

# Aecon Group Inc.

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**RENEWAL ANNUAL INFORMATION FORM**

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**March 31, 2006**

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***Unless the context otherwise requires, all references to the “Corporation” or “Aecon” include Aecon Group Inc., its predecessors and subsidiaries and unless otherwise expressly indicated, all references to “\$” or “dollars” are to Canadian dollars.***

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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.

The forward-looking statements are based on current expectations and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, or general industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Many factors could cause Aecon’s actual results, performance or achievements to vary from those expressed or inferred herein, including without limitation, the ability of the Eastmain Joint Venture to recover the full value of unpriced change orders, the uncertain intentions of Hochtief AG, failure to achieve the targets associated with the Quito Airport, the achievement of lower than expected volumes of work in western Canada, the failure of Innovative Steam Technologies to secure anticipated contract levels and other circumstances affecting revenues and expenses. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are interdependent upon other factors, and management’s course of action would depend upon its assessment of the future considering all information then available. See Subsection 3.2 “Risks”.

Readers are cautioned that the foregoing list of factors is not exhaustive. Although the Corporation believes that the expectations conveyed by the forward-looking statements are reasonable based on information available to it on the date such forward-looking statements are made, no assurances can be given as to future results, levels of activity and achievements. All subsequent forward-looking statements, whether written or oral, attributable to the Corporation or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. The Corporation assumes no obligation to update forward-looking statements should circumstances or management’s estimates or opinions change.

## ITEM 1

### CORPORATE STRUCTURE

#### **1.1 Name, Address and Incorporation**

Aecon Group Inc. (“Aecon” or the “Corporation”) and its predecessor companies have carried on business in Canada since 1910. Aecon was originally incorporated on January 14, 1957 under the name “Prefac Concrete Co. Ltd.” and was continued under the Canada Business Corporations Act by certificate of continuance dated May 16, 1978. On June 18, 2001, the Corporation’s name was changed to its current name, “Aecon Group Inc.”

Aecon’s registered and principal office is located at 20 Carlson Court, Suite 800, Toronto, Ontario, M9W 7K6, telephone: (416) 293-7004, fax: (416) 293-0271. The common shares of the Corporation are listed and posted for trading on The Toronto Exchange (the “TSX”) under the symbol "ARE".

#### **1.2 Intercorporate Relationships**

As at December 31, 2005, its most recent fiscal year end, Aecon conducted its business principally through the following direct subsidiary companies, all of which are wholly owned by Aecon:

<b>Subsidiary</b>	<b>Jurisdiction of Incorporation</b>
Aecon Construction and Materials Limited	Ontario
Aecon Construction Group Inc. (“ACGI”)	Canada
Groupe Aecon Ltée	Quebec

#### **1.3 Joint Ventures**

Aecon also conducts a substantial portion of its business through joint ventures with other Canadian and international companies. The Cross Israel Toll highway project (the “Cross Israel Highway”), the Pearson International Airport’s new terminal project (“Pearson Airport Project”), the Bruce Power Nuclear Generating Station in Ontario and the Quito Airport project in Ecuador (the “Quito Airport Project”) constitute the Corporation’s four most significant joint ventures. Following the exit of a minority partner, Aecon has an effective 25% interest in the concessionaire of the Cross Israel Highway, an effective 33.3% interest in the construction joint venture which has completed construction of the Cross Israel Highway and an effective 31% interest in the operator company of the Cross Israel Highway. Aecon’s economic interest in the concessionaire of the Cross Israel Highway could be diluted by 49% if certain options granted to the State of Israel by the concessionaire are exercised. Aecon is a 50% partner in a joint venture doing refurbishment work at the Bruce Power ‘Bruce A’ nuclear generating station in Ontario and Aecon has a 50% interest in the joint venture working on the Pearson Airport Project. Aecon also has a 45.5% economic interest in the concessionaire of the Quito Airport Project and a 50% interest in the joint venture that will construct the new Quito International Airport once the project achieves financial close.

## ITEM 2

### GENERAL DEVELOPMENT OF THE BUSINESS

Aecon is Canada’s largest publicly traded construction and infrastructure development company serving private and public sector clients across Canada and internationally. Aecon’s capabilities include the infrastructure, civil, utilities, buildings, industrial and nuclear sectors. Services range

from financing, design, construction and operation to procurement, materials engineering and fabrication. As such Aecon is one of the most diverse and multi-disciplined companies in its industry.

Significant business developments during the Corporation's past three financial years are discussed below.

## **2.1 Acquisitions and Divestitures**

There were no material acquisitions or divestitures made by Aecon in the year ending December 31, 2005.

## **2.2 Outlook**

In 2006, Aecon expects to see a continuation of the trend that resulted in improved bottom line results in each of its segments in 2005.

Within the Infrastructure segment, Aecon's roadbuilding operations are expected to remain strong. The Ontario government's announced intention to at least maintain the increased level of roadbuilding activity it commissioned in 2005 should allow margins in this sector to solidify. And the increased roadbuilding backlog with which Aecon begins the year will provide the Corporation with added flexibility in its bidding strategy this year. However, as Aecon does not expect to repeat the significant level of claim settlements seen in 2005, a slightly smaller profit contribution is expected this year than was achieved in 2005.

Any decline in profit contributions from the roadbuilding sector in 2006 is expected to be more than offset by increased contributions from the utilities sector. Aecon's continued strong alliance with Union Gas and its recently expanded relationship with Expertech provide a very strong base for its utilities operations and allow for a more selective pursuit of additional projects to round-out its utilities order book. As a result, Aecon's utilities business is expected to generate increased margins and an improved profit contribution in 2006.

