Aecon Group Inc.

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

December 31, 2007

Management’s Discussion and Analysis of operating results and financial condition (“MD&A”)

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. (“Aecon”) should be read in conjunction with the Company’s December 31, 2007 Consolidated Financial Statements and Notes. This MD&A has been prepared as of March 4, 2008. Additional information on Aecon is available through the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com and includes the Company’s Annual Information Form and other securities and continuous disclosure filings.

Introduction

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

The Infrastructure segment includes all aspects of the construction of both public and private infrastructure, including roads and highways, 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 also includes the mining, manufacture, and supply of asphalt and aggregate products, and the construction and/or installation of utility distribution systems for natural gas, telecommunications and electrical networks, as well as water and sewer mains, traffic signals and highway lighting, also principally within the Province of Ontario. The design and construction of the new Quito airport project is included in the Infrastructure segment.

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

The Industrial segment encompasses all of Aecon's industrial construction and manufacturing activities including in-plant construction and module assembly in the energy, manufacturing, petrochemical, steel and automotive sectors. Activities in this 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, Aecon, through its subsidiary Innovative Steam Technologies Inc. (“IST”), sells HRSGs throughout the world.

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

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

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

CONSOLIDATED FINANCIAL HIGHLIGHTS

$ millions	Year Ended December 31 2007	Year Ended December 31 2006
Revenues	**$ 1,492.7**	**$ 1,113.3**
Gross margin [1]	142.4	96.6
Operating profit [2]	**60.8**	**21.9**
Interest expense	(11.2)	(9.7)
Income taxes	(0.4)	(0.7)
Non-controlling interests	(0.8)	-
Net income for the period	**48.3**	**11.5**
Return on revenue [3]	**4.1%**	**2.0%**
Backlog – December 31	**$ 1,234**	**$ 786**

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

Revenues in 2007 were $1,493 million, representing an increase of $379 million, or 34%, over last year. Revenues increased in the Infrastructure, Buildings, Industrial and Concessions segments by $205 million, $63 million, $108 million, and $22 million, respectively, and Corporate revenue eliminations increased by $19 million. Results for each of the four principal operating segments are discussed separately under Reporting Segments.

Gross margin increased from $96.6 million or 8.7% of revenues in 2006 to $142.4 million or 9.5% of revenues in 2007, as margin improvements were reported in all operating segments. Of the $45.9 million increase in gross margin in 2007, the Infrastructure, Buildings, Industrial and Concessions segments reported improvements of $10 million, $0.3 million, $22 million and $13 million, respectively. These increases resulted from a combination of factors including higher volumes, improved pricing across most market segments, tighter cost controls and favourable weather conditions.

Marketing, general and administrative expenses ("MG&A") amounted to $71.9 million in 2007, which is $9.4 million higher than the prior year. Higher volumes in all segments, the expansion of operations in Western Canada, higher information technology costs and increased performance-related incentive costs contributed to the increase. However, while the dollar amount of MG&A increased, MG&A as a percentage of revenues decreased from 5.6% in 2006 to 4.8% in 2007. These improvements, combined with the increase in gross margin, contributed to a better overall return on revenues in 2007.

Depreciation and amortization expense of $21.9 million in 2007 was $7.3 million higher than last year. The increase resulted mainly from the amortization of concession rights related to the existing Quito airport, which amounted to $13.6 million in 2007 compared to $6.9 million in 2006**.** The 2006 results include six months of amortization expense compared to a full year's amortization in 2007.

The net gain on sales of assets in 2007 was $7.8 million compared to a loss of $0.1 million in 2006. The 2007 gain includes $3.4 million from the sale by Aecon of its right to participate in the joint venture that is constructing an extension to the Cross Israel Highway and $4.3 million which Aecon received in return for agreeing to amendments to a co-operation agreement negotiated with Hochtief (Aecon's former largest shareholder) in connection with the sale of their interest in Aecon in 2006, including a release from non-compete provisions which were set to expire in 2008.

Interest expense of $11.2 million in 2007 was $1.6 million higher than last year. The financing of The Karson Group acquisition in the first quarter of 2007, offset partially by the conversion to common shares of $30.3 million of convertible debentures, mostly in the fourth quarter, was the primary reason for the higher interest costs.

Interest income of $6.0 million earned in 2007 was $3.8 million higher than in 2006. The higher interest income in 2007 was almost totally as a result of the significant build up in cash balances that occurred throughout 2007. In addition to the much higher cash flow from operations, Aecon also benefitted from higher advance payments from clients, particularly within joint ventures.

Set out in note 6 of the 2007 Consolidated Financial Statements is a reconciliation between the expected tax recovery/(expense) in 2007 and 2006 based on statutory income tax rates and the actual reported tax expense for both these years. Income tax expense in 2007 amounted to $0.4 million on pre-tax income of $49.6 million compared to income tax expense of $0.7 million in 2006 on pre-tax income of $12.2 million. The low tax expense in both years is due to the fact that income taxes that would normally have been recorded on income from Canadian controlled entities, has been offset by the reversal of tax valuation allowances recorded in prior periods. Without the benefit of these reversals, tax expense in 2007 and 2006 would have been higher by $14.6 million and $6.7 million, respectively. As at December 31, 2007, Aecon had a valuation allowance remaining of $3.4 million, which the Company expects to reverse in 2008.

Net income for the year ended December 31, 2007 was $48.3 million, representing a $36.8 million improvement over 2006. The 2007 results represented record earnings for Aecon.

Backlog at December 31, 2007 was a near-record $1,234 million and was $448 million higher than at year-end 2006. New contract awards of $1,941 million were booked in 2007, which compares with $1,322 million in 2006. Further details for each of the segments are included in the discussion below under Reporting Segments.

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

REPORTING SEGMENTS

INFRASTRUCTURE

Financial Highlights

$ millions	**Year Ended December 31** **2007**	2006
Revenues	**$ 688.9**	$ 484.0
Segment operating profit[(1)]	**23.5**	16.6
Capital charges and allocations of corporate overheads[(4)]	**(18.6)**	n/a
Segment profit before income taxes[(4)]	**4.9**	n/a
Return on revenue[(2)]	**3.4%**	3.4%
Backlog – December 31 [(3)]	**$ 372**	$ 410

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

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

(3) Included in backlog at December 31, 2007 is $98 million (2006 –$130 million) related to the new Quito airport project. Although Aecon's 50% share of the remaining construction revenues from this project are estimated at $170 million (2006 - $226 million), the amount reported as backlog has been reduced by $72 million (2006 - $96 million) or 42.3%. This reduction is to reflect the fact that since Aecon has a 42.3% interest in the concession joint venture for which the new airport is being constructed, it cannot report backlog that effectively arises from transacting with itself.

