed payments or schedule changes.

In connection with the project financing for the Toronto Rehabilitation Hospital project, the Company has provided a guarantee of additional financing costs (interest and fees) incurred in the event of delays in the completion of construction or due to default under the construction contract or the project agreement. This guarantee is capped at the lesser of $12,000 and 10% of the guaranteed construction price.

Under the terms of many of the Company's joint venture contracts with project owners, each of the partners is jointly and severally liable for performance under the contracts. At December 31, 2008, 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 $418,004 (2007 – $311,058), a substantial portion of which is supported by performance bonds. In the event the Company assumed this additional work, it would have the right to receive the partner's share of billings to the project owners pursuant to the joint venture contract.

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

12) CONVERTIBLE DEBENTURES

Convertible subordinated debentures consist of:

	2008	2007
	$	$
Debt component:		
Debenture maturing March 17, 2010	–	30,114
Reported as:		
Long-term liability	–	30,114
Equity component:		
Debenture maturing March 17, 2010	–	2,101

In March 2005, the Company issued $32,500 in unsecured, subordinated convertible debentures maturing March 17, 2010. The debentures bore interest at the rate of 8.25% per annum payable on a semi-annual basis. During 2008, $31,675 of these convertible debentures was converted into 4,167,795 common shares. During 2007, $825 of these debentures was converted into 108,552 common shares.

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

Interest expense on the debentures was composed of the interest calculated on the face value of the debentures, and an annual notional interest representing the accretion of the carrying value of the debentures. Interest recorded was as follows:

	2008	2007
	$	$
Interest expense on face value	520	4,690
Notional interest representing accretion	147	1,295
	667	5,985

The liability portion of the debentures is as follows:

	2008	2007
	$	$
Financial liability component	–	29,574
Notional interest representing accretion	–	540
	–	30,114

(in thousands of dollars, except per share amounts)

13) OTHER LIABILITIES

	2008	2007
	$	$
Leasehold inducements	1,719	1,900
Asset retirement obligations	1,656	1,177
	3,375	3,077

Asset retirement obligations

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

	2008	2007
	$	$
Asset retirement obligation liability, beginning of year	1,177	982
Increase in obligation	408	136
Accretion expense	71	59
Asset retirement obligation liability, end of year	1,656	1,177

The total undiscounted amount of the estimated cash flows required for rehabilitating the pits and quarry is approximately $14,243. Rehabilitation costs are expected to be settled between 2012 and 2108. A 3% inflation factor has been applied to obtain the future value of the rehabilitation costs, which has then been discounted at 6% to obtain the present value of the obligation.

14) CONCESSION RELATED DEFERRED REVENUE

As part of acquiring, in 2006, the rights to operate the Existing Quito Airport (see note 5(b)), the Company recorded US$57,337 or Canadian equivalent of $69,837 at December 31, 2008 exchange rates (2007 – US$57,337 or CA$56,838) of concession related deferred revenue representing the estimated value of the "inducement" received by Quiport JV to develop, finance, and operate the New Quito Airport. This deferred revenue amount will be amortized to earnings over the term of the New Quito Airport concession period.

As at June 28, 2006, CORPAQ also provided Quiport JV with net assets of US$3,897 or Canadian equivalent of $4,747 at December 31, 2008 exchange rates (2007 – US$3,897 or CA$3,864), representing net assets received by Quiport JV between the date the concession went into effect (January 27, 2006) and the date of financial close (June 28, 2006). This amount represents an additional inducement and has been classified as concession related deferred revenue in the consolidated balance sheets. As with the other concession related deferred revenue amounts noted above, this balance will be amortized to earnings over the term of the New Quito Airport concession period.

Concession related deferred revenue at December 31, 2008, also includes $2,990 (2007 – $2,990) received in 2006 as development funds and cost reimbursements related to the Quito Airport project. This deferred revenue balance will be amortized to earnings over the term of the New Quito Airport concession period.

15) COMMITMENTS AND CONTINGENCIES

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

2009	$ 20,094
2010	15,483
2011	11,633
2012	6,999
2013	3,785
Beyond	10,012
	$ 68,006

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

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

(d) During 2001, the Company received federal income tax reassessments relating to deductions claimed by predecessor companies between 1993 and 1999. The reassessments, which disallow previously claimed Canadian development expense ("CDE") deductions, amounted to $10,581. Provincial income tax reassessments related to the disallowed CDE and received to date amount to $804. Although the Company has filed Notices of Objection, it was required to pay 50% of the federally assessed amounts and 100% of the Ontario provincial assessments pending resolution of the objections. The Company has paid $5,414 resulting from these assessments. To-date, Canada Revenue Agency has not responded to the Notices of Objection. The total potential federal and provincial reassessments, including income taxes, interest and penalties could be up to $19,329. The Company believes it has adequate income tax provisions to cover the ultimate outcome of these reassessments.

(e) In June 2005, Continental Foundation Joint Venture ("CFJV"), the joint venture involved in the construction of the Nathpa Jhakri project in India, in which the Company has a 45% interest, was advised by the owner, Satluj Jal Vidyut Nigam Ltd. ("SJVN") (formerly Nathpa Jhakri Power Corporation Limited) of its intention to levy liquidated damages against CFJV for alleged delay damages resulting from not completing the contract on time. Since the delay in the completion of the project was caused by numerous items outside of the joint venture's control and contractual responsibility, including, among many other things, a catastrophic flood in 2002, the joint venture believes that these claims for liquidated damages are unsubstantiated, unwarranted and without legal merit. The joint venture had previously submitted for arbitration two claims to cover the joint venture's cost of extra work and delays related to these same matters.