Aecon's Quebec civil operation will generate significantly less revenue this year than it did in 2005 as the Eastmain hydroelectric project in northern Quebec, which has been the division's primary focus for much of the past two years, winds down. The 2006 results are expected to reflect no material adverse developments with respect to the outstanding issues on the Eastmain project as management continues to believe that the Aecon/Hochtief joint venture building the project will be successful in recovering from the client the value of unpriced change orders associated with the project. Nonetheless, Aecon acknowledges that an ongoing risk will remain with respect to the Eastmain project until the value of these change orders is resolved. In addition to settling these outstanding matters, Aecon's focus in this sector will turn to re-establishing its success in executing smaller civil and industrial projects in the province. Little or no profit contribution is expected this year as the division goes through this transition.

In addition, Aecon plans to enter the Alberta civil construction market in 2006. Based in Edmonton, Aecon's Alberta civil operations will initially focus on building on the Industrial segment's success in oil sands projects in the Fort McMurray area by offering Aecon's civil construction services to projects and clients for which the Industrial segment is currently working. While Aecon sees significant potential in the Alberta civil market going forward, it expects to generate only modest profit contributions during its first year in this market.

Internationally, Aecon expects to be working on two major construction projects in 2006 - expansion of the Cross Israel Highway and construction of the new Quito International Airport. Both are projects in which Aecon is a partner in the concession company responsible for the

project. The US\$150 million Cross Israel Highway extension, in which Aecon has a 25% stake, is subject to a number of conditions precedent, which are expected to be satisfied in time for construction to begin in mid-2006. Construction of the new US\$410 million Quito Airport will begin following the project's financial close, expected early in the second quarter. Aecon is a 50% partner in the joint venture building the airport, which is scheduled for completion in 2010.

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 (generally when the contract is 20% complete). This milestone is not likely to be reached on either the Cross Israel Highway extension or the Quito project until 2007, and as such, no construction profit is expected to be recognized on these projects in 2006.

In the Buildings segment, 2005 produced four consecutive profitable quarters following four consecutive quarters of losses in 2004 - evidence that the recovery in this segment has taken hold. This improvement is expected to continue in 2006.

Despite an anticipated decline in revenue, profit contributions in the Greater Toronto Area (the largest region in the segment) are expected to increase in 2006 due in part to the anticipated settlement of outstanding project claims.

Profit contributions from Aecon's other business units in this segment are expected to approximate those reported in 2005, with most business units recording a modest increase in profit contributions.

Aecon's Industrial segment is expected to show improvement again in 2006, with increased profit contributions as compared to last year. The segment's fabrication business unit is expected to provide the most significant gains as it rebounds from operating losses in 2005 (most of which were incurred at the Aecon-Fabco joint venture facility in Dartmouth, Nova Scotia) to a positive profit contribution in 2006.

The segment's western Canadian operations, which provided much of the growth in this segment in 2005, is expected to generate reduced revenues in 2006 as the substantial volumes generated from the Suncor fire rebuild project in 2005 are not likely to be replaced. Last year's surge in volumes from the rebuild project and the expected dip in revenues in 2006 are viewed as an aberration in what is expected to be an overall steady increase in volumes and profit contributions from oil sands projects in the Fort McMurray region of Alberta. Despite the expected drop in revenues in western Canada in 2006, profit contributions from this business unit are expected to approach those recorded in 2005.

The industrial construction market in Ontario is expected to remain strong in 2006, with growth in the energy sector offsetting any decline in the manufacturing sector. The profit performance achieved in this market in 2005 was partly due to some very favourable project completions that resulted in higher than expected margins. As such, while Aecon's industrial construction operations in Ontario are expected to have another solid year, profit contributions are likely to fall short of those recorded in 2005.

Innovative Steam Technologies ("IST") is expected to generate increased revenue and profit contributions in 2006 despite starting the year with a smaller backlog of orders than it did last year. Throughout much of 2005 the industry experienced a sales slowdown that resulted in a substantial depletion of IST's backlog. However, key sales in Puerto Rico late last year and more recently in New York, as well as a very active order prospect pipeline, seem to indicate that this sales slowdown is largely behind us.

Aecon ended 2005 with a greater backlog of work on hand than it had a year earlier. Backlog increased \$12.3 million or 2.2% to \$577.3 million. This includes Aecon's \$102 million share of a recent contract award for work at the Bruce nuclear station in Ontario to a joint venture in which Aecon has a 50% interest. Backlog increased over the past year in both the Infrastructure and Industrial segments, more than offsetting a decline in the Buildings segment. The decline in the Buildings segment is due largely to work-off of backlog at Pearson Airport and at two other large projects in the Toronto area. Major project backlog is expected to increase by about US\$200 million when the Quito Airport project financing closes.

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

Overall, Aecon's core markets of civil, utility, industrial and buildings construction in Canada continue to improve with further growth expected in 2006. Management believes that this strengthening of core markets along with the ongoing benefit of operational improvements now in place will result in increased margins and a positive net income for Aecon in 2006 on revenues similar to those generated in 2005.

This improved return is expected despite the fact that no income will be reported from two of Aecon's largest construction projects (the Cross Israel Highway extension and the Quito Airport) until they reach 20% completion in 2007, and despite the fact that the increasing economic value of Aecon's investments in these two concessions will not be reflected in earnings until the Cross Israel Highway concessionaire begins to pay dividends in 2009 and the new Quito Airport opens in 2010.

## **ITEM 3**

### **DESCRIPTION OF THE BUSINESS**

#### **3.1 General**

##### **3.1.1 Company Overview**

Aecon is Canada's largest publicly traded construction and infrastructure development company. It serves both private and public sector clients across Canada and internationally, with services ranging from financing, design, construction and operation to procurement, materials engineering and fabrication. Active since 1910, Aecon is one of the most diverse companies in its industry.

Aecon conducts its business in three principal operating segments – Infrastructure, Buildings and Industrial.