(4) Commencing in 2007, management prospectively began measuring divisional performance based on segment operating profit or loss after capital charges and corporate allocations (i.e. segment profit (loss) before income taxes). Corporate allocations represent charges from the Corporate segment to each division for Corporate overhead costs and capital charges related to the cash, working capital and long-term capital invested in each segment. Because the information required to restate prior period comparatives is not available, no comparative figures have been reported for 2006.

For the year ended December 31, 2007, the Infrastructure segment reported revenues of $689 million, representing an increase of $205 million, or 42%, over revenues of $484 million reported in 2006. Compared to 2006, revenues from roadbuilding, utilities and heavy civil operations increased by $109 million, $29 million and $67 million, respectively.

Revenues from roadbuilding operations increased by $109 million, led by contributions of $72 million from The Karson Group, a major aggregate, asphalt and civil construction company in

Eastern Ontario, which was acquired in the first quarter of 2007, as well as from the segment's Alberta unit, which commenced roadbuilding operations in 2006. Also, revenues from Ontario roadbuilding operations increased in 2007 as construction work progressed on a number of large projects and better than normal weather conditions earlier in the year contributed to favourable worksite conditions.

Revenues from utilities increased by $29 million, with the increase spread across most operating units, but particularly in highway lighting work, communications and gas pipeline installation work, and utilities engineering and utilities locate work. Similar to roadbuilding operations in Ontario, utilities operations also benefited from favourable weather conditions.

Revenues from heavy civil operations also increased, by $67 million, and were driven primarily by power generation and tunneling projects in Ontario and from the expansion of heavy civil operations in Alberta.

The Infrastructure segment operating profit of $23.5 million in 2007 represents a $6.9 million, or 42%, increase over 2006. A large portion of the year-over-year profit improvement relates to roadbuilding and heavy civil operations, where both the volume of work performed and the margin levels attained grew significantly. The previously noted $3.4 million gain on the sale of Aecon's right to participate in the joint venture building an extension to the Cross Israel Highway also contributed to the improved results. Partially offsetting these increases were risk reserves taken on a few previously completed large projects and a small decline in utilities operating profits.

It should be noted that, thus far, construction profits have not been recorded on the new Quito airport project. Under Aecon's accounting policy for large multi-year contracts, profit is recognized only when construction reaches a stage of completion, generally 20%, that is sufficient to reasonably determine a project's probable results. Because of uncertainty around the profit impact on the project of a large unresolved change order, one which will significantly affect the scope and design of the project, and that is driven primarily by the impacts of better than originally planned traffic forecasts for the new airport, management believes that, notwithstanding the fact that the project had achieved 22% completion at the end of 2007, profit recognition should be deferred until the impact of this change order can be better measured.

Backlog at December 31, 2007 was $372 million, which represents a $38 million decrease from the same time in the prior year. The year-over-year decline results primarily from backlog associated with the Quito airport project which declined by $33 million as a result of work performed and the impact of foreign exchange conversion. New contract awards totaled $640 million for 2007, compared to $771 million in the prior year. The higher value of awards during 2006 resulted primarily from the award last year of the Quito airport construction project.

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

BUILDINGS

Financial Highlights

$ millions		**Year Ended December 31** **2007**		2006
Revenues	**$**	**385.9**	$	322.7
Segment operating profit		**4.4**		4.6
Capital charges and allocations of corporate overheads		**(1.2)**		n/a
Segment profit before income taxes		**3.2**		n/a
Return on revenue		**1.1%**		1.4%
Backlog - December 31	**$**	**480**	$	191

Revenues in the Buildings segment of $386 million were $63 million, or 20%, higher than in 2006. Most of the increase in revenues came from the segment's operations in Ottawa and Montreal, where 2007 revenues increased by $82 million and $35 million, respectively. The majority of the increase in Ottawa arose from two large project awards in 2006 that came into full production in 2007, while the Montreal increase reflects continuing efforts to expand the business in the Quebec marketplace. Partly offsetting these increases was a decline of $61 million from Toronto operations which experienced reduced new work awards during 2006 and the first half of 2007. Recent awards received in the second half of 2007 will improve the future revenue outlook of Toronto operations.

Segment operating profit of $4.4 million in 2007 was $0.2 million, or 5%, lower than in 2006 as disappointing results from Toronto operations offset the year-over-year growth in operating profit from all other business units. In addition to the impact of lower revenue levels, Toronto's results were negatively impacted by $0.8 million in restructuring costs incurred earlier in the year as part of the ongoing implementation of the strategic plan to improve this unit's operating results. Reflective of the higher volumes noted above, significant operating profit gains were reported by the Ottawa operations. Strong market conditions in the Vancouver area assisted Scott Management Limited, in which Aecon has a 49% interest, to achieve exceptional performance and to improve its financial contributions to Aecon in 2007. Impacting the 2006 operating results was a $1.4 million unfavourable adjustment on an investment in a joint venture.

Backlog of $480 million at the end of 2007 was $289 million higher than at the same time in 2006. Significant new contract awards totaling $675 million were recorded in 2007, which compares with awards of $225 million in 2006. Toronto and Seattle operations reported the largest award increases, with new awards in 2007 of $323 million and $106 million, respectively. Included in the 2007 Toronto awards are such major projects as the Phase 1 redevelopment of the Rouge Valley Health System in Ajax, the Toronto Economic Development Corporation (TEDCO) project to build the Corus Entertainment office building and broadcast centre located on Toronto's waterfront, and the construction management contract for a new five-story corporate office building for Bell Canada at its existing Creekbank campus in Mississauga.

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

INDUSTRIAL

Financial Highlights

$ millions	**Year Ended December 31 2007**	2006
Revenues	**$ 398.1**	$ 290.2
Segment operating profit	**36.2**	19.5
Capital charges and allocations of corporate overheads	**(7.5)**	n/a
Segment profit before income taxes	**28.7**	n/a
Return on revenue	**9.1%**	6.7%
Backlog – December 31	**$ 384**	$ 186

Revenues in 2007 of $398 million in the Industrial segment were $108 million, or 37%, higher than in 2006. While all operating units within this segment reported year-over-year revenue increases, the segment's construction operations in Ontario and its IST unit in Cambridge were responsible for most of the increase. Revenues of $173 million from construction operations in Ontario were up $50 million from the prior year, mostly as a result of increased work in the nuclear and power sectors, while revenues of $45 million from IST, which sells and licenses the technology for "once through" heat recovery steam generators ("HRSGs"), were up $27 million from the prior year, reflecting the impact of new orders received in late 2006 and in the first half of 2007.

In 2007, the Industrial segment generated an operating profit of $36.2 million compared to $19.5 million in 2006. Of the $16.7 million, or 86%, improvement, construction operations in Ontario were up $4.2 million, Western Canada operations were up $4.7 million, and IST was up $7.9 million. Higher volumes and generally improved margins contributed to most of the operating profit increases. Fabrication operating results were down $0.3 million from last year.