In 2008, the arbitration panel considering the first of two major claims launched by CFJV in respect of the Nathpa Jhakri hydroelectric project in India ruled substantially in CFJV's favour. In its ruling, the panel dismissed the counter-claim for liquidated damages filed against CFJV. The panel also awarded CFJV full extension of time as well as related indirect costs and interest resulting from project delays that the panel agreed were beyond CFJV's control and contractual responsibility. CFJV expects to receive $10,000 in claim settlement net of expenses, of which $4,000 was received in 2008, with a further $6,000 expected to be received in the first quarter of 2009. The net amounts received from the arbitration process in 2008 were applied to reduce the carrying values of the unbilled work-in-process balances of the joint venture.

A second claim by CFJV for approximately $56,800 and a counter-claim for liquidated damages by SJVN in the amount $12,970, both in respect of an adjacent and concurrent project to the one that was settled, remains with the arbitration panel and is expected to be resolved in 2009. No provision has been made for the liquidated damages nor has any amount been recognized for potential recoveries under this claim. This treatment is in accordance with the Company's accounting policy, which is to recognize revenues from claims only when resolved.

It should be noted that all amounts quoted in the preceding paragraph are based on foreign currency amounts that have been translated into Canadian dollars at exchange rates effective on December 31, 2008.

(f) The Company is a party to a lawsuit related to its prior involvement in the construction of a grain terminal in Gdansk, Poland whereby the Company guaranteed the payment of a promissory note for US$2,500. The note was originally due on July 12, 2001. As a result of certain alleged contractual breaches and misrepresentations by the other parties involved, the Company has taken the position that the guarantee is not enforceable. The lawsuit seeks to enforce the guarantee and other damages amounting to, according to the plaintiffs, CA$6,800. The Company disputes the validity of the guarantee and the obligation to pay thereunder and is vigorously defending the litigation. The Company has filed a Canadian $30,000 counter claim alleging various grounds including misrepresentation and breach of contract. The Company believes it has a sound position to defend this claim and believes that the liability that it has recorded in its accounts should be sufficient to cover the net liability, if any, to the Company upon ultimate resolution of this litigation.

(g) The Company is a partner with Hochtief Construction AG in a joint venture that constructed a hydroelectric facility in northern Quebec for Société d'énergie de la Baie James, a subsidiary of Hydro-Quebec (the "Eastmain Project"). To date, the Eastmain Project has incurred cost overruns, primarily because of customer changes to the original contract scope. The Company is currently in litigation with Hydro-Quebec seeking recovery of these extra costs. The Company believes that it has adequate reserves included in the carrying value of its accounts to cover potential non-recoveries that may arise from this project.

(h) The Quito Airport concessionaire, as with other private concessions in Ecuador came under heightened scrutiny by the new federal administration. Along with this scrutiny came a series of public criticisms by the administration against the Municipality of Quito, primarily directed at the lack of contribution by the Municipality, through the airport project, toward a national airport modernization program, as well as a recommendation by the State Comptroller's office that the Municipality should renegotiate the Quito Airport concession contract. While there is no indication thus far that the administration intends to take any unilateral action that would run contrary to the contracts that the Company and its partners have in place, the political environment reconfirms that the project and related investments are occurring in a country in which there is elevated political risk and uncertainty generally. Therefore, political risk may adversely impact the project's financial performance and its overall financial viability, and the value of the Company's investment in the Quito Airport concessionaire (Quiport JV) could ultimately be impaired.

The Company is committed to investing US$33,670 in the Quito Airport project. As at December 31, 2008, the Company has invested cash of US$30,189 (2007 – US$18,382) for a total investment in the Quito Airport concessionaire of approximately US$45,000, which includes the Company's share of the earnings of the existing airport, all of which is being directly invested in the cost of constructing the new airport.

During previous years, Quiport JV exercised its right under its concession contract to increase tariffs for services rendered to the airlines using the Existing Quito Airport. These increased tariffs have on previous occasions been challenged by certain airlines. Should Quiport JV's rights to recent or future tariff increases be restricted or reduced, the reported value of concession rights related to the Existing Quito Airport could ultimately be impaired.

With respect to other commitments and contingencies relating to the Company's investment in the Quito Airport project, see notes 10 and 11.

16) CAPITAL STOCK

	2008		2007	
	Number of shares	Amount	Number of shares	Amount
		$		$
Balance – beginning of year	42,079,119	162,691	38,069,829	131,975
Common shares issued on exercise of options	201,000	1,562	205,516	1,451
Common shares issued on conversion of debentures (i)	4,167,795	32,362	4,041,804	30,937
Repayment of share purchase loans (ii)	–	552	–	532
Common shares issued, less expenses of $3,378 (iii)	4,000,000	69,622	–	–
Common shares purchased by the Trust of the long-term incentive plan (iv)	(239,990)	(4,145)	(238,030)	(2,204)
Balance – end of year (ii and iv)	50,207,924	262,644	42,079,119	162,691

(i) During 2008, convertible debentures with a face value $31,675 and a carrying value of $30,261 were converted into 4,167,795 common shares at a conversion price of $7.60 per share (see note 12). In addition, share capital was increased by $2,101 representing the equity portion of the convertible debentures that was previously classified as a separate component of shareholders' equity.

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

(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 $nil (2007 – $552) were presented as a deduction from capital stock. Interest received on such loans, after provision for income taxes, amounted to $4 (2007 – $38) and was accounted for as a capital transaction in shareholders' equity. During 2008, $552 of these loans was repaid (2007 – $532).

(iii) On April 17, 2008, the Company issued 4,000,000 common shares at $18.25. Net proceeds, after deducting agents' fees and expenses of the issue, were $69,622.

