

Aecon Group Inc.

Consolidated Financial Statements
December 31, 2007 and 2006

March 5, 2008

Auditors' Report

*To the Shareholders of
Aecon Group Inc.*

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

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants

Aecon Group Inc.

Consolidated Balance Sheets

As at December 31, 2007 and 2006

(in thousands of dollars)

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

Aecon Group Inc.

Consolidated Balance Sheets ... *continued*

As at December 31, 2007 and 2006

(in thousands of dollars)

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

Approved by the Board of Directors

(signed) "John M. Beck"

John M. Beck, Director

(signed) "Michael A. Butt"

Michael A. Butt, Director

Aecon Group Inc.

Consolidated Statements of Income

For the years ended December 31, 2007 and 2006

(in thousands of dollars, except per share amounts)

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

Aecon Group Inc.

For the years ended December 31, 2007 and 2006

(in thousands of dollars)

Consolidated Statements of Comprehensive Income

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

Consolidated Statements of Retained Earnings

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

Consolidated Statements of Accumulated Other Comprehensive Loss

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

Aecon Group Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006

(in thousands of dollars)

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

Supplementary disclosures (note 18)

Aecon Group Inc.

Notes to Consolidated Financial Statements December 31, 2007 and 2006

(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, ultimately, there are disputes with clients on the pricing of change orders or disputes regarding additional payments owing as a result of changes in contract specifications, delays, additional work or changed conditions, the Company’s accounting policy is to record all costs for these change orders but not to record any revenues anticipated from these disputes until actually resolved, even though the Company may believe that full compensation from clients is probable.

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

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

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

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

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

Under the Company's accounting policy for large multi-year contracts, profit is recognized only when construction progress reaches a stage of completion sufficient to reasonably determine the probable results. As at December 31, 2007, this threshold has not yet been achieved for the new Quito airport construction project.

Inventories

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

Property, plant and equipment

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

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

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

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

Investments

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

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

Goodwill

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

Income taxes

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

Employee benefit plans

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

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Asset retirement obligations

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

Leasehold inducements

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

Stock-based compensation plans

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

Foreign currency translation

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

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

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

Earnings per share

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

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Notes to Consolidated Financial Statements December 31, 2007 and 2006

(in thousands of dollars, except per share amounts)

2) Change in accounting policies

Effective January 1, 2007, the Company adopted five new accounting standards that were issued by The Canadian Institute of Chartered Accountants (“CICA”): Handbook Section 1530 “Comprehensive Income,” Handbook Section 3251 “Equity,” Handbook Section 3855 “Financial Instruments - Recognition and Measurement,” Handbook Section 3865 “Hedges,” and Handbook Section 1506 “Accounting Changes.” The Company adopted these standards prospectively and, accordingly, comparative amounts for prior years have not been restated.

Comprehensive Income

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

Equity

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

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the consolidated balance sheets when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition. Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses, including the impact of changes in foreign exchange rates, being recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. Derivative instruments are recorded on the consolidated balance sheets at fair value, including those derivatives that are embedded in financial or non-

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(in thousands of dollars, except per share amounts)

financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in net income with the exception of derivatives designated as effective cash flow hedges or hedges of foreign currency exposure of a net investment in a self-sustaining foreign operation.

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

Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item. In a fair value hedging relationship, the carrying value of the hedged item is adjusted for unrealized gains or losses attributable to the hedged risk and recognized in net income. Changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which is also recorded in net income. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged item are amortized to net income over the remaining term of the original hedging relationship. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in OCI while the ineffective portion is recognized in net income. When hedge accounting is discontinued, the amounts previously recognized in AOCI are reclassified to net income during the periods when the variability in the cash flows of the hedged item affects net income. Gains and losses on derivatives are reclassified immediately to net income when the hedged item is sold or terminated early. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments is recognized in OCI and the ineffective portion is recognized in net income. Amounts previously recognized in AOCI are recognized in net income when there is a reduction in the hedged net investment as a result of a dilution or sale of the net investment or there is a reduction in equity of the foreign operation as a result of dividend distributions.

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

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Accounting Changes

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

Future accounting changes

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

Capital Disclosures

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

Financial Instruments – Disclosures and Presentation

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

Inventory

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

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

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

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

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4) Joint ventures

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

- (a) The following table sets out the Company's proportionate share of the assets, liabilities, venturers' equity, revenues, expenses, net income (loss) and cash flows of these joint ventures. Included in expenses in the determination of net income (loss) of joint ventures are income taxes for those entities that are separately liable for the payment of taxes. Income taxes are not included for joint ventures where income taxes are the responsibility of the joint venture partners. Income taxes included in joint venture expenses amounted to a recovery of income tax of \$399 (2006 - income tax expense of \$455).

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

- (b) The Company is either contingently or directly liable for obligations of its unincorporated joint ventures (notes 11 and 15). The assets of the joint ventures are available for the purpose of satisfying such obligations.
- (c) The Company enters into transactions in the normal course of operations with its joint ventures, which are measured at the exchange amount, being the amount of consideration established and agreed to by the parties involved. During the year, the Company recognized revenues of \$42,130 (2006 - \$9,715) from its

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joint venture partners. At December 31, 2007, the Company has included in accounts receivable \$4,275 (2006 - \$5,000) owing from its joint ventures and has included in accounts payable and accrued liabilities \$2,359 (2006 - \$1,445) owing to its joint ventures.