Backlog at December 31, 2007 of $384 million was $198 million higher than at the same time last year. Ontario Construction backlog remained strong at $194 million, which represents an increase of $88 million over 2006. The major contributor to the higher Ontario Construction backlog was the recently awarded project for the East Windsor Cogeneration LP, which is valued at approximately $105 million. In Western Canada operations, backlog of $105 million was up $65 million from 2006 primarily because of new module assembly and pipe fabrication awards. IST's backlog of $49 million, which is at its highest level since 2001, was up $26 million with the receipt of several new contract awards in 2007. Overall, new contract awards of $596 million in 2007 were $292 million higher than in 2006 with most of the increase occurring in Western Canada and in Ontario Construction operations.

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

CONCESSIONS

Financial Highlights

	Year Ended December 31	
$ millions	**2007**	2006
Revenues	**$ 57.5**	$ 35.7
Segment operating profit (loss)	**4.0**	(2.7)
Capital charges and allocations of corporate overheads	**(7.9)**	n/a
Segment profit (loss) before income taxes	**(4.0)**	n/a
Return on revenue	**6.9%**	(7.6)%

Revenues of $58 million in the Concessions segment for 2007 were up $22 million, or 61%, compared to 2006. The majority of the revenue increase came from Aecon's proportionate share of concessionaire operations at the existing Quito airport, which generated revenues of $32 million in 2007 compared to $13 million in 2006. Most of this increase results from Aecon reporting revenues from the Quito airport for the full year in 2007 compared to a half year (the last two quarters) in 2006. Higher traffic volumes at the airport also contributed to the increase in revenues.

Aecon's long-term investment in Derech Eretz Highways (1997) Ltd. ("Derech Eretz"), the company owning the concessionaire rights to the Cross Israel Highway, is carried at cost and, as a result, income is only recognized to the extent of dividends received (i.e. a profit distribution) or when a portion of this investment is sold. As such, even though the Cross Israel Highway is performing well and is generating strong operating cash flow, Aecon has not reported any revenues and profits from this investment. Average weekday traffic on the highway in December, 2007 surpassed 93,000 vehicles, a 15% increase over December 2006, and the project remains on track to deliver an expected 15% after-tax internal rate of return ("IRR") on Aecon's investment. In July 2007, Derech Eretz redeemed a portion of its subordinated debt of which Aecon's share was approximately US$10 million. For accounting purposes, this repayment was treated as a return of capital and, as such, had no impact on Aecon's reported earnings. After reducing the carrying value of Aecon's investment in Derech Eretz by the US$10 million, the carrying value of this investment is now approximately CAD$32.7 million and Aecon's ownership interest remains at 25%.

The segment operating profit of $4.0 million in 2007 represents an improvement of $6.7 million compared to 2006. The Quito airport concessionaire, which includes the results from operating the existing airport while the new airport is being constructed, as well as continued growth and improvement of results from Aecon's interest in the Operator of the Cross Israel Highway, were the main contributors to the improvement in operating profit. A total of more than 4.2 million passengers passed through the existing Quito airport in 2007, including over 1 million in the fourth quarter, a 4.1% increase over the same quarter in 2006. It should be noted that all of the operating profit from operations of the existing Quito airport are being invested to finance the development and construction costs of the new airport. As noted above, results from the Quito airport concessionaire were not included in Aecon's results in the first half of 2006.

Aecon does not include in its reported backlog expected revenues from operations management contracts and concession agreements. As such, while Aecon expects future revenues from its concession assets, no concession backlog is reported at December 31. Therefore, the Concession segment effective backlog is greater than what is reported.

For further details on Aecon's investment in the Quito airport concessionaire, refer to note 5 of the 2007 Consolidated Financial Statements.

CORPORATE AND OTHER

Financial Highlights

	Year Ended December 31	
$ millions	**2007**	2006
MG&A	**$ (16.3)**	$ (16.7)
Other income (expense) [(1)]	**3.1**	(1.5)
Interest income	**6.0**	2.1
Segment operating loss	**(7.2)**	(16.1)
Capital charges and allocations of corporate overheads	**35.2**	n/a
Segment profit before income taxes	**28.0**	n/a

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

Marketing, general and administrative expenses ("MG&A") in 2007 were $0.4 million lower than in 2006. Contributing to the decrease was a reduction in pension expense in 2007, which offset higher 2007 salaries and performance-related incentive costs. Pension expense was lower in 2007 because of a $1.5 million non-recurring cost in 2006 associated with the termination of one of Aecon's defined benefit pension plans.

Included in other income (expense) in 2007 was a $4.3 million gain reported by Aecon as part of a current year amendment to a 2006 co-operation agreement signed between Aecon and Hochtief which is discussed in the Consolidated Financial Highlights section above.

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

Quarterly Financial Data

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

(Unaudited)	2007				2006			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Revenues	$ 482.3	$ 430.4	$ 338.3	$ 241.8	$ 338.0	$ 316.0	$ 258.7	$ 200.6
Net income (loss)	22.5	19.0	9.7	(3.0)	10.6	12.8	(1.0)	(10.9)
Earnings (loss) per share:								
Basic	0.56	0.51	0.26	(0.08)	0.29	0.35	(0.03)	(0.36)
Diluted	0.50	0.44	0.24	(0.08)	0.28	0.34	(0.03)	(0.36)

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

	2007		2006	
	Quarterly Total	Annual Amount	Quarterly Total	Annual Amount
Earnings per share:				
Basic	$ 1.25	$ 1.28	$ 0.25	$ 0.33
Diluted	1.10	1.16	0.23	0.31

The analysis of operating results for each of the first three quarters of 2007 is included in the Management Discussion and Analysis incorporated in the Interim Reports to Shareholders for each quarter.

For the fourth quarter of 2007, revenues amounted to $482 million, which is $144 million, or 43%, higher than the same period in 2006, as revenues increased in the Infrastructure, Buildings, Industrial and Concessions operating segments by $60 million, $47 million, $41 million and $2 million, respectively, and decreased in the Corporate segment by $6 million.

Gross margin of $49 million in the last quarter of 2007 was $9 million higher than the same quarter last year. Most segments generated increased operating margins, generally as a result of strong industry conditions. In addition, the Industrial segment benefitted from higher than normal margins.

MG&A increased to $25 million in the quarter, compared to $22 million in the same period last year, primarily as a result of higher performance-related incentive costs.

Operating profit in the fourth quarter of 2007 was $26.2 million compared to $13.5 million during the same period in 2006. The 94% improvement was primarily a function of the higher operating margins noted above and the previously noted $4.3 million fee received in connection with an amendment to a co-operation agreement with Hochtief.