#### ***Infrastructure***

Aecon's Infrastructure segment, which accounted for approximately 41% of Aecon's consolidated revenues in fiscal 2005, is Aecon's largest segment from a revenue perspective. The Infrastructure segment includes all aspects of the construction and development of both public and private infrastructure, including roads and highways, principally within the Province of Ontario, as well as toll highways, dams, tunnels, bridges, airports, marine facilities, transit systems and hydro-electric power projects domestically and internationally. This segment includes the mining, manufacture and supply of asphalt and aggregate products, and the construction and/or installation of utility distribution systems for natural gas, telecommunications

and electrical networks, as well as water and sewer mains, traffic signals and highway lighting also principally within the Province of Ontario.

Services provided in the Infrastructure segment include conventional construction of civil infrastructure works as well as development initiatives including the development, design, construction, operation and financing of infrastructure projects in Canada and, on a selective basis, internationally. Aecon also provides a full range of infrastructure services through build-operate-transfer (“BOT”), build-own-operate-transfer (“BOOT”) and other alternative finance and procurement contract structures, as well as providing conventional construction services on a more traditional fee for service, construction management or lump sum contract basis. See Section 3.1.2 “Industry Background and Trends - Infrastructure Development”.

### ***Buildings***

Aecon’s Buildings segment, which accounted for approximately 35% of Aecon’s consolidated revenues in fiscal 2005, specializes in the construction and renovation of commercial, institutional and multi-family residential buildings, including retail complexes, office buildings, airport terminals, entertainment facilities, schools and high-rise condominium buildings.

Work in this segment is concentrated primarily in Canada and the north western United States and is carried out through offices in Toronto and Ottawa, Ontario, Montreal, Quebec, Halifax, Nova Scotia, Vancouver, British Columbia and Seattle, Washington. Services include general contracting and fee for service construction management.

### ***Industrial***

The Industrial segment, which accounted for approximately 25% of the Corporation’s consolidated revenues in fiscal 2005, encompasses all of Aecon’s industrial construction and industrial manufacturing activities. Activities include cogeneration plants, in-plant construction and module assembly in the manufacturing, energy, petrochemical, nuclear, steel and automotive sectors as well as the fabrication of small and large diameter specialty pipe and the design and manufacture of once-through heat recovery steam generators for industrial and power plant applications.

Although activity in this segment is concentrated primarily in Canada through its offices in Cambridge, Ontario and Edmonton, Alberta with selected projects in the United States, Aecon sells and installs once-through steam generators throughout the world through IST.

## **3.1.2 Industry Background and Trends**

### ***Construction***

The construction industry is one of the largest in Canada. Construction is also among the most fragmented of Canada’s large industries, with a significant portion of the market dominated by a large number of small, often family owned, businesses competing in very small geographic markets. As a result, it is not unusual for a highly successful company in one city or region to be totally absent from the market in a neighbouring city or region. Although Aecon has benefited from a trend toward consolidation in recent years, the fragmented nature of the Canadian construction industry is deeply ingrained, both economically and politically, and is unlikely to change significantly in the foreseeable future.

Even among the larger firms in the industry – those with the ability to manage large projects and operate in a number of markets – most specialize in a small number of trades and tend to focus on just one, or in some cases two, sectors of the industry.

As such, it is common in Canada that a dominant firm in, for example, industrial construction does not compete at all in the road building or commercial construction sectors, just as the market leaders in those sectors do not compete outside of their defined specialty. In this respect, Aecon, with its breadth of operations and experience, is one of the exceptions.

Another factor important to the Canadian construction industry is the seasonal nature of the industry. The Canadian climate dictates that much of the construction work must be done in the late spring, summer and fall months. For this reason, construction firms in Canada tend to show operating losses in the first quarter of the year, with improved results in the second and especially third quarters. This seasonal pattern is reflected in employment levels within the industry and tends to increase the importance of a company's ability to manage its fixed costs, equipment and manpower.

In the broadest sense, the Canadian construction market is self-contained in that the large majority of construction work carried out in Canada is performed by Canadian firms. To the extent international competition is a factor, it is usually limited to large infrastructure projects and is normally performed in concert with a Canadian partner. This cooperation between Canadian firms and large international firms may augment in the coming years as the anticipated increase in large infrastructure projects gets underway.

Similarly, the vast majority of Canadian construction firms limit their focus to the Canadian market. While a small number of Canadian firms (including Aecon) have achieved success in markets outside Canada, this is the exception rather than the rule. Most work done by Canadian firms in the international market is performed in the United States, where distance and cultural factors are minimal, or in emerging economies where local companies do not have the technical expertise or financing capacity to undertake significant projects.

Projections for the Canadian economy by the Canadian Chamber of Commerce include solid gains in business investment with GDP growth expected to average about 2.9 per cent in 2006, placing Canada second only to the United States among G-7 nations. With respect to the construction industry, the Chamber projects strong gains in non-residential construction reflecting heavy investment in Canada's energy sector as well as increased investment in non-residential buildings construction.

The Canadian Construction Association ("CCA") agrees. In its industry forecast for 2006, the CCA projected that slower residential construction would be largely offset by strong growth in non-residential construction. The latter is expected to be led by continuing strength in engineering construction and what it called a "recovering" market in construction of non-residential buildings.

Overall, the outlook for the Canadian construction industry over the next few years is positive for Aecon, with solid growth projected in virtually all of our core markets. This positive outlook is supported by other forecasts including Global Insight, which forecasts average annual growth of 4.3% in Canadian construction spending in the period 2003 through 2008 – behind that of only China and India.

### ***Infrastructure Development***

In contrast to the fragmented and self contained Canadian construction industry, the infrastructure development business is becoming increasingly global in nature, dominated by a relatively small number of international firms with the capacity to develop very large projects.