(d) See note 27 for additional supplementary information.

5) Concession rights

The Company has recorded concession rights as follows:

	2007		2006
Concession rights to operate the Existing Quito Airport, net of accumulated amortization of \$18,704 (2006 - \$7,105)	\$ 38,135	\$	59,717
Concession rights to operate the new Quito Airport	71,148		60,371
	\$ 109,283	\$	120,088

(a) Background information

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

(b) Accounting for operations of the Existing Quito Airport

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

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New Quito Airport) will be amortized to earnings over the term of the New Quito Airport concession period. Consequently, income earned from the operation of the Existing Quito Airport, which will be recognized in the normal fashion, will be reduced by the amount of the annual amortization charge related to the Existing Quito Airport Concession Rights.

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

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

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

6) Income taxes

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

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

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

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

The components of future income taxes are as follows:

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

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	2007	2006
Classified as:		
Long-term future income tax assets	\$ 36,140	\$ 19,046
Current future income tax liabilities	(40,907)	(23,160)
Total future income tax liabilities	\$ (4,767)	\$ (4,114)

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

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

7) Property, plant and equipment

	2007		
	Cost	Accumulated depreciation and amortization	Net
Land and improvements	\$ 6,106	\$ -	\$ 6,106
Buildings	18,223	4,823	13,400
Aggregate properties	36,950	5,095	31,855
Machinery and equipment	92,741	46,997	45,744
	\$ 154,020	\$ 56,915	\$ 97,105
	2006		
	Cost	Accumulated depreciation and amortization	Net
Land and improvements	\$ 6,263	\$ -	\$ 6,263
Buildings	16,630	3,887	12,743
Aggregate properties	13,804	4,204	9,600
Machinery and equipment	67,350	42,608	24,742
	\$ 104,047	\$ 50,699	\$ 53,348

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

8) Long-term investment

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

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

On February 16, 2006, pursuant to an agreement reached with the project lenders, the shareholders of Derech Eretz purchased certain options held by the lenders. The lenders' options would have allowed the lenders to purchase directly from the existing shareholders a portion of their equity and subordinated debt of the concessionaire. The Company's pro rata share of the purchase price was US\$1,250 (CAD\$1,460).

9) Other assets

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

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

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

Also included in long-term receivables is \$1,142 (2006 - \$1,262) due from Derech Eretz Telecom Ltd., a wholly owned subsidiary of Derech Eretz. The receivable is payable in annual instalments including compounded interest at 6% annually. The payment amounts are not fixed and are based on the net cash flow of the borrower. Loan and interest payments are to be made on December 31 of each year and full payment must be made no later than December 31, 2009.

- (c) Loans receivable include \$2,329 (2006 - \$2,738) from Capital Projects Group Inc. ("CPGI"), and are due on December 31, 2008. This company has a 7.5% indirect interest in Strait Crossing Development Inc. ("SCDI"), which owns and operates the Confederation Bridge in eastern Canada. Security for the loan is 60 common shares of SCDI. Interest is at TD Canada Trust's prime rate. CPGI may, upon the provision of 30 days' prior written notice to the Company, elect to fix the rate of interest at TD Canada Trust's prime rate on the date notice is provided plus 0.75% per annum.

Also included in loans receivable are loans to directors, senior officers and employees in the amount of \$520 (2006 - \$518). These loans are unsecured and bear interest, which is payable quarterly, at Canada Revenue Agency's prescribed quarterly rates. Repayment terms for principal vary, with some loans requiring fixed quarterly repayments and others having flexible repayment terms. Loans advanced to directors, senior officers and employees for the purchase of the Company's shares are netted against capital stock (see note 16).

- (d) Commitment fees of \$871 (2006 - \$1,494) include \$231 that relates to the Company's three-year revolving operating line facility described in note 10(e) and \$640 related to non-recourse project financing for the Rouge Valley Health System project described in note 10(c). These charges are being amortized as interest expense over the term of the respective facilities.
- (e) Other includes definite life intangible assets of \$618 (2006 - \$737).

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10) Long-term debt

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

The following describes the components of long-term debt:

- (a) The total financing commitment made by the Project Senior Lenders to Quiport JV is US\$376,388. As at December 31, 2007, senior project financing advanced to Quiport JV by the Project Senior Lenders at 100% was US\$148,490 (2006 - US\$114,592). Included in the Company's consolidated balance sheets at December 31, 2007, is debt, net of transaction costs, of US\$65,055 (CAD\$64,490) (2006 - US\$52,139 or CAD\$60,763) representing the Company's proportionate share of Quiport JV debt. This debt is secured by the assets of Quiport JV and is otherwise without recourse to the Company.