Revenues and operating profit (loss) by segment for the fourth quarters of 2007 and 2006 are set out in the table below ($ millions).

	Quarter 4 2007		Quarter 4 2006	
	Revenue	**Operating profit (loss)***	Revenue	Operating profit (loss)*
Infrastructure	**$ 207**	**$ 4.8**	$ 146	$ 7.2
Buildings	**131**	**3.2**	84	2.6
Industrial	**146**	**18.5**	105	12.6
Concessions	**15**	**0.2**	13	(0.4)
Corporate	**(16)**	**(0.6)**	(10)	(8.6)
Consolidated	**$ 482**	**$ 26.2**	$ 338	$ 13.5

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

In the Infrastructure segment, fourth quarter revenues were $60 million higher than in 2006. Revenues from roadbuilding, utilities and heavy civil operations increased in the fourth quarter by $47 million, $7 million and $6 million, respectively, compared to the corresponding three months of 2006. Similar to the year-to-date results, the largest contributor to the increase in roadbuilding revenues was The Karson Group as well as higher revenues in Ontario and Alberta construction operations.

The Infrastructure segment earned an operating profit in the fourth quarter of 2007 of $4.8 million compared to $7.2 million in the prior year. Despite an increase in revenues, the segment's operating results were negatively impacted by risk reserves taken in 2007 (similar in amount to those reported in 2006) on a few previously completed large projects, margin reductions on a few ongoing projects, higher performance-related incentive costs, unfavourable quarter-over-quarter foreign exchange rate impacts on international projects, and higher operating costs incurred as a result of the ongoing arbitration proceedings on the India project.

Revenues in the Buildings segment of $131 million were $47 million higher than in the fourth quarter of 2006. While revenues increased in all operating units including Toronto, the largest quarterly increases occurred in Ottawa for reasons similar to the 2007 year-over-year increase, and also in Seattle where a large mid-year project award came into full production.

The Buildings segment produced an operating profit of $3.2 million in the fourth quarter of 2007, which is an increase of $0.6 million over the prior year. The majority of the operating profit increase was generated by higher volumes in Seattle and the growth in the segment's Vancouver operations.

The Industrial segment's revenues in the fourth quarter of 2007 were $146 million or $41 million higher than in 2006. Volume increases occurred in all operations with the largest increases in the Ontario Construction and IST units. The reasons for the increases in revenues from these units are similar to those cited above in the section on the Industrial segment's results for all of 2007.

The Industrial segment recorded an operating profit of $18.5 million in the fourth quarter, which compares with an operating profit of $12.6 million in the last quarter of 2006. A combination of increased volumes and improved gross margin percentages in the fourth quarter of 2007, particularly in IST operations, produced the improved results in this segment.

Revenues in the Concessions segment of $15 million in the last quarter of 2007 were up $2 million from the same quarter in 2006, while operating profit of $0.2 million for the fourth quarter of 2007 represents a $0.6 million improvement over the same quarter in the previous year. Most of the revenue and operating profit improvements relate to the Quito airport concessionaire and the operator of the Cross Israel Highway.

Overall, net income for the fourth quarter of 2007 amounted to $22.5 million or $0.50 per share on a fully diluted basis, which compares with $10.6 million or $0.28 per share in the fourth quarter of 2006.

Selected Annual Information

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

	2007	**2006**	**2005**
Total revenues	$ 1,492.7	$ 1,113.3	$ 1,120.2
Earnings (loss) before extraordinary items and discontinued operations	48.3	11.5	(4.6)
Per share:			
Basic	1.28	0.33	(0.16)
Diluted	1.16	0.31	(0.16)
Net earnings (loss)	48.3	11.5	(1.1)
Per share:			
Basic	1.28	0.33	(0.04)
Diluted	1.16	0.31	(0.04)
Total assets	910.7	716.3	504.4
Total long-term financial liabilities	180.6	158.2	111.4
Cash dividends declared per common share*	0.07	-	-

* Paid in the following year.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Aecon holds a 42.3% economic interest in Corporacion Quiport S.A. ("Quiport JV"), an Ecuadorian company, whose main operations consist of managing and operating the Existing Quito Airport, and the development, construction, operations and maintenance of the new Quito Airport under a concession arrangement. Aecon's investment in the Quiport JV is accounted for by the proportionate consolidation method, whereby the Consolidated Financial Statements reflect, line by line, Aecon's pro-rata share of each of the assets, liabilities, revenues, expenses and cash flows of Quiport JV. Given the significant effect of Quiport JV and other joint ventures on Aecon's Consolidated Financial Statements, Aecon provides supplemental financial information in note 27 to the 2007 Consolidated Financial Statements as additional information about its accounts, thereby enabling the reader to have a greater understanding of Aecon's underlying assets, earnings base and financial resources.

Cash and Debt Balances

Cash and cash equivalents at December 31, 2007 were $134.6 million, which compares with $50.1 million at December 31, 2006. Of these amounts, $42.7 million and $42.2 million, respectively, were on deposit in joint venture bank accounts, which Aecon cannot access directly.

Restricted cash of $34.6 million at December 31, 2007 (December 31, 2006 - $13.2 million) represents cash that was deposited as collateral for borrowings and letters of credit issued by Aecon. As such, this cash was not available for general operating purposes. Restricted marketable securities and term deposits of $15.2 million at December 31, 2006 were all held within joint ventures and, similar to cash held by joint ventures, these securities could not be accessed directly by Aecon. The net increase of $6.2 million in all of the restricted balances arose primarily from advance payments received on certain joint venture projects where such payments have, in turn, been secured by letters of credit which are, at least in part, collateralized by this restricted cash.

Interest bearing debt amounted to $187.3 million at December 31, 2007, compared to $160.9 million at December 31, 2006, the composition of which is as follows ($ millions):

	Dec. 31, 2007	Dec. 31, 2006
Bank indebtedness	**$ 7.0**	$ 15.0
Current portion of long-term debt	**17.5**	4.8
Long-term debt - recourse	**64.1**	14.9
Long-term debt - non-recourse	**68.6**	66.3
Convertible debentures	**30.1**	60.0
Total interest bearing debt	**$ 187.3**	$ 160.9
Interest bearing debt held directly	**110.6**	86.3
Interest bearing debt of joint ventures	**76.7**	74.6
Total	**$ 187.3**	$ 160.9

Bank indebtedness of $7.0 million at the end of December 31 2007 represents Aecon's 45% share of funds borrowed by the Nathpa Jhakri hydro-electric project joint venture in India. Bank indebtedness of $15.0 million at the end of December 2006 included $8.2 million of borrowings on the India project and $6.8 million from Aecon's operating line of credit.