(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 December 31, 2008, the Trust held 691,366 shares (2007 – 451,376 shares) with a cost basis of $7,615 (2007 – $3,470).

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

Stock option plans

On June 21, 2005, the Company's shareholders approved a new stock option plan (the "2005 Stock Option Plan") to replace the previous 1998 Stock Option Plan. However, this new plan did not affect the rights granted to the holders of options that were previously issued and remain outstanding under the 1998 Stock Option Plan. The aggregate number of common shares that can be issued under the 2005 Stock Option Plan shall not exceed 2,500,000. Similar to the 1998 Stock Option Plan, each option issuance under the 2005 Stock Option Plan specifies the period for which the option thereunder is exercisable (which in no event shall exceed ten years from the date of grant) and shall provide that the option shall expire at the end of such period. The Company's Board of Directors will determine the vesting period on the dates of option grants.

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

	2008		2007	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		$		$
Balance outstanding at beginning of year	1,044,484	6.08	1,200,000	6.06
Granted	1,150,000	14.95	50,000	6.75
Exercised	(201,000)	5.51	(205,516)	6.13
Balance outstanding at end of year	1,993,484	11.26	1,044,484	6.08
Options exercisable at end of year	897,651	8.99	561,150	5.95

(in thousands of dollars, except per share amounts)

Options currently outstanding have the following exercise prices and expiry dates:

Options granted in	Number of shares	Exercise price	Expiry date
		$	
2004	40,000	6.30	August 3, 2009
2004	16,667	6.20	November 30, 2009
2005	66,667	5.51	November 7, 2010
2006	670,150	6.25	March 27, 2011
2007	50,0000	6.75	January 16, 2012
2008	1,150,000	14.95	August 5, 2013
	1,993,484		

All option grants, except for options granted in 2006 and 2008, 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 and 2008 have a term of five years from the date of grant and vested one-quarter immediately and one-quarter per annum thereafter on the anniversary date of the grant.

The Company has adopted fair value accounting for options granted after 2001 to employees and records compensation expense upon the issuance of stock options under its 1998 and 2005 Stock Option Plans. For options granted, the fair value is estimated on the date of grant using the Black-Scholes fair value option pricing model and the following assumptions:

	2008	2007
Dividend yield	1.4%	0%
Expected volatility	32.0%	29.0%
Risk free interest rate	3.5%	4%
Weighted average expected life (years)	3.25	3.5

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

During the year, compensation expense and contributed surplus were increased by $1,690 (2007 – $454) on account of options granted.

As options are exercised, the corresponding values previously charged to contributed surplus are reclassified to capital stock. In 2008, contributed surplus was decreased by $454 (2007 – $191) and capital stock was increased by the same amount upon the exercise of options under the stock option plans. Cash proceeds arising from the exercise of these options are credited to capital stock.

Long-Term Incentive Plan

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

Awards to participants are based on the financial results of the Company and are made in the form of Deferred Share Units (“DSUs”) or in the form of restricted shares. Awards made in the form of DSUs will vest only upon the retirement or termination of the participant. Awards made in the form of restricted shares will vest annually over three years. Compensation charges related to the LTIP are expensed over the estimated vesting period of the awards. Awards made to individuals who are eligible to retire are assumed for accounting purposes to vest immediately. In 2008, the Company recorded LTIP compensation charges of $2,911 (2007 – $1,379).

The LTIP Trust (the “Trust”) currently holds 691,366 shares at December 31, 2008 (2007 – 451,376 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 CICA Accounting Guideline No. 15 “Consolidation of Variable Interest Entities”. Accordingly, at December 31, 2008, share capital was reduced by $7,615 (2007 – $3,470) and accrued liabilities increased by the same amount.

Earnings per share

Details of the calculations of earnings per share are set out below. For purposes of calculating basic earnings per share, the number of common shares has been reduced by nil (2007 – 941,166) on account of share purchase loans receivable from employees. For purposes of calculating diluted earnings per share, these shares have been treated as options.

	2008	2007
	$	$
Net income for the year	59,342	48,303
Interest on convertible debentures	444	5,985
Diluted net earnings	59,786	54,288
Average number of common shares outstanding	48,065,421	37,673,208
Effect of dilutive securities[i]		
Options	460,302	1,474,444
Convertible debentures	853,756	7,527,441
Shares held in a trust account in respect of a long-term incentive plan	426,221	247,366
Average number of diluted common shares outstanding	49,805,700	46,922,459
Basic earnings per share	1.23	1.28
Diluted earnings per share	1.20	1.16

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

Contributed surplus

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

	2008	2007
	$	$
Balance – beginning of year	1,592	1,329
Increase (decrease) in contributed surplus resulting from:		
Granting of stock options	1,690	454
Exercise of stock options	(454)	(191)
Balance – end of year	2,828	1,592

Dividends

In 2008, the Company's Board of Directors approved an increase in annual dividends to $0.20 per share, to be paid in four quarterly payments of $0.05 per share. In 2008, the Company recorded dividends declared of $9,968 (2007 – $2,977) of which $7,423 (2007 – $nil) was paid during the year, and $2,545 (2007 – $2,977) was paid after year-end.

Accumulated other comprehensive income (loss)

Components of accumulated other comprehensive income (loss) included:

	2008	2007
	$	$
Currency translation adjustments, net of tax	5,745	(2,701)
Mark-to-market adjustments on available-for-sale investments	145	–
Cash flow hedges, net of tax	–	201
Accumulated other comprehensive income (loss)	5,890	(2,500)

(in thousands of dollars, except per share amounts)

17) INTEREST

Interest expense (income) is comprised of:

	2008	2007
	$	$
Interest on long-term debt and debentures	5,998	9,415
Interest on capital leases	391	286
Interest on short-term debt	2,886	1,533
Interest income	(8,080)	(5,972)
	1,195	5,262

Quiport JV capitalizes interest during the construction period until the project opening date. The amount of interest capitalized to concession rights in 2008 was $5,486 (2007 – $4,736).