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

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

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

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

- (b) Quiport JV CORPAQ debt of \$5,191 (2006 - \$5,614) represents the Company's proportionate share of an amount due to CORPAQ by Quiport JV and related to construction of the Quito airport project. Quiport JV will make payments over the period from 2008 to 2012. This non-interest bearing debt, which is denominated in United States dollars, has been discounted at the rate of 10.65%.
- (c) Project financing for the Rouge Valley Health System project at December 31, 2007, was \$3,213 (2006 - \$nil). The total amount available to be borrowed over the construction period is \$57,034 and repayment of the loan is due at the end of the project. This debt is secured by the assets of the project and is otherwise non-recourse to the Company. Interest is payable monthly at an annual rate of 5.3%.
- (d) At December 31, 2007, capital leases and equipment loans bore interest at fixed and floating rates averaging 5.91% (2006 - 6.8%) per annum, with specific equipment provided as security. Included in these amounts are the following equipment loans:

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

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

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

The full amount of the term loan was borrowed under the agreement and subsequently converted into a U.S. dollar denominated loan. This three-year U.S. dollar term loan bears interest at LIBOR plus 2.75% with interest payable monthly in arrears on the first day of each month. Commencing October 1, 2007,

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principal repayments of US\$500 are due quarterly with the remaining balance outstanding due on maturity. At December 31, 2007, the balance outstanding under the term loan facility net of transaction costs was US\$13,520 (CAD\$13,402).

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

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

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

- (f) As partial consideration for the acquisition of The Karson Group in 2007 (see note 19), the Company issued a note payable in the amount of \$21,225 to the vendor. This note payable, which is non-interest bearing and is secured by certain equipment of The Karson Group, was discounted at 8% to arrive at a fair value of \$16,949 at the date of the acquisition. Commencing January 31, 2008, the note is payable in equal annual installments over a five-year period. During 2007, the Company recorded interest expense of \$1,243 representing interest accretion on the note payable (2006 - \$nil).
- (g) Mortgages are secured by certain of the Company's real estate assets. Amounts outstanding are at a fixed rate of interest of 7.6% (2006 - 7.6%) until January 1, 2011 and require monthly principal and interest payments amortized over 25 years.
- (h) At December 31, 2007, loans from the Company's partners in Derech Eretz totalled NIS14,777 (CAD\$3,787). These loans bear interest at 8% and are generally repayable as distributions from Derech Eretz are received.
- (i) In 2006, the Company borrowed US\$1,650 (CAD\$1,923) from Airport Development Corporation, a joint venture partner in the Quito Airport project. This loan, which is non-interest bearing, was used to fund a portion of the Company's equity contributions in the project and will be fully repaid by October 31, 2009. At December 31, 2007, the loan balance was US\$1,414 (CAD\$1,402).

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

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

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

11) Guarantees

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

In connection with the Cross Israel Highway project, the Company has provided two joint and several guarantees, a continuous guarantee, which guarantees the performance of the concessionaire in which the Company has a 25% interest and a leakage guarantee, which is a guarantee by the operator of the toll highway, in which the Company has a 30.60% interest, to the concessionaire and covers toll capture and collection rates generated from users of the highway during the operating period. These guarantees extend to the end of the concession period, which ends in 2029. The continuous guarantee (at 100%) is in the amount of US\$32,400 (CAD\$32,118) (2006 - US\$32,400 or CAD\$37,759) and is renewed annually to its full amount, irrespective of any drawings made thereunder. The Company has issued a letter of credit in the amount of US\$8,100 (CAD\$8,030) (2006 - US\$8,100 or CAD\$9,440) to support its share of the continuous guarantee, and its partners have similarly issued letters of credit to support their respective shares. The leakage guarantee (at 100%) came into effect when construction was completed and is renewable annually for the lesser of NIS33,000 plus escalation to-date (CAD\$11,990) (2006 - NIS33,000 plus escalation or CAD\$12,470) or 6% of annual toll revenue.

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

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

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

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

The Company has also issued performance guarantees of \$7,640 (2006 - \$1,041) in respect of certain other international projects, which are supported by guarantees issued to the Company by EDC.

In addition, the Company has also issued, in the normal conduct of operations, letters of credit amounting to \$14,867 (2006 - \$12,891) in support of financial and performance related obligations of its North American operations.

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

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

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12) Convertible debentures

Convertible subordinated debentures consist of:

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

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

In March 2005, the Company issued \$32,500 in unsecured, subordinated convertible debentures maturing March 17, 2010. The debentures bear interest at the rate of 8.25% per annum payable on a semi-annual basis. At the holder's option, the convertible debentures may be converted into common shares at any time up to the maturity date at a conversion price of \$7.60 for each common share, subject to adjustment in certain circumstances. The convertible debentures will not be redeemable before March 18, 2008. From March 18, 2008 through the maturity date, the Company may, at its option, redeem the convertible debentures, in whole or in part, at par plus accrued and unpaid interest provided that the weighted average closing price of the common shares on the Toronto Stock Exchange during a specified period prior to redemption is not less than 125% of the conversion price. During 2007, \$825 of convertible debentures were converted into 108,552 common shares. At December 31, 2007, the face value of these convertible debentures, which remains outstanding, is \$31,675 (2006 - \$32,500). In February 2008, the Company announced its intention to redeem all of the remaining convertible debentures (see note 26).

Subject to specified conditions, the Company has the right to repay the outstanding principal amount of the convertible debentures, on maturity or redemption, through the issuance of common shares of the Company. The Company also has the option to satisfy its obligation to pay interest through the issuance and sale of additional common shares of the Company on a private placement basis. Additionally, the Company will have the option, subject to the prior agreement of the holders, to settle its obligations on conversion by way of a cash payment of equal value.

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

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

Interest expense on the debentures is composed of the interest calculated on the face value of the debentures, and an annual notional interest representing the accretion of the carrying value of the debentures. For 2006, interest also included the amortization of deferred financing costs related to the debentures. On January 1, 2007, the unamortized portion of these costs was netted against the carrying value of the debentures. Interest recorded was as follows:

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

The liability portion of the debentures is as follows:

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

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

13) Other liabilities

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

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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.