At December 31, 2007, long-term debt, including the current portion, and convertible debentures totaled $180.4 million compared to $145.9 million at the end of 2006. The $34.5 million net increase resulted from a number of factors including $34 million of additional year-end debt resulting from the acquisition of The Karson Group in the first quarter of 2007 and $16 million of additional year-end debt resulting from the purchase of the assets of Leo Alarie and Sons Limited in the fourth quarter of 2007 (see note 19 to the 2007 Consolidated Financial Statements). In addition, changes in long-term debt included a year-end increase of $13.4 million in term loans, which resulted from a new 3-year loan agreement (original value $15 million) with a syndicate of lenders that was signed in June 2007, and an increase of $7 million in borrowings which are non-recourse to Aecon. The increase in non-recourse borrowings resulted as to $4 million from the proportionate consolidation of Aecon's share of non-recourse borrowings to finance the Quito Airport Project and as to $3 million from non-recourse project financing for the Phase I Rouge Valley Health System project. Partially offsetting the various increases in long-term debt was a net decrease of $29.9 million in the carrying value of convertible debentures and by the repayment in June 2007 of an equipment loan that had a total carrying value of $6.1 million at December 31, 2006. In 2007, convertible debentures with a face value of approximately $30.3 million (carrying value of $28.9 million) were converted into 4,041,804 common shares and $0.5 million of convertible debentures (carrying value of $0.5 million) were redeemed for cash (see note 12 to the 2007 Consolidated Financial Statements).

In the second quarter, Aecon signed a new three-year credit agreement that replaced a number of existing credit facilities. The credit facility provided by a syndicate of lenders includes a three-year term loan facility for $15 million, which is fully drawn, and a three-year committed revolving operating line of $50 million to fund working capital and operating requirements. In the third quarter, the term loan was converted into a U.S. dollar denominated loan. This U.S. dollar term loan has an outstanding balance of CAD$13.4 million at December 31, 2007. This was done in order to provide a partial hedge of Aecon's U.S. dollar denominated investment in Quito concession operations. As a result, exchange gains or losses on this debt are not recorded in income, but are instead included in shareholders' equity as part of the foreign currency translation component of accumulated other comprehensive income. At December 31, 2007, approximately $15 million of the operating line facility was utilized to secure letters of credit. In addition to the term loan and operating line, a special letter of credit facility was provided to enable Aecon to replace guarantees related to a completed project in India. This additional facility increases the effective credit provided to $90 million. Further details relating to Aecon's operating lines are described in note 10 to the 2007 Consolidated Financial Statements.

In February 2008, Aecon 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 approximately $31.7 million. Until redeemed, the 2010 Debentures will remain convertible to common shares at the option of the holders 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 Aecon's common shares, it is anticipated that all of the 2010 Debentures will be converted, in which case up to 4.2 million common shares of Aecon will be issued.

The anticipated conversion of the debentures will reduce interest costs and improve profitability going forward, thus partly mitigating the dilutive effect of the conversions. For accounting purposes, the anticipated conversion of the debentures will result in an increase in shareholders' equity equal to the carrying value of the debentures.

Aecon's liquidity position and capital resources continue to strengthen and are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future. Of note, Aecon's cash flow from operations in fiscal 2006 was approximately $26 million higher than in fiscal 2005, and continued to improve in 2007 with cash flow from operations being approximately $99 million higher than in 2006.

In the fourth quarter of 2007, Aecon 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 Aecon Common Shares. The first dividend payment was paid on January 2, 2008 to shareholders of record on November 30, 2007.

Future equity investments of US$15.3 million by Aecon in the Quito airport concessionaire are expected to be generated from profits from construction of the new Quito airport. To date, Aecon has invested US$18.4 million as equity in the concessionaire. Aecon has also deposited $3.6 million with Export Development Canada ("EDC") to support letters of credit issued by EDC on the Quito airport project. Also, in accordance with an agreement with EDC, Aecon has $1.5 million in a segregated account to secure future equity investment requirements in the Quito airport concessionaire. These EDC deposits are included in restricted cash on the Consolidated Balance Sheet at December 31, 2007.

Summary Of Cash Flows

	Consolidated Cash Flows Year Ended Dec. 31	
$ millions	**2007**	**2006**
Cash provided by (used in):		
Operating activities	**$ 97.5**	$ (1.6)
Investing activities	**(52.0)**	(46.2)
Financing activities	**43.6**	69.5
Increase in cash and cash equivalents	**89.0**	21.6
Effects of foreign exchange on cash balances	**(4.5)**	1.5
Cash and cash equivalents - beginning of period	**50.1**	27.0
Cash and cash equivalents - end of period	**$ 134.6**	$ 50.1

Operating Activities

Cash provided by operating activities of $98 million in 2007 was $99 million better than last year. The large year-over-year improvement is due to higher net income in 2007 (an improvement of approximately $37 million over last year) and lower investments in working capital (an improvement of approximately $59 million year-over-year).

Investing Activities

In 2007, investing activities resulted in a use of cash of $52 million, which compares with cash used of $46 million in 2006. Of the $52 million, $22 million represents Aecon's proportionate share of the cash used by Quiport JV for the construction of the new Quito airport. These cash outlays were, for the most part, financed by non-recourse project debt (see Financing Activities below). Also, during 2007, Aecon used $33 million of cash to partially fund the acquisition of The Karson Group and to purchase the assets of Leo Alarie and Sons Limited (see note 19 to the 2007 Consolidated Financial Statements). Investments in restricted cash and marketable securities balances, primarily held in connection with the Quito project, increased by $8 million during 2007. Partially offsetting these cash outflows was a partial redemption of subordinated debt by Derech Eretz of which Aecon's share was approximately $10 million (see the Concessions Segment commentary above for additional details). In 2006, the largest use of cash, $37.5 million, arose from construction of the new Quito airport. Construction costs related to the Quito airport project are reported as concession rights on Aecon's Consolidated Balance Sheet.

Financing Activities

In 2007, cash provided by financing activities amounted to $44 million, compared to $70 million provided in 2006. During 2007, issuances of long-term debt amounted to $76 million while repayments totalled $25 million, for a net change of $51 million. Of the increase in long-term debt, $15 million relates to Aecon's proportionate share of the 2007 financing for the new Quito airport project. In addition, $15 million was borrowed in the second quarter under Aecon's new term debt facility, of which $6 million was used to repay existing debt. Also, debt of $13 million was borrowed in the first quarter to finance the acquisition of The Karson Group and additional debt of $16 million was borrowed in the fourth quarter to finance the acquisition of the assets of Leo Alarie and Sons Limited. During 2006, Aecon issued common shares for net proceeds of approximately $28 million, plus an additional $1 million in proceeds were received upon the exercise of stock options. In 2006, increases in long-term debt included the financing for the new Quito airport project of $66 million less a net repayment of $23 million of long term debt outstanding on the Company's revolving term facility.