18) CASH FLOW INFORMATION

Change in other balances relating to operations:

	2008	2007
	$	$
Decrease (increase) in:		
Accounts receivable	(25,422)	(13,630)
Holdbacks receivable	(20,011)	(16,198)
Deferred contract costs and unbilled revenue	(4,849)	(22,246)
Inventories	(7,486)	(1,108)
Prepaid expenses	(1,577)	(545)
(Decrease) increase in:		
Accounts payable and accrued liabilities	46,041	72,358
Holdbacks payable	21,088	10,259
Deferred revenue	23,288	3,946
Income taxes payable	2,493	(2,559)
	33,565	30,277

Other supplementary information:

	2008	2007
	$	$
Cash interest paid	12,065	12,932
Cash income taxes paid	1,049	1,039

Excluded from the consolidated statements of cash flows are the following transactions that did not require a use of cash: Property, plant and equipment acquired and financed by means of capital leases amounted to $1,663 in the year (2007 – $1,398). During 2008, convertible debentures with a face value of $31,675 and a carrying value of $30,261 were converted into 4,167,795 common shares at a conversion price of $7.60 per share (see notes 12 and 16). In addition, share capital was increased by $2,101 representing the equity portion of the convertible debentures that was previously classified as a separate component of shareholders' equity.

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

19) ACQUISITIONS

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

As part of the asset purchase deal, the Company paid $18,919 and assumed $1,050 of debt. The acquisition was partly financed by an equipment term loan facility as described in note 10(e).

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

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

The following is a summary of the above acquisitions:

	$
Net assets acquired	
Cash	1,520
Working capital	8,251
Property, plant and equipment	45,988
Goodwill	1,289
Current portion of long-term debt	(1,901)
Long-term debt	(3,812)
	51,335
Consideration	
Cash	34,386
Note payable	16,949
	51,335

(in thousands of dollars, except per share amounts)

20) EMPLOYEE BENEFIT PLANS

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

The measurement date used for financial reporting purposes of the pension plan assets and benefit obligation is December 31. The most recent actuarial valuation filed for funding purposes for the principal defined benefit pension plan was completed as at December 31, 2007 and the next required actuarial valuation will be prepared as of December 31, 2010.

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

	2008	2007
	$	$
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	32,978	35,643
Actual return on plan assets	(6,470)	621
Company contributions	4,201	1,682
Plan participant contributions	128	141
Benefits paid	(1,573)	(5,109)
Fair value of plan assets at end of year	29,264	32,978
Change in benefit obligation		
Benefit obligation at beginning of year	33,685	39,658
Current service cost	1,216	1,307
Interest cost	1,955	1,848
Benefits paid	(1,573)	(5,109)
Actuarial gains	(4,044)	(4,019)
Benefit obligation at end of year	31,239	33,685
Funded status		
Excess of benefit obligation over plan assets	(1,975)	(707)
Unrecognized net actuarial loss	7,234	2,780
Unrecognized transitional (liability) asset	(6)	54
Pension asset at December 31	5,253	2,127
Amounts recognized in consolidated balance sheets		
Other assets	5,253	2,127
Weighted average assumptions to calculate benefit obligation		
Discount rate	7.0%	5.75%
Rate of increase in future compensation	3.5%	3.5%
Asset categories of pension assets		
Cash and short-term notes	12.6%	7.7%
Debt securities	34.1%	34.9%
Equity securities	53.3%	57.4%

Details of the pension expense are as follows:

	2008	2007
	$	$
Pension benefit expense		
Current service cost, net of employee contributions	1,088	1,166
Interest cost	1,955	1,848
Amortization of actuarial loss[1]	21	225
Amortization of transitional liability	67	84
Expected return on plan assets	(2,056)	(1,980)
Defined benefit pension expense	1,075	1,343
Defined contribution pension expense	2,517	2,155
Multi-employer pension plan expense	32,048	26,768
Pension benefit expense	35,640	30,266
Defined benefit pension expense incurred		
Defined benefit pension expense recognized, above	1,075	1,343
Difference between expected and actual return on plan assets	8,526	1,359
Difference between actuarial losses amortized and actuarial losses arising	(4,065)	(4,244)
Amortization of transitional liability	(67)	(84)
Defined benefit pension expense (income) incurred	5,469	(1,626)
Weighted average assumptions to calculate pension benefit expense		
Discount rate	5.75%	5.00%
Assumed long-term rate of return on plan assets	6.25%	6.25%
Rate of increase in future compensation	3.50%	3.50%

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

Details of cash flows are as follows:

	2008	2007
	$	$
Cash flows		
Total cash contributions for employee pension plans:		
Defined benefit plans	4,201	1,682
Defined contribution plans	2,517	2,155
Multi-employer pension plan	32,048	26,768
Total cash contributions	38,766	30,605

21) RELATED PARTY TRANSACTIONS AND BALANCES

In addition to related party transactions described elsewhere in the notes to these consolidated financial statements, the following summarizes additional transactions during the year. Related party transactions are recorded at their exchange amounts, which is the consideration agreed to by the parties. During 2008, the Company paid professional fees in the amount of $38 (2007 – $34) to a consulting company in which a director of the Company is a partner.