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

The total undiscounted amount of the estimated cash flows required for rehabilitating the pits and quarry is approximately \$62,000. Rehabilitation costs are expected to be settled between 2016 and 2107. A 3% inflation factor has been applied to obtain the future value of the rehabilitation costs, which has then been discounted at 6% to obtain the present value of the obligation.

14) Concession related deferred revenue

As part of acquiring, in 2006, the rights to operate the Existing Quito Airport (see note 5(b)), the Company recorded US\$57,337 or Canadian equivalent of \$56,838 at December 31, 2007 exchange rates (2006 - US\$57,337 or CAD\$66,822) of concession related deferred revenue representing the estimated value of the "inducement" received by Quiport JV to develop, finance, and operate the New Quito Airport. This deferred revenue amount will be amortized to earnings over the term of the New Quito Airport concession period.

As at June 28, 2006, CORPAQ also provided Quiport JV with net assets of US\$3,897 or Canadian equivalent of \$3,864 at December 31, 2007 exchange rates (2006 - US\$3,897 or CAD\$4,541), representing net assets received by Quiport JV between the date the concession went into effect (January 27, 2006) and the date of financial close (June 28, 2006). This amount represents an additional inducement and has been classified as concession related deferred revenue in the consolidated balance sheets. As with the other concession related deferred revenue amounts noted above, this balance will be amortized to earnings over the term of the New Quito Airport concession period.

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

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15) Commitments and contingencies

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

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

- (b) The Company is involved in various claims and litigation both as plaintiff and defendant. In the opinion of management, the resolution of claims against the Company will not result in a material effect on the consolidated financial position of the Company. Any settlements or awards will be reflected in the consolidated statements of income, as the matters are resolved.
- (c) The Company is contingently liable for the usual contractor's obligations relating to performance and completion of construction contracts and for the obligations of its venturers in unincorporated joint ventures, the assets of which are available to settle any claims that may arise in the joint ventures.
- (d) During 2001, the Company received federal income tax reassessments relating to deductions claimed by predecessor companies between 1993 and 1999. The reassessments, which disallow previously claimed Canadian development expense ("CDE") deductions, amounted to \$10,581 at December 31, 2007. Provincial income tax reassessments related to the disallowed CDE and received to date amount to \$804. Although the Company has filed Notices of Objection, it was required to pay 50% of the federally assessed amounts and 100% of the Ontario provincial assessments pending resolution of the objections. At December 31, 2007, the Company had paid \$5,414 resulting from these assessments. To-date, Canada Revenue Agency has not responded to the Notices of Objection. The total potential federal and provincial reassessments, including income taxes, interest and penalties could be up to \$18,525. The Company believes it has adequate income tax provisions to cover the ultimate outcome of these reassessments.
- (e) In June 2005, the joint venture involved in the construction of the Nathpa Jhakri project in India, in which the Company has a 45% interest, was advised by the owner, Satluj Jal Vidyut Nigam Ltd. ("SJVN") (formerly Nathpa Jhakri Power Corporation Limited) of its intention to levy liquidated damages against the joint venture in the amount of \$28,931 for alleged delay damages resulting from not completing the contract on time. Since the delay in the completion of the project was caused by numerous items outside of the joint venture's control and contractual responsibility, including, among many other things, a catastrophic flood in 2002, the joint venture believes that these claims for liquidated damages are unsubstantiated, unwarranted and without legal merit. The joint venture also believes that even in the unlikely situation that it might be found responsible (through arbitration hearings that are currently in progress) for some part of the delay, this did not result in any actual damages to SJVN, then as a matter of law, liquidated damages cannot be enforced. The joint venture's conclusion regarding the impermissibility of SJVN to enforce liquidated damages is supported by two independent legal opinions. The joint venture

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had previously submitted for arbitration claims of approximately \$91,534 against SJVN, the most significant of which is to cover the joint venture's cost of extra work and delays related to these same matters. Based on all of the above, no provision has been made for the liquidated damages nor has any amount been recognized for potential recoveries under the claims. This treatment is in accordance with the Company's accounting policy, which is to recognize revenues from claims only when resolved. The arbitration process is nearing completion and a decision is expected in 2008.

It should be noted that all amounts quoted in the preceding paragraph are based on foreign currency amounts that have been translated into Canadian dollars at exchange rates effective on December 31, 2007.

- (f) The Company is a party to a lawsuit related to its prior involvement in the construction of a grain terminal in Gdansk, Poland whereby the Company guaranteed the payment of a promissory note for US\$2,500. The note was originally due on July 12, 2001. As a result of certain alleged contractual breaches and misrepresentations by the other parties involved, the Company has taken the position that the guarantee is not enforceable. The lawsuit seeks to enforce the guarantee and other damages amounting to, according to the plaintiffs, Canadian \$6,300. The Company disputes the validity of the guarantee and the obligation to pay thereunder and is vigorously defending the litigation. The Company has filed a 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 hydro-electric 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 negotiating with Hydro Quebec for a full recovery of these cost overruns and expects that it will be successful in doing so. Should the Company not be successful in recovering these cost overruns, its consolidated financial results and position would be adversely impacted.
- (h) In the latter part of 2007, as with other private concessions in Ecuador, the Quito Airport project came under heightened scrutiny by the new federal administration. Along with this scrutiny came a series of public criticisms by the administration against the Municipality of Quito, primarily directed at the lack of contribution by the municipality, through the airport project, towards a national airport modernization program. Additionally in 2007, a National Assembly was installed to draft a new Ecuadorian constitution, which is expected to re-centralize competencies for services relating to national infrastructure. While there is no indication thus far that the administration intends to take any unilateral action that would run contrary to the contracts the Company and its partners have in place, the political environment and concurrent constitutional process reconfirm that the project and related investments are occurring in a country in which there is elevated political risk and uncertainty generally. Therefore, political risk may adversely impact the project's financial performance and its overall financial viability, and the value of the Company's investment in the Quito Airport concessionaire (Quiport JV) could ultimately be impaired.