The nature of the infrastructure development business has been dictated, to a large extent, by a number of important trends in recent years. Some of these trends have emerged from changing economic realities, others from political judgements made by governments. Taken together, however, these trends tend to reinforce one another in the impact they have had on the infrastructure development business.

Many large infrastructure projects, which in the past would have been owned and developed by governments, are today developed through some form of Public Private Partnership (“PPP”). These partnerships take many shapes, fashioned both by the nature of the project and by the political climate in the host jurisdiction and require the participants to be creative and responsive to the specific requirements relating to a project. In some cases, the end result may be complete privatization of the asset, while in other cases it may be a fixed price design BOT contract. In all cases, however, PPPs represent a shift in responsibility, scope and risk away from government and towards the private sector as governments move from their traditional role of owner, developer and manager of infrastructure to more of an oversight role.

The changed role for government can be politically sensitive or even controversial in some instances. For this reason, the general trend towards PPPs seen elsewhere in the world may be constrained from time to time in the Canadian context by a hesitance on the part of some governments to move forward with what may be perceived as a politically risky initiative.

Nonetheless, the trend toward PPPs in the development of infrastructure has led to growth in the number of fixed-price turnkey packages of goods and services, often including the private provision of financing for the project. As such, infrastructure development must increasingly be led by firms that can combine design and construction capabilities with the financial resources and expertise necessary to arrange project financing (often including direct equity participation) and the subsequent operation of the facility.

This approach to infrastructure development provides returns to participating companies in three ways: development income, construction income and operating income. Typically, development income is derived from development fees paid at the time the contract is awarded and from a return on invested equity generated from distributions of free cash flow (after payment of operating, capital and other project costs and after payment of interest and principal on project financing). Construction income is earned primarily in the first few years of a project by those members of the consortium (and sub contractors) providing design and construction services to the project. Finally, operating income is earned by those providing operational services to the project over the life of the contract, often 25 - 30 years or longer.

### **3.1.3 Business Strategy**

Aecon’s strategy is to continue to be a leading provider of construction and infrastructure development services in Canada. Core elements of this strategy are discussed below, the combination of which the Corporation believes is unique in the industry.

#### ***Operational Diversity***

Aecon’s operational diversity and broad revenue base allows it to capitalize on opportunities in a variety of sectors within the industry while mitigating the effects of a cyclical downturn in any one sector. The diverse nature of Aecon’s operations also provides it with cross-selling opportunities and allows it to participate in projects beyond the scope of any one discipline or division. Further, interdivisional cooperation allows for synergies and cost savings across the Corporation through economies of scale and resource sharing.

### ***Focus on Energy and Transportation Infrastructure sectors***

Notwithstanding its operational diversity, Aecon has developed a strategic focus on the Energy and Transportation Infrastructure markets where we believe that current conditions along with Aecon's experience and expertise will allow us to drive stronger margins. In the Energy sector, Aecon is especially well positioned in Ontario's nuclear sector and Alberta's oil sands, both of which are expected to be strong growth areas. In the Transportation infrastructure sector, Aecon has a long history in building highways, bridges, toll roads and airports, which will remain a key focus going forward.

### ***Divisional Autonomy***

While some elements of the Corporation's operations (such as certain management and control aspects of the treasury, insurance, risk management, legal, safety, purchasing, human resources and information technology functions) are centralized, Aecon's operational model is based largely on the ability of each individual division to manage its area of responsibility with relative autonomy. In this way, divisional managers, who are the closest to their markets, are able to apply their industry expertise with maximum effectiveness. The Corporation's incentive plan rewards divisional managers with incentives based primarily on division results and is intended to facilitate the recruitment of qualified people.

### ***Industry Innovator***

The construction and infrastructure development industry has experienced several important changes in recent years including, a trend toward alliances, outsourcing, PPPs and an increase in large projects requiring expertise in a variety of disciplines. The resulting importance within the industry of a company's ability to develop and manage innovative relationships and alliances has created opportunities for innovative companies.

Aecon placed an early and high priority on the development of these skills, enabling it to capitalize on a number of the emerging opportunities created by this trend. Initiatives included: development of customer alliances featuring open book 'target based pricing' to improve efficiencies; establishment of partnerships to pursue infrastructure development projects and; creation of project alliances to enhance Aecon's ability to deliver large and/or complex civil construction projects. As a result, Aecon has established itself as a Canadian leader in innovative alliances and project development.

Other examples of Aecon's innovative approach include its unique once through steam generator design, using proprietary technology for heat recovery steam generators and the establishment of a materials engineering group to provide quality testing and research services.

### ***Focus on the Canadian Market***

While international projects have often been important sources of revenue and income for Aecon over the years, Canada remains Aecon's core market and its primary business development focus. Strong prospects within Canada are expected to allow an increased concentration on the Canadian market over the next few years. In addition to having a positive impact on bid costs and corporate focus, this increased concentration on the Canadian market should also serve to lower Aecon's risk profile.

## ***Continued Growth***

Although Aecon's strategy is to grow organically and geographically, acquisitions may continue to be an element of the Corporation's plans for growing its business. Aecon's most recent acquisitions are the 2003 acquisition of the assets and operations of Westeinde Construction Ltd. of Ottawa, Ontario and the 2004 acquisition of the assets and operations of Cegerco CCI Inc. of Boucherville Quebec, near Montreal.

### **3.1.4 Business Operations**

#### **a) Infrastructure**

Infrastructure is Aecon's largest operating segment and includes all aspects of the development and construction of Infrastructure. Aecon conducts its Infrastructure operations through a number of wholly owned subsidiaries and business units as well as through a number of joint ventures. Primary among these are:

- Aecon Construction and Materials Limited which specializes in road and bridge construction as well as the provision of construction products and materials;
- Aecon Constructors, specializing in international heavy civil construction such as dams and tunnels;
- Aecon Utilities, one of Canada's largest utilities contractors;
- Groupe Aecon Ltée, a Quebec based construction company with expertise primarily in civil, buildings and industrial construction; and
- Aecon Concessions and Canadian Highways Infrastructure Corporation, infrastructure developers with capabilities in the design, construction, financing and operation of infrastructure projects in both Canada and internationally.