22) FINANCIAL INSTRUMENTS

FAIR VALUES

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

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

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

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

The carrying values of long-term debt 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 December 31, 2008, the Company had net outstanding contracts to sell euro 3,310, sell US$16,016, buy euro 70, and buy US$696 (2007 – sell euro 6,652, sell US$23,970, and buy US$11,978) on which there was a net unrealized exchange loss of $1,920 (2007 – net gain of $951). The net unrealized exchange gain (loss) represents the estimated amount the Company would have received (paid) if it terminated the contracts at the end of the respective periods. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For a derivative instrument designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative’s gain or loss is initially reported as a component of other comprehensive income and is subsequently recognized in earnings when the hedged exposure affects earnings. The ineffective portion of the gain or loss is recognized in earnings. For options designated either as fair value or cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings. Gains and losses from changes in fair values of derivatives that are not designated as hedges for accounting purposes are recognized in earnings. While the Company considers the above contracts to be economic hedges, none of the above contracts were designated as accounting hedges, and as such the unrealized gains (losses) were recognized in net income in the period.

The Company may use foreign currency debt to hedge its exposure to foreign currency volatility in connection with investments in certain foreign operations. The realized and unrealized fair value of these hedges are included in shareholders' equity in the foreign currency translation component of accumulated other comprehensive income and offset translation adjustments on the underlying net assets of foreign operations, which are also recorded in accumulated other comprehensive income. If the debt is no longer considered effective in offsetting changes in the value of the hedged item, or if management determines that designation of the debt as a hedge instrument is no longer appropriate, the fair value of these hedges is included in the consolidated statements of income in foreign exchange gains (losses). At December 31, 2008, the Company does not have any designated hedges of its foreign operations. Previously, the Company had designated its US dollar dominated term loan in the amount of US$13,520 at December 31, 2007 as a hedge of its net investment in certain foreign operations. At December 31, 2007, the unrealized gain resulting from fair valuing this investment of $989, net of taxes, had been included in currency translation adjustments within accumulated other comprehensive loss in shareholders' equity. With the repayment of the term loan during the second quarter of 2008 (see note 10), the unrealized gain resulting from fair valuing this instrument at the date of repayment was $436, net of taxes, and is included in currency translation adjustments within accumulated other comprehensive income in shareholders' equity at December 31, 2008.

The Company enters into cash flow hedges to reduce its exposure to variability in certain expected future cash flows. In connection with the US dollar denominated term loan facility noted above, the Company entered into an interest rate swap with a financial institution on October 1, 2007 to help manage its exposure to interest rate volatility. By entering into the interest rate swap, the Company converted the floating rate on its US dollar term loan, which was based on LIBOR plus 2.75%, to a fixed rate of 7.42%. The unrealized gain, net of taxes, of $201 that resulted from fair valuing this contract as of December 31, 2007, was reported in the cash flow hedges component of accumulated other comprehensive income in shareholders' equity. With the repayment of the term loan during the second quarter of 2008, the cumulative unrealized loss resulting from fair valuing this contract of $274, net of taxes, was realized and is included in the consolidated statements of income.

CREDIT RISK

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

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

With respect to accounts receivable, deferred contract costs and unbilled revenue, concentration of credit risk is limited by the Company's diversified customer base and its dispersion across different business and geographic areas. Allowances are provided for potential losses that have been incurred at the consolidated balance sheet date; however, these allowances are not significant.

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

(in thousands of dollars, except per share amounts)

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed circumstances. Cash flow projections are prepared and reviewed quarterly by the Board of Directors to ensure a sufficient continuity of funding. Long-term debt maturities are spread over a range of dates thereby ensuring that the Company is not exposed to excessive refinancing risk in any one year.

The Company's cash and cash equivalents, short-term investments and restricted cash are invested in highly liquid interest bearing investments.

The following are the contractual maturities of the Company's long-term debt including capital lease obligations at December 31, 2008:

	Next 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Beyond 5 years	Total
	$	$	$	$	$	$	$
Non-recourse project debt	5,542	26,809	15,398	11,472	13,976	51,010	124,207
Capital leases and equipment loans	6,040	5,387	5,145	4,809	5,012	3,975	30,368
Other long-term debt	4,805	4,396	10,974	–	–	5,462	25,637
	16,387	36,592	31,517	16,281	18,988	60,447	180,212

INTEREST RATE RISK

The Company is exposed to interest rate risk on its short-term deposits and its long-term debt to the extent that its investments or credit facilities are based on floating rates of interest. At December 31, 2008, the interest rate profile of the Company's long-term debt was as follows:

	2008
	$
Debt held by joint ventures	93,473
Fixed rate instruments	86,699
Variable rate instruments	40
Total long-term debt	180,212

Long-term debt held by joint ventures relates to project financing for the Quito Airport project (see note 10), and because interest is capitalized while the new airport is being constructed, changes in interest rates would not have impacted net earnings or comprehensive income in the current period.

Changes in interest rates related to fixed rate long-term debt instruments would not have impacted net earnings or comprehensive income in the current period.

For the year ended December 31, 2008, an increase of 1% in interest rates applied to the Company's variable rate long-term debt would not have any significant impact on net earnings or comprehensive income.

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

CURRENCY RISK

The Company operates internationally and is exposed to risk from changes in foreign currency rates. The Company is mainly exposed to fluctuations in the US dollar, Israel new shekel, Indian rupee and euro.