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

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During the past two years, Quiport JV exercised its right under its concession contract to increase tariffs for services rendered to the airlines using the Existing Quito Airport. These increased tariffs are being challenged by certain airlines. Should Quiport JV's rights to the recent and future tariff increases be restricted or reduced, the reported value of concession rights related to the Existing Quito Airport could be materially reduced.

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

16) Capital stock

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

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

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

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

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(2006 - \$41) and is accounted for as a capital transaction in shareholders' equity. During 2007, \$532 of these loans was repaid.

- (iii) On March 17, 2006, the Company issued 4,500,000 common shares at \$6.25 per share. Net proceeds, after deducting agents' fees and expenses of the issue, were approximately \$26,625. On April 18, 2006, an Over-Allotment Option was exercised and the Company issued an additional 180,000 common shares at \$6.25 per share. The exercise of the Over-Allotment Option raised the aggregate net proceeds under the offering to \$27,699.
- (iv) In accordance with the recommendations of the CICA Accounting Guideline No. 15 "Consolidation of Variable Interest Entities," share capital and shares outstanding have been reduced to reflect shares purchased by the Trust administering the Company's Long-Term Incentive Plan. As at December 31, 2007, the Trust held 451,376 shares (2006 - 213,346 shares) with a cost basis of \$3,470 (2006 - \$1,266).

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

Stock option plans

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

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

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

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

Options granted in	Number of shares	Exercise price	Expiry date
2003	100,000	\$4.75	April 1, 2008
2004	55,000	\$6.30	August 3, 2009
2004	16,667	\$6.20	November 30, 2009
2005	66,667	\$5.51	November 7, 2010
2006	756,150	\$6.25	March 27, 2011
2007	50,000	\$6.75	January 16, 2012
	1,044,484		

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

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

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

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

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

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

Long-Term Incentive Plan

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

Awards to participants are based on the financial results of the Company and are made in the form of Deferred Share Units ("DSUs") or in the form of restricted shares. Awards made in the form of DSUs will vest only upon the retirement or termination of the participant. Awards made in the form of restricted shares will vest annually over three years. Compensation charges related to the LTIP are expensed over the estimated vesting period of the awards. Awards made to individuals who are eligible to retire are assumed for accounting purposes to vest immediately. In 2007, the Company recorded LTIP compensation charges of \$1,379 (2006 - \$101).

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

The Company has determined that it holds a variable interest in the residual equity of the Trust upon dissolution of the Trust and, as such, the Trust meets the criteria of a variable interest entity that requires consolidation by the Company in accordance with the CICA Accounting Guideline No. 15 "Consolidation of Variable Interest Entities." Accordingly, at December 31, 2007, share capital was reduced by \$3,470 (2006 - \$1,266) and accrued liabilities increased by the same amount.

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Earnings per share

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

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

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

Contributed surplus

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

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

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Dividends

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

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

17) Interest

Interest expense (income) is comprised of:

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

18) Cash flow information

Change in other balances relating to operations:

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

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Other supplementary information:

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

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

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

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

Investing and financing activities not requiring an immediate use of cash in the year ended December 31, 2006 included the acquisition of the concession rights to operate the Existing Quito Airport and the related increase in concession related deferred revenue, both in the amount of \$64,000 (US\$57,337) (see notes 5(b) and 14).

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

In March 2006, Hochtief exercised its option to convert convertible debt with a face value of \$7,731 into 2,147,566 common shares at a conversion price of \$3.60 per share. In addition, share capital was increased by \$836 representing the equity portion of the convertible debentures that was previously classified as a separate component of shareholders' equity (see notes 12 and 16).

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

19) Acquisitions

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

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

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

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

The following is a summary of the above acquisitions:

Net assets acquired		
Cash	\$	1,520
Working capital		7,897
Property, plant and equipment		44,499
Goodwill		3,024
Current portion of long-term debt		(1,901)
Long-term debt		(3,812)
		<hr/>
	\$	51,227
		<hr/>
Consideration		
Cash	\$	34,278
Note payable		16,949
		<hr/>
	\$	51,227
		<hr/>

In the third quarter of 2006, the Company acquired from its joint venture partner an additional 50% interest in the assets and liabilities of the Aecon Fabco joint venture in eastern Canada, raising its total interest in this operation to 100%.

The following is a summary of the acquisition:

Net assets acquired		
Working capital	\$	239
Property, plant and equipment		295
Long-term debt		(311)
		<hr/>
	\$	223
		<hr/>
Consideration		
Short-term note payable	\$	223
		<hr/>

In 2004, the Company acquired the assets and operations of Cegerco CCI Inc. ("Cegerco"), a general contracting company in the Montreal region, specializing in the construction and management of institutional, commercial and pharmaceutical building projects. In the second quarter of 2007, the Company paid \$471

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representing the additional consideration payable as a result of the achievement of certain financial targets by the Cegerco operations. In the second quarter of 2006, the Company paid \$192 with respect to the short-term note payable recorded in connection with that acquisition. No further payments are required as part of this acquisition.