NEW ACCOUNTING STANDARDS

Several new Canadian accounting standards adopted in 2007 and 2006 are described in note 2 to the 2007 Consolidated Financial Statements.

In addition, note 2 to the 2007 Consolidated Financial Statements also includes new CICA Handbook sections which became effective on January 1, 2008 for Aecon. Aecon does not anticipate any significant impact on the Company's financial position or on the results of its operations from adoption of these new standards.

SUPPLEMENTAL DISCLOSURES

Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures as at the financial year ended December 31, 2007. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2007 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities.

Internal Control Over Financial Reporting

As at the financial year ended December 31, 2007, the Chief Executive Officer and Chief Financial Officer evaluated the design of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal control over financial reporting was effective as at December 31, 2007 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Contractual Obligations

Aecon has commitments for equipment and premises under operating leases and has principal repayment obligations under long-term debt (including the convertible debentures described in note 15 to the 2007 Consolidated Financial Statements) as follows (in thousands of dollars):

	Lease Payments	Long-term Debt Repayments
2008	$ 17,592	$ 17,573
2009	15,073	13,431
2010	10,301	55,044
2011	6,780	22,363
2012	3,791	21,742
Beyond	9,721	50,204
	$ 63,258	$ 180,357

At December 31, 2007, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts was $1,306 million. This consists of the reported backlog of $1,234 million plus an additional $72 million representing Aecon's share of the Quito project revenues not included in reported backlog revenues.

Off-Balance Sheet Arrangements

In connection with its joint venture operations in Quito, India and Israel, Aecon has provided various financial and performance guarantees and letters of credit, which are described in note 11 to the 2007 Consolidated Financial Statements.

Aecon's defined benefit pension plans had a combined deficit of $0.7 million at December 31, 2007 (2006 - $4.0 million). These deficits include experience and other actuarial gains and losses which, in accordance with Canadian generally accepted accounting principles, are not immediately recognized in the accounts of the Company but are amortized over the average remaining service life of employees. At December 31, 2007, unrecognized liabilities amounted to $2.8 million (2006 - $5.8 million). Details relating to Aecon's defined benefit plans are set out in note 20 to the 2007 Consolidated Financial Statements.

From time to time Aecon enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. At December 31, 2007, the Company had net outstanding contracts to sell EURO 6.7 million, sell US$24.0 million and buy US$12.0 million (December 31, 2006 - sell US$0.8 million) on which there was a net unrealized exchange gain of $1.0 million (December 31, 2006 - net loss of $0.03 million). The net unrealized exchange gain (loss) represents the estimated amount the Company would have received (paid) if it terminated the contracts at the end of the respective periods. Financial instruments are discussed in note 22 to the 2007 Consolidated Financial Statements.

In connection with a U.S. dollar denominated term loan facility, Aecon entered into an interest rate swap with a financial institution on October 1, 2007 to help manage its exposure to interest rate volatility. By entering into the interest rate swap, the Company agreed to receive interest at a variable rate and pay interest at a fixed rate. The unrealized gain resulting from fair valuing this contract as of December 31, 2007 was $201, net of taxes.

Related Party Transactions

During 2007, $0.5 million of loans receivable from employees were repaid. Refer to note 21 to the 2007 Consolidated Financial Statements for details of related party transactions and balances.

In January 2008, an additional $0.4 million of loans receivable from employees were also repaid.

Critical Accounting Estimates

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

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

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

In the preparation of the Consolidated Financial Statements, various other estimates are required, which are either subjective, could be materially different under different conditions or using different assumptions, or which require complex judgments. The more significant estimates are related to the accounting for income taxes, concession rights to operate the existing Quito airport, employee benefit plans and the accounting for pension expense, and the allocation of the purchase price to the fair value of assets acquired and liabilities assumed on acquisitions. The Company's accounting for income taxes is described in note 6 to the 2007 Consolidated Financial Statements and under Tax Accrual Risks in the following section of the MD&A entitled Risks and Uncertainties. The significant actuarial assumptions used in accounting for pension expense are set out in note 21 to the 2007 Consolidated Financial Statements.

Outstanding Share Data

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

(in thousands of dollars, except share amounts)

		December 31, 2007		March 4, 2008
Number of common shares outstanding (1)		42,079,119		42,514,329
Paid-up capital of common shares outstanding (2)	$	162,691	$	166,428
Outstanding securities exchangeable or convertible into common shares:				
Number of stock options outstanding		1,044,484		1,043,484
Number of common shares issuable on exercise of stock options		1,044,484		1,043,484
Increase in paid-up capital on exercise of stock options	$	6,356	$	6,349
Principal amount of convertible debentures outstanding (see note 12 to the 2007 Consolidated Financial Statements)	$	30,114	$	26,966
Number of common shares issuable on conversion of convertible debentures		4,167,763		3,733,553
Increase in paid-up capital on conversion of convertible debentures	$	30,114	$	26,966

(1) Number of common shares outstanding excludes shares held by the trustee of Aecon's LTIP plan (see note 16 to the 2007 Consolidated Financial Statements).

(2) As described in note 16 to the 2007 Consolidated Financial Statements, and in accordance with the recommendations of The Canadian Institute of Chartered Accountants, share capital at December 31, 2007 has been reduced by $0.6 million on account of share purchase loans receivable from employees and by $3.5 million to reflect shares held by the trustee of the LTIP plan.

RISKS AND UNCERTAINTIES

Large Project Risk

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

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

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

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

As described more fully in notes 11 and 15 to the 2007 Consolidated Financial Statements, Aecon has a number of commitments and contingencies. If Aecon was called upon to honour these obligations, its financial results would be adversely affected.

The Nathpa Jhakri Project in India, although now complete, incurred significant delays in respect of which the joint venture, in which Aecon has a 45% interest, submitted requests for extensions of contract time as well as claims for significant compensation arising from the costs of delays. The joint venture has submitted for arbitration claims of approximately $92 million against the owner, Satluj Jal Vidyut Nigam Ltd. ("SJVN") (formerly Nathpa Jhakri Power Corporation Limited), the most significant of which is to cover the joint venture's cost of extra work and delays related to these same matters. In 2005, the joint venture was advised by SJVN of its intention to levy liquidated damages against the joint venture in the amount of $29 million for alleged delay damages resulting from not completing the contract on time. Since the delay in the completion of the project was caused by numerous items outside of the joint venture's control and contractual responsibility, including, among many other things, a catastrophic flood in 2002, the joint venture believes that these claims for liquidated damages are unsubstantiated, unwarranted and without legal merit. Currently, no provision has been made for liquidated damages, nor has any amount been recognized for potential recoveries under the claims. This treatment is in accordance with the Company's accounting policy, which is to recognize revenues from claims only when resolved. The arbitration process is nearly complete and a decision is expected in 2008. For further information refer to note 15 to the 2007 Consolidated Financial Statements. In the event the joint venture is unsuccessful in its claims for additional compensation and request for extension of contract time, the joint venture could be faced with potential liquidated damages claims by SJVN for which the Company is jointly and severally liable. If such possible claims were to materialize and be successful, the financial results and the financial position of Aecon would be adversely affected.