Aecon's primary areas of business in the Infrastructure segment are outlined below.

#### ***Infrastructure Development***

Since entering the infrastructure development business in 1990 through its participation in the redevelopment of the Prague International Airport in the Czech Republic, Aecon has established itself as a leader in the Canadian infrastructure development industry. Aecon's successful infrastructure development initiatives include the 407ETR toll highway in Toronto, Ontario, the Highway 104 Cobequid Pass toll highway in Nova Scotia and the Cross Israel toll highway.

Since 2002, when a series of core agreements were signed relating to the proposed development, financing, construction and operation of the Quito Airport in Quito, Ecuador, Aecon and its partners in Corporacion Quiport S.A. (holder of the development and construction rights for the airport) have been working diligently to achieve closing of all financial arrangements for the new development. In August 2005, the required financing documents were signed and in January 2006 the concession became fully effective. Financial close for construction of the new Airport is expected in the second quarter of 2006.

Aecon participates in infrastructure development, usually in joint venture arrangements, primarily through design, build, operate, transfer and design, build, own, operate and transfer contracts in both Canada and internationally.

## ***Road Building***

One of Aecon's longstanding core businesses is the provision of road and bridge construction services for both the private and public sectors. Aecon's key clients in this area are provincial and municipal governments, primarily in Ontario, for whom Aecon has over the years constructed, expanded and maintained thousands of miles of roads, bridges and highways.

Other important clients for these services are: the government of Canada and its agencies for whom Aecon builds and maintains airport runways, marine facilities and similar infrastructure; commercial developers to whom Aecon provides site development services such as subdivision grading, parking facilities and roads; and transportation providers such as 407ETR and GO Transit, which operates public commuter transit in the Greater Toronto Area. Since its predecessors began building roads in 1929, Aecon has become one of the largest road builders in Ontario.

Aecon's subsidiary, Miwel Construction, provides a profitable customer base within certain construction markets as well as expertise in winter road maintenance activities.

In addition, Aecon plans to enter the Alberta civil construction market. Based in Edmonton, Aecon's Alberta civil operations will initially focus on building on the Industrial segment's success in oil sands projects in the Fort McMurray area by offering Aecon's civil construction services to projects and clients for which the Industrial segment is currently working.

The large majority of Aecon's work in the road building and maintenance sector is won through low bid fixed-price tenders.

## ***Heavy Civil Construction***

In addition to its road building activities, Aecon also provides heavy civil construction services in Canada, the United States and internationally. These services include civil works construction of hydro power developments, airports, bridges, dams, tunnels, toll roads and expressways.

Aecon's experience in heavy civil construction includes international projects such as the Cross Israel toll highway and the Nathpa Jhakri hydro-electric project, and domestic projects such as the Eastmain and Toulouste hydro-electric dams in Quebec and parts of the Sheppard Subway system in Toronto, Ontario. Most of Aecon's work in the heavy civil construction sector is obtained through fixed-price tenders or design-build contracts and is normally carried out through joint ventures.

## ***Utilities Construction***

Aecon is one of Canada's largest utilities contractors with expertise in a wide variety of underground utilities work including installation and maintenance of gas distribution lines, cable, fibre optic and telecommunications lines as well as the installation of hydro-electric power distribution systems and the construction of water and sewer lines. Major clients for these services include gas and electric utilities, cable companies, telephone companies and municipalities.

Aecon has also developed specific expertise in traffic signal systems, traffic management systems, high mast highway lighting and inset lighting for airport runways.

Most utilities construction work is traditionally awarded on a fixed-price basis, with compensation based on the units of work performed. However, Aecon has pioneered a successful new "client alliance" model based on open book cost reimbursable work with fees

earned upon the achievement of client savings and other performance targets, with a growing portion of its utilities work being performed under such arrangements.

### ***Construction Products and Materials Engineering***

Aecon owns production rights at five aggregate reserves in Ontario including two gravel pits in Caledon, one at which Aecon shares production rights with Lafarge Canada Inc., a limestone quarry near Ottawa, a gravel pit in Dumfries and a former iron ore mine in Marmora. Management estimates that, as of December 31, 2005, the Corporation's remaining reserves were as follows:

Caledon	-	33 million tonnes
Pinchin	-	4 million tonnes
Ottawa	-	22 million tonnes
Marmora	-	78 million tonnes
Oliver	-	8 million tonnes

Aggregates are the key material used in road building and serve as raw material for the production of asphalt and concrete. The aggregates produced at these facilities are used in Aecon's own activities and sold to third parties.

Aecon also operates a permanent asphalt plant in Brampton, Ontario and three mobile asphalt plants that produce a secure, cost effective supply of asphalt for Aecon job sites, providing a competitive advantage in securing new contracts for asphalt intensive projects. The plants also provide a source of revenue and profit from the sale of asphalt materials to third parties.

Aecon operates its own full service materials testing facility to provide quality control and materials testing for its operations in Ontario. In addition to serving Aecon's own needs, the facility provides an additional revenue source for the Corporation as its services are sold to other contractors and materials suppliers.

### ***Major Projects***

Aecon is currently involved in the design or construction stage of four projects whose construction value exceeds \$100 million. These projects are an extension of the Cross Israel Highway, the new Quito airport in Ecuador, the Bruce Power generating station in Ontario and the Pearson Airport in Toronto.