20) Employee benefit plans

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

The measurement date used for financial reporting purposes of the pension plan assets and benefit obligation is December 31. The most recent actuarial valuation filed for funding purposes for the principal defined benefit pension plan was completed as at December 31, 2004 and the next required actuarial valuation will be prepared as of December 31, 2007.

The Pension Plan for Employees of Banister Majestic Inc. (the "Majestic Pension Plan"), was terminated in 2001. The related curtailment impact was recognized in the 2001 pension expense. An annuity was purchased for all remaining plan members in the fourth quarter of 2006. In accordance with the CICA Handbook, the resulting accounting impact of this settlement (a settlement loss of \$1,464) was included in the 2006 pension expense.

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

	<u>2007</u>	<u>2006</u>
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	\$ 35,643	\$ 32,178
Actual return on plan assets	621	3,020
Company contributions	1,682	2,617
Plan participant contributions	141	152
Benefits paid	<u>(5,109)</u>	<u>(2,324)</u>
Fair value of plan assets at end of year	<u>\$ 32,978</u>	<u>\$ 35,643</u>

Aecon Group Inc.

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	<u>2007</u>		<u>2006</u>
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 39,658	\$	38,545
Current service cost	1,307		1,246
Interest cost	1,848		1,898
Benefits paid	(5,109)		(2,323)
Actuarial (gains) losses	(4,019)		292
	<u>33,685</u>	<u>\$</u>	<u>39,658</u>
Benefit obligation at end of year			
Funded status			
Excess of benefit obligation over plan assets	\$ (707)	\$	(4,015)
Unrecognized net actuarial loss	2,780		5,733
Unrecognized transitional liability	54		70
	<u>2,127</u>	<u>\$</u>	<u>1,788</u>
Pension asset at December 31			
Amounts recognized in consolidated balance sheets			
Other assets	\$ 2,127	\$	1,788
Weighted average assumptions to calculate benefit obligation			
Discount rate	5.75%		5.0%
Rate of increase in future compensation	3.5%		3.5%
Asset categories of pension assets			
Cash and short-term notes	7.7%		13.3%
Debt securities	34.9%		33.8%
Equity securities	57.4%		52.9%

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Details of the pension expense are as follows:

	<u>2007</u>	<u>2006</u>
Pension benefit expense		
Current service cost, net of employee contributions	\$ 1,166	\$ 1,094
Interest cost	1,848	1,898
Amortization of actuarial loss (1)	225	491
Amortization of transitional liability	84	63
Expected return on plan assets	(1,980)	(1,940)
Settlement loss	-	1,464
	<hr/>	<hr/>
Defined benefit pension expense	1,343	3,070
Defined contribution pension expense	2,155	1,962
Multi-employer pension plan expense	26,768	21,269
	<hr/>	<hr/>
Pension benefit expense	\$ 30,266	\$ 26,301
	<hr/>	<hr/>
Defined benefit pension expense incurred		
Defined benefit pension expense recognized, above	\$ 1,343	\$ 3,070
Difference between expected and actual return on plan assets	1,359	(1,080)
Difference between actuarial losses amortized and actuarial losses arising	(4,244)	(199)
Amortization of transitional liability	(84)	(63)
	<hr/>	<hr/>
Defined benefit pension (income) expense incurred	\$ (1,626)	\$ 1,728
	<hr/>	<hr/>
Weighted average assumptions to calculate pension benefit expense		
Discount rate	5.0%	5.0%
Assumed long-term rate of return on plan assets	6.25%	6.25%
Rate of increase in future compensation	3.5%	3.5%

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

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Details of cash flows are as follows:

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

21) Related party transactions and balances

In addition to related party transactions described elsewhere in the notes to these consolidated financial statements, the following summarizes additional transactions during the year. Related party transactions are recorded at their exchange amounts, which is the consideration agreed to by the parties. Prior to November 30, 2006, Hochtief AG indirectly was the largest shareholder of the Company. On November 30, 2006, Hochtief sold all the shares it held in the Company.

- (a) During 2007, the Company paid professional fees in the amount of \$34 (2006 - \$121) to a consulting company in which a director of the Company is a partner.
- (b) During 2006, the Company paid Hochtief guarantee fees in the amount of \$190.
- (c) At December 31, 2005, the Company was indebted to Hochtief for a total of \$2,500 in the form of a short-term unsecured loan. On January 13, 2006, the Company repaid the loan. Interest due was calculated on the amount outstanding at prime rate plus 1.5%. Interest expense recorded during 2006 amounted to \$39.
- (d) During 2006, the Company paid interest and fees of \$97 to Hochtief Canada Inc. on the convertible subordinated debentures described in note 12.
- (e) During 2006, the Company received \$21 from Hochtief PPP Solutions GmbH with respect to bid costs, pursuant to an arrangement in place for the sharing of such costs.
- (f) To the best of the Company's knowledge from information available to it and from public records, as at December 31, 2007, \$100 (2006 - \$2,150) of the Company's convertible debentures maturing March 17, 2010 were held by officers and directors of the Company or parties related thereto.