In addition, as at December 31, 2007, the Company had outstanding guarantees and letters of credit totalling approximately $24 million in support of financial and performance related obligations for the Nathpa Jhakri project. If such guarantees were to be called upon and/or if Aecon was not able to collect its undistributed profits, Aecon's financial results and its financial position would be adversely affected. Construction of the Nathpa Jhakri project is fully complete and the warranty period has expired.

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

In addition, a significant portion of Aecon's capital (approximately $40) is invested, directly or indirectly, in the Cross Israel Highway. As a result, any material diminution in the value of the Cross Israel Highway would adversely affect the financial results and condition of the Company.

Aecon is a partner with Hochtief Construction AG in a joint venture that constructed a hydro-electric facility in northern Quebec for Société d'énergie de la Baie James, a subsidiary of Hydro Quebec (the "Eastmain Project"). The Eastmain Project although complete, incurred extra costs, primarily because of customer changes to the original contract scope. The Company is currently negotiating with Hydro Quebec for a full recovery of these extra costs and expects that it will be successful in doing so. Should the Company not be successful in recovering these cost overruns, its financial results and position would be adversely impacted.

The cost impacts of these client delays and scope changes are classified as unpriced change orders, which are change orders for which the client has agreed it is responsible but where the value of such change orders has not yet been settled. In accordance with Aecon's accounting policy for unpriced change orders, until the value of an unpriced change order is settled with the client, contract revenues are recognized to the extent of costs incurred or, if lower, to the extent to which recovery is probable. Accordingly, no profit has been recognized on these change orders. These unpriced change orders are included on Aecon's Consolidated Balance Sheet as "deferred contract costs and unbilled revenue." Should the recovery of the unpriced change orders related to this project no longer be considered probable and the Company unsuccessful in recovering the full value of these cost overruns from the client, the financial results would be negatively impacted by charges to income for the amounts included on Aecon's balance sheet with respect to such non-recovered amounts. Amounts not recovered through change orders could result in claims by Aecon against the client, which are recognized for accounting purposes only when the amounts are resolved.

The Company holds a 42.3% effective economic interest in Corporacion Quiport S.A. ("Quiport JV"), an Ecuadorian company, whose main operations consist of: (a) managing and operating the existing Mariscal Sucre International Airport (the "Existing Quito Airport") until its operations are transferred to a new airport; and (b) the development, financing, construction, operation and maintenance of the new Quito International Airport under a concession arrangement with Corporacion Aeropuerto y Zona Franca del Distrito Metropolitano de Quito ("CORPAQ").

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

More specifically as it relates to the Quito airport concessionaire, 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 that Aecon 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 Aecon's investment in the Quito airport concessionaire (Quiport JV) could ultimately be impaired.

In connection with the Quito Airport Project, the Company has made equity investments and provided letters of credit in support of its remaining equity obligations and for various project contingencies. These letters of credit are supported by guarantees issued on behalf of the Company to the issuing banks by EDC and will remain in place until its equity obligations are fulfilled and the conditions giving rise to the contingencies are satisfied or cleared. In addition, the Company and Andrade Gutierrez have provided surety bonds, guaranteed joint and severally, to cover construction and concession related performance obligations, an advance payment bond and a retention release bond, in each case the Company's share is supported by guarantees issued by EDC. If Aecon was called upon to honour these obligations, or should the project incur significant cost overruns, its financial results and position would be adversely impacted. For further information on the Quito project refer to note 5 to the 2007 Consolidated Financial Statements.

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'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 ultimately be impaired.

Concessionaire Risk

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

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

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

International/Foreign Jurisdiction Factors

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

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

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

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

Contractual Factors

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

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

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

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

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

Certain of Aecon's contractual requirements may also involve financing elements, where Aecon is required to provide one or more letters of credit, performance bonds, financial guarantees or equity investments. There can be no assurance that Aecon will be able to obtain the necessary financing on favourable or commercially reasonable terms and conditions for such equity investments, nor that its available working capital and bonding facilities will be adequate in order to issue the required letters of credit and performance bonds.

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

Economic Factors

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

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

Internationally, Aecon is involved with the development of basic infrastructure, particularly in developing countries. As such, the Company’s growth and profitability from this work depends largely on the pace of growth in these foreign jurisdictions and the ability of these countries to allow for the arrangement of long-term financing.

Ongoing Financing Availability

Aecon’s business strategy involves the selective growth of its operations through internal growth and acquisitions. Certain of Aecon’s operating segments, particularly its Infrastructure and Industrial segments, require substantial working capital during their peak busy periods. As these businesses grow, Aecon is continually seeking to enhance its access to funding in order to finance the higher working capital associated with this growth. However, from time to time, Aecon is constrained in its ability to capitalize on growth opportunities to the extent that financing is either insufficient or unavailable.

Access to Bonding and Pre-qualification Rating

Many of Aecon's construction contracts require either sufficient bonding or pre-qualification rating. The surety industry has undergone significant consolidation in recent years, which has constrained overall industry capacity. Furthermore, the issuance of bonds under surety facilities is at the sole discretion of the surety company. Although the Company believes it will be able to continue to maintain surety capacity adequate to satisfy its requirements, should those requirements be materially greater than anticipated, or should sufficient surety capacity not be available or should the cost of bonding rise substantially, this may have a material adverse effect on the ability of Aecon to operate its business or take advantage of all market opportunities.

Insurance Risk

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

Environmental and Safety Factors

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

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

Aecon is subject to and complies with federal, provincial and municipal environmental legislation in all of its manufacturing and construction operations. Aecon recognizes that it must conduct all of its business in such a manner as to both protect and preserve the environment in accordance with this legislation. At each place where work is performed, Aecon develops and implements a detailed quality control plan as the primary tool to demonstrate and maintain compliance with all environmental regulations and conditions of permits and approvals. Management is not aware of any pending environmental legislation that would be likely to have a material impact on any of its operations, capital expenditure requirements or competitive position, although there can be no guarantee that future legislation will not be proposed, and if implemented, it may have a material impact on the Company and its financial results.

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

Litigation Risk

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

Internal and Disclosure Controls

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

Labour Factors

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

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

Cyclical Nature of the Construction Business

Fluctuating demand cycles are common in the construction industry and can have a significant impact on the degree of competition for available projects. As such, fluctuations in the demand for construction services could adversely affect backlog and margin and thus Aecon's results.