#### ***Cross Israel Highway***

The Cross Israel Highway is a US\$1.2 billion electronic toll highway spanning approximately 86 km from south of Tel Aviv, northward to Hedera in Israel. Now open and tolled, it is the most advanced and sophisticated all-electronic toll highway in the world. An agreement has been signed by Derech Eretz Highways Ltd. (DEC) for a US\$180 million extension of the Cross Israel Highway. Aecon holds a 25% interest in DEC which owns the concession rights to the entire highway and in the construction joint venture that will construct the 17 km extension.

#### ***The new Quito Airport***

Aecon holds a 45.5% economic interest in the Quito Airport concession through its interest in Corporacion Quiport S.A. (Quiport). In 2002, Quiport was awarded the concession to design, build, finance and operate a new airport in Quito, Ecuador. The Quito Airport concession is now in full effect and the existing airport is being run to the financial benefit of the concessionaire. Financial close for construction of the new US\$410 million airport is expected in the second quarter of 2006.

### *The Bruce Power Nuclear Generating Station*

Aecon is a 50% partner in a joint venture which has secured a \$204 million contract at the Bruce Power 'Bruce A' nuclear generating station in Ontario. The contract is part of Bruce Power's refurbishment and restart of units 1 and 2. The work will take approximately three and a half years to complete.

### *Pearson Airport*

Aecon is a 50% partner in the joint venture managing construction of the new \$4.4 billion terminal building of the Pearson International Airport redevelopment. Commissioned by the Greater Toronto Airport Authority to ease passenger congestion at Canada's busiest airport, Phase One of the new terminal opened in April 2004 and Phase Two is scheduled to be completed in the spring of 2007. Aecon is also continuing to build an \$89 million expansion to Terminal 3.

### **(b) Buildings**

The Buildings segment includes all of Aecon's work in the construction and renovation of commercial, institutional and multi-unit residential buildings. Aecon's focus in this segment is primarily in southern and eastern Ontario, southern Quebec, the lower mainland of British Columbia, Atlantic Canada and the north western United States through offices in Toronto, Montreal, Ottawa, Halifax, Vancouver and Seattle. Aecon has also operated in this segment, on a selected basis, in markets outside of North America.

Markets in the Buildings segment in which Aecon has developed specific expertise include commercial and retail construction, airport construction, institutional construction such as educational facilities and court houses and entertainment facilities such as theatres and casinos. In urban markets, Aecon has developed an expertise in the growing market for commercial renovation and retrofit services. Meeting this need has become a growing focus of Aecon's work in the Buildings segment.

Aecon's U.S. Buildings operations are managed through a wholly owned subsidiary, Aecon Buildings Inc., incorporated in the State of Washington, while its British Columbia operations are managed through Aecon's 49% participation in Scott Management Inc., located in Vancouver. Buildings operations in Montreal are managed through Aecon-Cegerco, a division of Groupe Aecon Ltée. The Buildings operations in Atlantic Canada are managed through Aecon Atlantic.

### ***General Contracting***

On many projects in the Buildings segment, Aecon operates as a general contractor, providing clients with a lump sum fixed price for the project. In these cases, Aecon normally subcontracts most work elements to other contractors who are managed by Aecon throughout the course of the project. This results in much of the risk being transferred to the subcontractors, albeit this also typically results in lower margin returns for work in this sector.

### ***Construction Management***

In other cases, Aecon works on a fee for service basis in a construction management role, managing, on behalf of the client, work performed by a number of contractors whose contractual arrangements are often directly with the client. Construction management contracts generally involve less risk than work as a general contractor and they are becoming an increasingly larger strategic focus for this operating segment.

### **(c) Industrial**

The Industrial segment encompasses all of Aecon's industrial construction and industrial manufacturing activities. Activities include cogeneration plants, in-plant construction and module assembly in the manufacturing, energy, petrochemical, nuclear, steel and automotive sectors as well as the fabrication of small and large diameter specialty pipe and the design and manufacture of once-through heat recovery steam generators for industrial and power plant applications.

Although activity in this segment is concentrated primarily in Canada through offices in Cambridge, Ontario and Edmonton, Alberta, with selected projects in the United States, Aecon sells and installs once-through steam generators throughout the world through Innovative Steam Technologies ("IST"), a division of Aecon Holdings Inc.

#### ***Construction***

Aecon's industrial construction activities are focussed primarily on in-plant construction for clients undergoing plant modifications and upgrades. This work includes platform construction and assembly as well as the installation and maintenance of specialized industrial systems and equipment. Aecon self-performs its work in the piping, electrical and mechanical trades.

Aecon has established a primary focus on the power sector where its construction capabilities include nuclear, fossil and hydro-electric generation and natural gas cogeneration facilities. In addition, Aecon provides industrial construction services in the automotive, petrochemical, steel, metals processing and natural gas industries.

#### ***Fabrication***

Aecon's pipe fabrication business, which started as a value-added service for its industrial construction clients, has grown to the point where Aecon is now Canada's largest fabricator of specialized industrial pipe.

From its Ontario facility in Cambridge, Aecon provides specialized process piping, modules and related components to the automotive, power, natural gas, petrochemical and other industries throughout Ontario, while its facility in Edmonton is focussed on serving the major energy projects in western Canada, principally in the oil sands of northern Alberta. Its Aecon/Fabco joint venture facility in Dartmouth, Nova Scotia focuses on serving the Atlantic Canada market.

#### ***Steam Generators***

Aecon's participation in the steam generator business is through its 100% interest in Innovative Steam Technologies ("IST") which designs and manufactures once-through heat recovery steam generators that recover the heat produced by the exhaust from gas turbines and, through a patented once-through technology, uses this heat to create high-purity, super-heated steam.

This steam is primarily used for the production of additional power through a steam turbine, or to re-inject into the gas turbine to increase efficiency and reduce emissions. The IST units, designed primarily for use with 5 to 50 megawatt gas turbines, can increase a simple cycle power plant's generation efficiency by up to 30%.