The Company's currency exposure to US dollars arises primarily from its investments in the Quito Airport concessionaire and from its US operating unit within the Buildings segment. As these two investments are treated as self-sustaining foreign operations for accounting purposes, the impact of changes in currency rates for these operations does not impact net earnings but is instead reported as currency translation adjustments in other comprehensive income. For these two investments, the Company's sensitivity to a 10% strengthening of the US dollar against the Canadian dollar at December 31, 2008, would have been an increase in comprehensive income of approximately $6,100. The Company also has currency exposure to US dollars arising from its investment in the Quito construction joint venture. For this investment, the Company's sensitivity to a 10% strengthening of the US dollar against the Canadian dollar on net earnings and comprehensive income at December 31, 2008 would have been a decrease of approximately $200.

The Company's exposure to Israel new shekels arises primarily from its cost-accounted for investment in Derech Eretz, while the Company's exposure to Indian rupees relates to its net investment in the Nathpa Jhakri hydroelectric project in India. Because the Derech Eretz investment is accounted for at cost, changes in currency rates would not impact net earnings or comprehensive income unless an impairment in value arises as discussed above. For the net investment in the Nathpa Jhakri hydroelectric project in India, the Company's sensitivity to a 10% strengthening of the Indian rupee against the Canadian dollar on net earnings and comprehensive income at December 31, 2008 would have been an increase of approximately $1,000.

The Company's currency exposure on foreign currency debt that is used to hedge its exposure to foreign currency volatility in connection with investments in certain foreign operations is discussed above in the fair value section of this financial instruments note.

For currency exposures other than those discussed elsewhere in this note, the following table details the Company's sensitivity to a 10% strengthening of the US dollar, Israel new shekel and euro on net earnings and comprehensive income against the Canadian dollar. The sensitivity analysis includes foreign currency denominated monetary items but excludes all investments in joint ventures, self-sustaining foreign operations, hedges and Derech Eretz, and adjusts their translation at period-end for a 10% change in foreign currency rates.

	US dollar impact	Shekel impact	Euro impact
	$	$	$
Net earnings	900	100	100
Comprehensive income	900	100	100

For a 10% weakening of the US dollar, Israel new shekel and euro against the Canadian dollar, there would be an equal and opposite impact on net earnings and comprehensive income.

23) SEGMENTED INFORMATION AND BUSINESS CONCENTRATION

The Company operates in four principal segments within the construction and infrastructure development industry: Infrastructure, Buildings, Industrial and Concessions. 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, as well as toll highways, dams, tunnels, bridges, airports, marine facilities, transit systems and hydroelectric power projects, primarily in Canada, and on a selected basis, internationally. This segment includes the mining, manufacture and supply of asphalt and aggregate products, and the construction and/or installation of utility distribution systems for natural gas, telecommunications and electrical networks, as well as water and sewer mains, traffic signals and highway lighting. The design and construction of the New Quito Airport project is included in the Infrastructure segment.

BUILDINGS

The Buildings segment specializes in the construction and renovation of commercial, institutional and multi-family residential buildings, including hospitals, educational facilities, 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, design build services, building renovation, tenant fit up and facilities management.

INDUSTRIAL

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

CONCESSIONS

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

(a) Industry segments

						2008
	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total
	$	$	$	$	$	$
Revenues	739,374	461,039	612,388	72,081	(7,896)	1,876,986
EBITDA (i)	31,859	2,254	77,619	24,912	(11,927)	124,717
Depreciation and amortization	(8,143)	(1,860)	(2,590)	(14,321)	(579)	(27,493)
Segment operating profit (loss) (i)	23,716	394	75,029	10,591	(12,506)	97,224
Capital charges and allocations of Corporate overheads (ii)	(22,738)	(146)	(3,779)	(9,932)	36,595	–
Segment profit before income taxes	978	248	71,250	659	24,089	97,224
Interest expense, income taxes and non-controlling interests						(37,882)
Net income						59,342
Total assets	392,488	156,257	138,206	248,874	253,039	1,188,864
Intangible assets and goodwill	4,271	1,783	3,750	168,153	–	177,957
Capital expenditures	4,939	2,475	4,145	–	1,994	13,553
Cash flows from (used in) operating activities (i)	29,095	2,315	79,750	24,281	(25,093)	110,348

(in thousands of dollars, except per share amounts)

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

(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 flows from (used in) operating activities is before the change in other balances related to operations. EBITDA, operating profit (loss), and cash flows from (used in) 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.

(b) Geographic segments

	2008	2007
	$	$
Revenues		
Canada	**1,655,732**	1,342,534
United States	**82,644**	55,348
Ecuador	**61,265**	46,769
Israel, India and others	**77,345**	48,096
	1,876,986	1,492,747
Property, plant and equipment, intangible assets and goodwill		
Canada	**111,435**	109,443
Ecuador	**167,996**	109,283
United States	**859**	293
	280,290	219,019

24) CAPITAL DISCLOSURE

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

The Company's principal objectives in managing capital are:

- to ensure that it will continue to operate as a going concern;
- to be flexible in order to take advantage of contract and growth opportunities that are expected to provide satisfactory returns to shareholders;
- to maintain a strong capital base so as to maintain client, investor, creditor and market confidence;
- to provide an adequate rate of return to its shareholders; and
- to comply with financial covenants required under its various borrowing facilities.

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

Although the Company monitors capital on a number of bases, total debt (excluding non-recourse debt) as a percentage of shareholders' equity (debt to equity percentage) is considered to be the most important metric in measuring the true strength and flexibility of its consolidated balance sheet. While the cumulative impact of unsatisfactory operating results during the 2003–2004 periods drove up this percentage, reaching a high of 112% at the end of 2005, this percentage had dropped to 51% at the end of 2007. This significant improvement was achieved through a return to profitability in 2006, the issuance of common shares in 2006 and the conversion of convertible debt to equity in 2007. The further conversion of all of the Company's remaining convertible debt to equity in the first quarter of 2008, the issuance of 4,000,000 common shares, and the repayment of the long-term debt in the second quarter of 2008 (as discussed in notes 10(f) and 16) were the primary drivers in bringing the debt to equity percentage down to 15.3% as at December 31, 2008. While the Company believes that this debt to equity percentage is conservative, because of the cyclical nature of its business and market expectations concerning prudent capitalization, the Company will continue its current efforts to maintain a conservative capital position.