Aecon Group Inc.

Notes to Consolidated Financial Statements December 31, 2007 and 2006

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22) Financial instruments

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

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

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

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

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

From time to time, the Company enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar, but does not hold or issue such financial instruments for trading purposes. At December 31, 2007, the Company had net outstanding contracts to sell EURO6,652, sell US\$23,970, and buy US\$11,978 (2006 - sell US\$802) on which there was a net unrealized exchange gain of \$951 (2006 - net loss of

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

The Company may use foreign currency debt to hedge its exposure to foreign currency volatility in connection with investments in certain foreign operations. The realized and unrealized fair value of these hedges 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 are included in the consolidated statements of income in foreign exchange gains (losses). The Company has designated its U.S. dollar denominated term loan, currently in the amount of US\$13,520, as a hedge of its net investment in certain foreign operations. The unrealized gain resulting from fair valuing this instrument as at December 31, 2007 of \$989 has been included in currency translation adjustments within accumulated other comprehensive loss in shareholders' equity.

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

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

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

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

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

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

23) Segmented information and business concentration

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

Infrastructure

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

Buildings

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

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Industrial

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

Concessions

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

(a) Industry segments

	2007					
	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total
Revenues	\$ 688,907	\$ 385,946	\$ 398,148	\$ 57,544	\$ (37,798)	\$ 1,492,747
EBITDA (i)	\$ 28,407	\$ 4,806	\$ 38,357	\$ 17,593	\$ (6,457)	\$ 82,706
Depreciation and amortization	(4,949)	(422)	(2,165)	(13,631)	(748)	(21,915)
Segment operating profit (loss) (i)	23,458	4,384	36,192	3,962	(7,205)	60,791
Capital charges and allocations of Corporate overheads (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

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	2007					
	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total
Interest expense, income taxes and non-controlling interests						(12,488)
Net income						\$ 48,303
Total assets	\$ 354,272	\$ 107,593	\$ 146,613	\$ 180,157	\$ 122,017	\$ 910,652
Intangible assets and goodwill	\$ 5,767	\$ 2,949	\$ 3,750	\$ 109,448	\$ -	\$ 121,914
Capital expenditures	\$ 3,335	\$ 524	\$ 1,997	\$ -	\$ 417	\$ 6,273
Cash flow from (used in) operating activities (i)	\$ 25,019	\$ 4,803	\$ 37,395	\$ 17,352	\$ (17,364)	\$ 67,205
	2006					
	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total
Revenues	\$ 483,955	\$ 322,711	\$ 290,201	\$ 35,686	\$ (19,247)	\$ 1,113,306
EBITDA (i)	\$ 20,931	\$ 5,002	\$ 21,604	\$ 4,199	\$ (15,232)	\$ 36,504
Depreciation and amortization	4,350	413	2,101	6,900	849	14,613
Segment operating profit (loss) (i)	\$ 16,581	\$ 4,589	\$ 19,503	\$ (2,701)	\$ (16,081)	21,891
Interest expense and income taxes						(10,389)
Net income						\$ 11,502
Total assets	\$ 264,081	\$ 94,515	\$ 125,329	\$ 190,031	\$ 42,331	\$ 716,287

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	2006					
	Infrastructure	Buildings	Industrial	Concessions	Corporate and Other	Total
Intangible assets and goodwill	\$ 2,743	\$ 2,994	\$ 3,750	\$ 120,261	\$ -	\$ 129,748
Capital expenditures	\$ 1,725	\$ 304	\$ 1,412	\$ -	\$ 618	\$ 4,059
Cash flow from (used in) operating activities (i)	\$ 20,155	\$ 5,030	\$ 21,786	\$ 4,157	\$ (24,052)	\$ 27,076

- (i) EBITDA represents earnings or loss before interest expense, income taxes, depreciation and amortization, and non-controlling interests. Segment operating profit (loss) represents net income (loss) before interest expense, income taxes, and non-controlling interests. Cash flow from (used in) operating activities is before the change in other balances related to operations. EBITDA, operating profit (loss), and cash flow from operating activities are not measures that have any standardized meaning prescribed by Canadian GAAP and are considered non-GAAP measures. Therefore, these measures may not be comparable to similar measures presented by other companies. These measures have been described and presented in the manner in which the chief operating decision maker makes operating decisions and assesses performance.
- (ii) Commencing in 2007, management prospectively began measuring divisional performance based on segment operating profit or loss after capital charges and corporate allocations (i.e., segment profit (loss) before income taxes). Corporate allocations represent charges from the Corporate segment to each division for indirect Corporate marketing, general and administrative costs and capital charges relate to the cash, working capital, and long-term debt capital invested in each segment. Since this change was implemented in 2007, there are no comparative figures available for 2006 as the information required to restate prior period comparatives was not available.