Dependence on the Public Sector

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

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

Potential Fluctuation in Financial Results

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

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

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

Adjustments in Backlog

There can be no assurance that the revenues projected in Aecon's backlog at any given time will be realized, or if realized, that they will perform as expected with respect to margin. Projects may from time to time remain in backlog for an extended period of time prior to contract commencement, and after commencement may occur unevenly over current and future earnings periods. Project suspensions, terminations or reductions in scope do occur from time to time in the construction industry due to considerations beyond the control of a contractor such as Aecon and may have a material impact on the amount of reported backlog with a corresponding impact on future revenues and profitability.

Risk of Non-Payment

Credit risk of non-payment with private owners under construction contracts is to a certain degree minimized by statutory lien rights which give contractors a high priority in the event of foreclosures as well as progress payments based on percentage completion. However, there is no guarantee that these measures will in all circumstances mitigate the risk of non-payment from private owners and a significant default or bankruptcy by a private owner may impact results.

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

Tax Accrual Risks

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

During 2001, the Company received federal income tax reassessments relating to deductions claimed by predecessor companies between 1993 and 1999. The reassessments, which disallow previously claimed Canadian development expense ("CDE") deductions, amounted to $10.6 million at December 31, 2007. Provincial income tax reassessments related to the disallowed CDE and received to date amount to $0.8 million. Although the Company has filed Notices of Objection, it was required to pay 50% of the federal assessed amounts and 100% of the Ontario provincial assessments pending resolution of the objections. At December 31, 2007, the Company had paid $5.4 million resulting from these assessments. To-date, the Canada Revenue Agency has not responded to the Notices of Objection. The total potential federal and provincial reassessments, including income taxes, interest and penalties could be up to $18.5 million. The Company believes it has adequate income tax provisions to cover the ultimate outcome of these reassessments.

Reputation in the Construction Industry

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

Aecon Operates in a Highly Competitive Industry

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

Increases in the Cost of Raw Materials

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

Subcontractor Performance

The profitable completion of some contracts, primarily within Aecon's Buildings division, depends to a large degree on the satisfactory performance of the subcontractors who complete different elements of the work. If these subcontractors do not perform to accepted standards, Aecon may be required to hire different subcontractors to complete the tasks, which may add additional costs to a contract, may impact profitability on a specific job, and in certain circumstances, lead to significant losses.

Protection of Intellectual Property and Proprietary Rights

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

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

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

OUTLOOK

In 2008, Aecon expects to see a continuation of most of the key trends that drove its improved results in 2007.

Government investment in transportation infrastructure, which has risen to unprecedented levels in recent years, is expected to remain very strong as governments continue to address Canada's substantial 'infrastructure deficit'.

Similarly, the drive for increased electrical generation capacity in Ontario continues to strengthen. The Ontario Power Authority, created by the Ontario government to address the capacity challenge, estimates that $60 billion in new generation capacity and $3 billion in additional transmission capacity will be needed over the next 20 years to meet the province's needs.

Fueled by record oil prices and strong demand forecasts, the substantial investment in Alberta's oilsands continues unabated, as the number of medium and long-term investment announcements continues to build.

These three markets, which together account for most of Aecon's 'self-perform' construction revenues, are expected to remain strong at least through the end of the decade, and are not likely to be materially affected by a housing crisis in the United States, a prolonged 'credit crunch', the high Canadian dollar, or an economic downturn in Canada or the United States.

In addition, the substantial build-out taking place in education and healthcare infrastructure, a key focus within Aecon's Building segment, is expected to continue as governments address changing demographic needs and past underfunding in these areas.

These strong external trends are complemented by a number of company-specific factors that impact Aecon's outlook for 2008.

Aecon expects to begin recognition of construction profits from the new Quito International Airport in 2008. Under Aecon's accounting policy for large multi-year contracts, construction profit is recognized only when progress reaches a stage of completion sufficient to reasonably determine the probable results. This milestone is likely to be reached on the Quito project in the first half of 2008.

In addition, Aecon will have the benefit of a full year of revenues and profits from Leo Alarie and Sons in 2008, following Aecon's acquisition of this company in December of 2007.

Also of note is the significant increase in Aecon's backlog. On a consolidated basis, Aecon ended 2007 with backlog revenue of over $1.2 billion, an increase of more than 50% from the $786 million in place at the beginning of the year. This increase was the result of strong backlog growth in the Buildings and Industrial segments ($289 million and $198 million respectively), offset somewhat by a small decline in the Infrastructure segment ($38 million), due largely to work-off on the Quito International Airport project.

While the Buildings segment saw year-over-year backlog growth in virtually every business unit, almost three quarters of the growth came from the segment's Greater Toronto Area ("GTA") business unit. The backlog growth within the GTA business was due in large part to three significant project awards in the second half of 2007: the expansion of Bell Canada's corporate centre in Mississauga; the Toronto Economic Development Corporation's new commercial building on the city's waterfront; and the expansion of the Rouge Valley Health Centre in Ajax. The increased backlog resulting from these awards bodes well for Buildings segment results in 2008.

The increased backlog in Aecon's Industrial segment includes strong backlog growth in both Western and Central Canada, due primarily to the strength of the oilsands and power generation markets noted above. Innovative Steam Technologies ("IST") also saw significant backlog growth for the second straight year, giving it the second highest year-end backlog in its history. This strong backlog, as well as the potential of IST's new enhanced oil recovery steam generator currently being marketed to the oil and gas industry, position IST for a strong year in 2008.

Overall, although Aecon will be required to begin tax effecting earnings once again in 2008, management continues to believe that Aecon's healthy backlog and the ongoing strength of its core markets, especially in the energy and transportation infrastructure sectors, bode well for continued strong financial performance in 2008 and 2009.

FORWARD-LOOKING INFORMATION

In various places in Management's Discussion and Analysis and in other sections of this document, management's expectations regarding future performance of Aecon was discussed. These "forward-looking" statements are based on currently available competitive, financial and economic data and operating plans, but are subject to risks and uncertainties. Many factors could cause Aecon's actual results, performance or achievements to vary from those expressed or inferred herein, including without limitation, the ability of the Eastmain Joint Venture to recover the full value of unpriced change orders, and failure to achieve the targets associated with the construction of the new Quito Airport or operation of the existing Quito airport. Risk factors are discussed in greater detail in the section on "Risk Factors" in the Annual Information Form filed on March 30, 2007 and available at www.sedar.com. Forward-looking statements include information concerning possible or assumed future results of operations or financial position of Aecon, as well as statements preceded by, followed by, or that include the words "believes," "expects," "anticipates," "estimates", "projects," "intends," "should" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of Aecon and could cause those results to differ materially from those expressed in any forward-looking statements.