IST has had much success due to the innovative design features of its units, which offer a more cost effective alternative to traditional heat recovery steam generators, with lower maintenance

costs, shorter installation times and smaller footprint or area required than other products on the market.

### **3.1.5 Environmental**

Aecon is subject to federal, provincial and municipal environmental legislation in all of its manufacturing and construction operations. Aecon recognises that it must conduct all of its business in such a manner to both protect and preserve the environment. 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 which would be likely to have a material impact on any of its operations, capital expenditure requirements or competitive position.

### **3.1.6 Employees**

Aecon had 749 full time salaried employees and 2,042 hourly employees as at December 31, 2005 for a total of 2,791 employees. This number is not indicative of the total number of employees at any time throughout the year as the construction industry is seasonal in nature, with little work performed in the winter and early spring months. At its peak operating capacity level during 2005, Aecon employed a total of 4,714. None of the Corporation's full time salaried employees are unionized. Aecon recruits its unionized labour pool on an "as needed" basis consistent with the relevant union contracts and traditional hiring practices. These employees are laid off upon the completion of the job they were working on unless transferred to another job. Management believes that its relationship with its employees is generally excellent.

### **3.2 Risk Factors**

The following risk factors, as well as the other information contained in this Annual Information Form (and the information incorporated by reference herein), should be considered carefully. These risk factors could materially and adversely affect Aecon's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Corporation.

#### **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.

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 Corporation 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 although construction of the new Quito International Airport project is expected to commence 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 10 and 13 to the Annual 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 owner of the project, Satluj Jal Vidyut Nigam Ltd. ("SJVN") (formerly Nathpa Jhakri Power Corporation Limited) has granted a number of provisional requests for extensions of contract time as a result of which the joint venture was entitled to escalation on quantities previously billed. Income derived from these requests has been included in the joint venture profit estimate for this project.

At January 31, 2006, joint venture claims to cover delay related costs amounted to approximately \$119.6 million, including interest at 10% to November 30, 2005. This is in addition to \$9.4 million, which was received by the joint venture, based on an interim recommendation made by a claims review panel and is included in the joint venture's profit estimate for this project. A further payment of \$8.6 million as full settlement was recommended by the Alternate Disputes Resolution Board ("ADRB"), which was appointed jointly by SJVN and the joint venture. However, since ADRB's recommendations are not binding, and as the joint venture was not satisfied with the level of the final settlement recommended by the ADRB, nor did SJVN support the recommendation, income from this award has not been included in the joint venture's and Aecon's profit estimate for this project. The claims have now been presented to an arbitration panel in accordance with the dispute resolution process defined in the construction contract with SJVN. The contract stipulates that this arbitration is binding. The arbitration hearings are scheduled to commence in late March 2006.

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 of up to a maximum amount equal to \$29.8 million (10% of the contract value) plus interest for which the Corporation is jointly and severally liable. If such claims were to be successful, the financial results and the financial position of Aecon would be adversely affected. As at January 31, 2006, the Corporation had outstanding guarantees and letters of credit totalling \$25.3 million in support of financial and performance related obligations for the Nathpa Jhakri Project. To December 31, 2005, the Corporation has profits of approximately \$13.3 million (2004 — \$13.3 million) after income taxes relating to this project, which have not yet been distributed to the Corporation. If such guarantees were to be called upon and/or if Aecon was not able to collect its 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, as at February 28, 2006, Aecon had provided two joint and several guarantees: namely, a continuous guarantee, which guarantees the performance of the concessionaire, and a leakage guarantee, which is a guarantee by the operator of the toll highway, in which the Corporation has a 30.60% interest, to the concessionaire, and covers toll capture and collection rates generated from users of the highway during the operating period. These guarantees extend to the end of the concession period which ends in 2029. The continuous guarantee is in the amount of \$9.2 million and is renewed annually to its full amount, irrespective of any drawings made thereunder. The leakage guarantee came into effect when construction was completed and is renewable annually for the lesser of \$10.9 million or 6% of annual toll revenue. The value of this guarantee is indexed and the amount used is as at January 31, 2006. 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 \$46.4 million) is invested, directly or indirectly, in the Cross Israel Highway. As a result, any material diminution in the value of the Cross Israel Highway would adversely affect the financial results and condition of the Corporation.

It should be noted that all amounts quoted above are based on foreign currency amounts which have been translated into Canadian dollars at current exchange rates.

The Corporation is currently engaged in a joint venture with Hochtief Construction A.G. in the construction in northern Quebec of a hydro-electric facility for Société d'énergie de la Baie James ("SEBJ"), a subsidiary of Hydro Quebec (the "Eastmain Project"). To date, the Eastmain Project has incurred cost overruns, primarily because of customer changes to the original contract scope. The Corporation is currently negotiating with Hydro Quebec for a full recovery of these cost overruns and expects that it will be successful in doing so. Such cost overruns are included in deferred contract costs and unbilled revenues in an amount of \$23.0 million, relating to various unpriced change orders with respect to this contract. 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, as the Corporation's accounting policy is to record all costs for these change orders but not to record any revenues anticipated from these disputes until actually resolved (even though the Corporation may believe that full compensation from clients is probable), then the financial results and position would be adversely impacted.

The Quito Airport financial close has taken longer than originally anticipated due to the complicated nature of the transaction and the multitude of international public lending agencies involved, and although Aecon expects that financial close will be achieved in 2006, there is a risk that closing may not occur, which would result in costs that were previously deferred being written off. As previously noted, as at December 31, 2005, \$15.4 million of costs incurred on the Quito project had been deferred with further costs expected to be incurred and deferred until financial close is achieved.