At December 31, 2008, the Company complied with all of its financial debt covenants. Although remaining compliant with its debt covenants is an important consideration in managing the Company's capital structure, the Company's current strong operating performance and its conservative debt to equity percentage have significantly lessened the restrictive impact of debt covenants in capital management decisions.

25) GAIN ON SALE OF ASSETS

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

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

26) SUBSEQUENT EVENTS

On January 15, 2009, the Company acquired South Rock Ltd., an infrastructure construction company in Alberta focusing primarily on the southern Alberta road building market. Under the share purchase deal, the Company assumed South Rock Ltd.'s existing debt of approximately $9,000 and, subject to certain post closing adjustments, paid cash of approximately $35,000 for all outstanding shares of South Rock Ltd.

On February 2, 2009, the Company and Lockerbie & Hole Inc. ("Lockerbie") announced an agreement that contemplates the Company will acquire, by plan of arrangement, all of the issued and outstanding common shares of Lockerbie for total consideration of approximately $220,000. Under the terms of the proposed transaction, Lockerbie shareholders will receive $8.00 in value for each Lockerbie common share, comprised of, at the election of each shareholder, cash or common shares of the Company or a combination thereof, subject to pro-ration such that 75% of the total consideration will be paid in cash and 25% of the total consideration will be paid in the Company's common shares. Closing is expected to occur in early April 2009, subject to regulatory approval, approval of Lockerbie's shareholders, court approval and certain other conditions.

This transaction will be financed by the Company without any additional debt through the payment of cash and the issuance of approximately $55,000 worth of the Company's shares, which subject to adjustment at closing will involve the issuance of approximate 5.4 million shares from treasury representing approximately 9% of the Company's pro forma diluted shares.

27) JOINT VENTURES – ADDITIONAL INFORMATION (UNAUDITED)

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

CONSOLIDATING BALANCE SHEET

AS AT DECEMBER 31, 2008 AND 2007

	Unaudited 2008 Consolidated Balance Sheet excluding joint ventures	Joint ventures	Consolidated Balance Sheet	2007 Consolidated Balance Sheet excluding joint ventures
	$	$	$	$
ASSETS				
Current assets				
Cash and cash equivalents	230,870	62,003	292,873	91,948
Restricted cash	20,448	7,746	28,194	22,379
Accounts receivable	205,821	53,610	259,431	195,502
Holdbacks receivable	79,035	13,549	92,584	58,583
Deferred contract costs and unbilled revenue	113,256	5,914	119,170	96,984
Inventories	23,582	–	23,582	15,702
Prepaid expenses	4,444	3,714	8,158	3,557
	677,456	146,536	823,992	484,655
Property, plant and equipment	100,613	1,720	102,333	94,462
Future income tax assets	15,050	5,572	20,622	31,088
Concession rights	–	167,996	167,996	–
Long-term concession investment	32,685	–	32,685	32,685
Other assets	41,236	–	41,236	32,190
	867,040	321,824	1,188,864	675,080
LIABILITIES				
Current liabilities				
Bank indebtedness	–	2,631	2,631	–
Accounts payable and accrued liabilities	275,775	44,065	319,840	236,957
Holdbacks payable	56,751	3,755	60,506	35,084
Deferred revenue	78,419	13,529	91,948	57,319
Income taxes payable (recoverable)	708	3,307	4,015	(4,411)
Future income tax liabilities	37,243	11,269	48,512	35,202
Current portion of long-term debt	10,845	5,542	16,387	13,261
	459,741	84,098	543,839	373,412
Non-recourse project debt	30,734	87,931	118,665	3,213
Other long-term debt	45,160	–	45,160	64,088
Other liabilities	3,375	–	3,375	3,077
Other income tax liabilities	15,537	–	15,537	14,733
Concession related deferred revenue	2,991	74,583	77,574	2,991
Convertible debentures	–	–	–	30,114
	557,538	246,612	804,150	491,628
Non-controlling interests	2,449	–	2,449	933
Shareholders' Equity	307,053	75,212	382,265	182,519
	867,040	321,824	1,188,864	675,080

CONSOLIDATING STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Unaudited 2008			2007
	Consolidated Statement of Income excluding joint ventures	Joint ventures	Consolidated Statement of Income	Consolidated Statement of Income excluding joint ventures
	$	$	$	$
Revenues	1,663,139	213,847	1,876,986	1,313,559
Direct costs and expenses	(1,523,872)	(142,052)	(1,665,924)	(1,191,137)
	139,267	71,795	211,062	122,422
Marketing, general and administrative expenses	(57,975)	(38,035)	(96,010)	(67,919)
Foreign exchange gains	791	690	1,481	3,799
Gain on sale of assets	104	–	104	7,840
Depreciation and amortization	(13,105)	(14,388)	(27,493)	(8,205)
Interest expense	(7,443)	(1,832)	(9,275)	(9,631)
Interest income	8,080	–	8,080	5,972
	(69,548)	(53,565)	(123,113)	(68,144)
Income before income taxes and non-controlling interests	69,719	18,230	87,949	54,278
Income tax expense	(23,350)	(3,469)	(26,819)	(829)
Income before non-controlling interests	46,369	14,761	61,130	53,449
Non-controlling interests	(1,788)	–	(1,788)	(824)
Net income for the year	44,581	14,761	59,342	52,625

CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Unaudited 2008 Consolidated Statement of Cash Flows excluding joint ventures	Joint ventures	Consolidated Statement of Cash Flows	2007 Consolidated Statement of Cash Flows excluding joint ventures
	$	$	$	$
CASH PROVIDED BY (USED IN):				
Operating activities				
Net income for the year	44,581	14,761	59,342	52,625
Items not affecting cash:				
Depreciation and amortization	13,105	14,388	27,493	8,205
Gain on sale of assets	(104)	–	(104)	(7,840)
Amortization of commitment fees	162	–	162	462
Unrealized loss (gain) on foreign exchange	2,530	(2,388)	142	(567)
Non-cash interest on other income tax liabilities	804	–	804	739
Notional interest representing accretion	822	–	822	2,632
Defined benefit pension	(3,126)	–	(3,126)	(339)
Future income taxes	18,078	5,045	23,123	5,713
Stock-based compensation	1,690	–	1,690	454
Others	–	–	–	8
	78,542	31,806	110,348	62,092
Change in other balances relating to operations	25,508	8,057	33,565	19,322
	104,050	39,863	143,913	81,414
Investing activities				
Decrease (increase) in restricted cash balances	1,930	7,838	9,768	(9,184)
Purchase of property, plant and equipment	(13,259)	(294)	(13,553)	(5,775)
Proceeds on sale of property, plant, and equipment	1,062	–	1,062	8,025
Acquisitions	(1,175)	–	(1,175)	(33,229)
Investments in concession rights	–	(43,130)	(43,130)	–
Repayment of long-term concession investment	–	–	–	10,048
(Increase) decrease in other assets	(7,757)	97	(7,660)	(6,968)
Increase in non-controlling interests	1,348	–	1,348	973
	(17,851)	(35,489)	(53,340)	(36,110)
Financing activities				
Decrease in bank indebtedness	–	(5,199)	(5,199)	(6,823)
Issuance of long-term debt	27,521	6,773	34,294	60,373
Repayments of long-term debt	(24,688)	(1,179)	(25,867)	(24,533)
Issuance of capital stock, net of issuance costs	70,729	–	70,729	1,261
Repurchase of capital stock	(4,145)	–	(4,145)	(2,204)
Repayment of share purchase loans	552	–	552	532
Redemption of convertible debentures	–	–	–	(500)
Dividends paid	(10,400)	–	(10,400)	–
Interest received on share purchase loans	4	–	4	38
Decrease (increase) in investment in joint ventures	(8,096)	8,096	–	11,075
	51,477	8,491	59,968	39,219
Increase in cash and cash equivalents during the year	137,676	12,865	150,541	84,523
Effects of foreign exchange on cash balances	1,246	6,480	7,726	(472)
Cash and cash equivalents – beginning of year	91,948	42,658	134,606	7,897
Cash and cash equivalents – end of year	230,870	62,003	292,873	91,948

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Scott C. Balfour
President and Chief Financial Officer
Aecon Group Inc.

Austin C. Beutel
Chairman
Oakwest Corporation Limited

Michael A. Butt
Chairman and Chief Executive Officer
Buttcon Limited

John A. DiCiurcio
Executive Vice-President
Turner Construction Company

Anthony P. Franceschini
Former President and
Chief Executive Officer
Stantec Inc.

J.D. Hole
Former Chairman
Lockerbie & Hole Inc.

Rolf Kindbom
President
Kindbom Consulting Inc.

The Hon. Brian V. Tobin, P.C.
Senior Business Advisor
Fraser Milner Casgrain LLP

Robert P. Wildeboer
Executive Chairman
Martinrea International Inc.

SENIOR LEADERSHIP TEAM

John M. Beck
Chairman and Chief Executive Officer

Scott C. Balfour
President and Chief Financial Officer

Bruce Fleming
Vice-President
Information Technology
and Chief Information Officer

Gerard A. Kelly
Senior Vice-President
Finance

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

Terrance L. McKibbon
Executive Vice-President
and Chief Executive Officer
Aecon Infrastructure Group

Steven N. Nackan
President
Aecon Concessions

J. Mitchell Patten
Senior Vice-President
Corporate Affairs

Frank J. Ross
President
Aecon Buildings Group

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

ANNUAL AND SPECIAL MEETING

The Annual and Special Meeting of Shareholders of Aecon Group Inc. will be held at The Design Exchange, 234 Bay Street, Toronto, Ontario, Canada on Tuesday, June 16, 2009 at 11:00 a.m. (Toronto time).

ONE OF CANADA'S BEST PLACES TO WORK

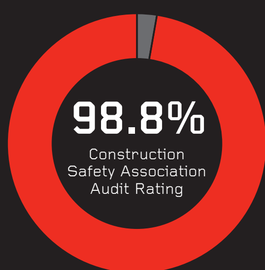
Talented, passionate people are naturally drawn to Aecon because they want to be a part of the great projects we deliver.Employees quickly learn they've joined a company that rewards achievement with opportunity in a culture that cares about them and their families. Aecon is recognized as one of Canada's best employers by Report on Business magazine. At Aecon, people matter.

REGISTRAR AND TRANSFER AGENT

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

AN INDUSTRY LEADING SAFETY PROGRAM

At Aecon, we believe that positive results can only be achieved by providing safe, healthy working conditions and impeccably maintained equipment. Our zero injury culture has a positive impact on everyone we work with and for – our employees, our subcontractors and our clients. Safety. Every day, everywhere.



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