(b) Geographic segments

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

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24) Gain on sale of assets

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

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

25) Comparative figures

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

26) Subsequent event

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

27) Joint ventures – additional information (unaudited)

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

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Consolidating Balance Sheet

	Unaudited At December 31, 2007		
	Consolidated Balance Sheet excluding joint ventures	Joint ventures	Consolidated Balance Sheet
Assets			
Current assets			
Cash and cash equivalents	\$ 91,948	\$ 42,658	\$ 134,606
Restricted cash	22,379	12,249	34,628
Accounts receivable	195,502	32,936	228,438
Holdbacks receivable	58,583	12,940	71,523
Deferred contract costs and unbilled revenue	96,984	14,953	111,937
Inventories	15,702	-	15,702
Prepaid expenses	3,557	2,858	6,415
	484,655	118,594	603,249
Property, plant and equipment	94,462	2,643	97,105
Future income tax assets	31,088	5,052	36,140
Concession rights	-	109,283	109,283
Long-term investment	32,685	-	32,685
Other assets	32,190	-	32,190
	\$ 675,080	\$ 235,572	\$ 910,652
Liabilities			
Current liabilities			
Bank indebtedness	\$ -	\$ 6,986	\$ 6,986
Accounts payable and accrued liabilities	236,957	29,736	266,693
Holdbacks payable	35,084	3,415	38,499
Deferred revenue	57,319	10,856	68,175
Income taxes payable (recoverable)	(4,411)	5,602	1,191
Future income tax liabilities	35,202	5,705	40,907
Current portion of long-term debt	13,261	4,272	17,533
	373,412	66,572	439,984
Non-recourse project debt	3,213	65,409	68,622
Other long-term debt	64,088	-	64,088
Other liabilities	3,077	-	3,077
Other income tax liabilities	14,733	-	14,733
Concession related deferred revenue	2,991	60,701	63,692
Convertible debentures	30,114	-	30,114
	491,628	192,682	684,310
Non-controlling interests	933	-	933
Shareholders' Equity	182,519	42,890	225,409
	\$ 675,080	\$ 235,572	\$ 910,652

Aecon Group Inc.

Notes to Consolidated Financial Statements December 31, 2007 and 2006

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Consolidating Statement of Income

	Unaudited		
	For the year ended December 31, 2007		
	Consolidated Statement of Income excluding joint ventures	Joint ventures	Consolidated Statement of Income
Revenues	\$ 1,313,559	\$ 179,188	\$ 1,492,747
Direct costs and expenses	(1,191,137)	(159,174)	(1,350,311)
	122,422	20,014	142,436
Marketing, general and administrative expenses	(67,919)	(3,977)	(71,896)
Foreign exchange gains (losses)	3,799	(5,445)	(1,646)
Gain on sale of assets	7,840	-	7,840
Depreciation and amortization	(8,205)	(13,710)	(21,915)
Interest expense	(9,631)	(1,603)	(11,234)
Interest income	5,972	-	5,972
	(68,144)	(24,735)	(92,879)
Income (loss) before income taxes and non-controlling interests	54,278	(4,721)	49,557
Income tax (expense) recovery	(829)	399	(430)
Income (loss) before non-controlling interests	53,449	(4,322)	49,127
Non-controlling interests	(824)	-	(824)
Net income (loss) for the year	\$ 52,625	\$ (4,322)	\$ 48,303

Aecon Group Inc.

Notes to Consolidated Financial Statements December 31, 2007 and 2006

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Consolidating Statement of Cash Flows

	Unaudited For the year ended December 31, 2007		
	Consolidated Statement of Cash Flows excluding joint ventures	Joint ventures	Consolidated Statement of Cash Flows
Cash provided by (used in):			
Operating activities			
Net income (loss) for the year	\$ 52,625	\$ (4,322)	\$ 48,303
Items not affecting cash			
Depreciation and amortization	8,205	13,710	21,915
Gain on sale of assets	(7,840)	-	(7,840)
Amortization of commitment fees	462	-	462
Unrealized (gain) loss on foreign exchange	(567)	785	218
Non-cash interest on other income tax liabilities	739	-	739
Notional interest representing accretion	2,632	-	2,632
Defined benefit pension	(339)	-	(339)
Future income taxes	5,713	(5,060)	653
Stock-based compensation	454	-	454
Others	8	-	8
	62,092	5,113	67,205
Change in other balances relating to operations	19,322	10,955	30,277
	81,414	16,068	97,482
Investing activities			
Increase in restricted cash	(9,184)	(14,325)	(23,509)
Decrease in restricted marketable securities and term deposits	-	15,257	15,257
Purchase of property, plant and equipment	(5,775)	(498)	(6,273)
Proceeds on sale of property, plant and equipment	8,025	-	8,025
Acquisitions	(33,229)	-	(33,229)
Concession rights	-	(21,721)	(21,721)
Long-term investment	10,048	-	10,048
(Increase) decrease in other assets	(6,968)	5,393	(1,575)
Non-controlling interests	973	-	973
	(36,110)	(15,894)	(52,004)
Financing activities			
Decrease in bank indebtedness	(6,823)	-	(6,823)
Issuance of long-term debt	60,373	15,411	75,784
Repayments of long-term debt	(24,533)	-	(24,533)
Issuance of capital stock	1,261	-	1,261
Repurchase of capital stock	(2,204)	-	(2,204)
Repayment of share purchase loans	532	-	532
Redemption of convertible debentures	(500)	-	(500)
Interest received on share purchase loans	38	-	38
Increase (decrease) in investment in joint ventures	11,075	(11,075)	-
	39,219	4,336	43,555
Increase in cash and cash equivalents during the year	84,523	4,510	89,033
Effects of foreign exchange on cash balances	(472)	(4,064)	(4,536)
Cash and cash equivalents - beginning of year	7,897	42,212	50,109
Cash and cash equivalents - end of year	\$ 91,948	\$ 42,658	\$ 134,606