### **Access to Bonding and Pre-qualification Rating**

Many of Aecon's construction contracts require either sufficient bonding or pre-qualification rating. As a result of the worldwide reduction in surety capacity and price increases, the Corporation continually monitors the surety market through its broker and surety firm. The surety industry has undergone significant consolidation in recent years, which has constrained overall industry capacity. While Aecon's improving balance sheet and liquidity have allowed for continued support by its surety provider, Aecon's recent poor profitability performance has not allowed Aecon to escape the pressures facing the industry. Although the Corporation believes it will be able to continue to maintain sufficient surety capacity adequate to satisfy its requirements, should those requirements be materially greater than anticipated, or should sufficient surety capacity not be available, this may have a material adverse effect on the ability of Aecon to operate its business or take advantage of all market opportunities.

### **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 economic, geopolitical, military, currency and foreign exchange risks, and other risks beyond the Corporation'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**

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 Corporation 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.

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. 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 Corporation 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.

### **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.

### **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 Corporation’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 Corporation to take advantage of opportunities otherwise available or alternatively may impact the profitability of such endeavours on a going forward basis. The Corporation believes that its union status, size and industry reputation will help mitigate this risk but there can be no assurance that the Corporation will be successful in identifying, recruiting or retaining a sufficient number of skilled workers.

### **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. The Corporation competes with many companies that have financial resources and staff larger than Aecon’s and which may be able to benefit from economies of scale, pricing advantages and greater resources. Aecon has little control over and cannot otherwise affect these competitive factors. If Aecon is unable to effectively respond to these competitive factors, or if the competition in any of the Corporation’s markets results in price reductions or decreased demand for Aecon’s services, results of operations and financial condition will be materially impacted.

## **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 Corporation'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 Corporation'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.

## **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 Corporation, 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 Corporation 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 Corporation 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.

### **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 International 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 at least 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.

### **Hochtief AG and Certain Directors and Officers May be Able to Control Actions of the Corporation**

Hochtief AG indirectly owns 16,576,896 of the outstanding common shares, has provided significant financial guarantees and direct loans to the Corporation and four members of the Corporation's Board of Directors are employees or officers of Hochtief or its subsidiaries.

Two officers of the Corporation, who are also directors, beneficially own or control, directly or indirectly, approximately 4.2% in the aggregate of the common shares as of March 9, 2006.

By virtue of their significant direct or indirect shareholdings, either Hochtief AG and/or those officers may therefore be in a position to significantly influence the election of the directors of the Corporation, the appointment of officers and other matters requiring the approval of the shareholders or directors of Aecon. This concentration of ownership may also have an impact on a change of control or other significant transaction involving the Corporation. In July 2004, Aecon shareholders voted not to approve an amalgamation proposal that would have resulted in its largest shareholder, Hochtief A.G. ("Hochtief"), indirectly holding all the outstanding shares of Aecon and thereby privatizing the Corporation. Subsequently, Hochtief indicated that its ownership position in the Corporation would not remain in the 48% range and that its intention was to either increase or decrease its holdings in the Corporation. Since then, Hochtief has neither increased nor decreased its interest in the Corporation. More recently, however, Hochtief, in an effort to bring clarity to its long term intentions, had preliminary discussions with the Corporation about a number of possible transactions including a potential acquisition of certain of the Canadian construction operations and assets of the Corporation. However, Hochtief advised the Corporation on February 20, 2006 that it could not identify an acceptable proposal to all concerned. A significant change in the indirect ownership stake of Hochtief A.G. may have a material impact on the share price of the Corporation.

## **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 or delays in projects caused by the election process would likely have an adverse effect on the Corporation 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.

## **Tax Accrual Risks**

Aecon is subject to income taxes in both Canada and numerous foreign jurisdictions. Significant judgment is required in determining the Corporation'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 Corporation's current and future results and financial condition.

During 2001, the Corporation received federal income tax reassessments relating to deductions claimed by predecessor companies between 1993 and 1999. The reassessments, which disallow previously claimed Canadian development expense (CDE) deductions, amounted to \$10,581,000 at December 31, 2005. Provincial income tax reassessments related to the disallowed CDE and received to date amount to \$804,000. Although the Corporation 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, 2005, the Corporation had paid \$5,414,000 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

\$17,426,000. The Corporation believes it has adequate income tax provisions to cover the ultimate outcome of these reassessments.

### **Loss of Key Management; Inability to Attract and Retain Management**

The Corporation's future prospects depend to a significant extent on the continued service of its key executives. Furthermore, the Corporation's continued growth and future success depends on its ability to identify, recruit and retain key management personnel. The competition for such employees is intense and there can be no assurance that the Corporation will be successful in identifying, recruiting or retaining such personnel.

### **Subcontractor Performance**

The profitable completion of some contracts 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.

### **Litigation Risk**

In the normal course of business, Aecon 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 Corporation in respect of these matters, management of the Corporation does not believe that any of the legal actions or proceedings that are presently known or anticipated by the Corporation is likely to have a material adverse effect on Aecon's financial position. However, there is no assurance that the Corporation's insurance arrangements will be sufficient to cover any particular claim or claims that may arise in the future. Furthermore, Aecon 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.

### **Protection of Intellectual Property and Proprietary Rights**

The Corporation, particularly through its 100% interest in Innovative Steam Technologies ("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 Corporation's trademarks and trade names are registered in Canada and the United States and the Corporation intends to keep these filings current and seek protection for new trademarks to the extent consistent with business needs. The Corporation 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.

## **Acceptance of Innovation Steam Technologies**

IST has yet to gain full acceptance within certain segments of the industry for its innovative “once through” approach to heat recovery steam generators, and consequently, earnings derived from IST can fluctuate from quarter to quarter and from year to year. The success of IST’s business will depend on its ability to promote commercial acceptance of its steam generators and associated technology, its ability to successfully develop its existing and future licence agreements in key markets outside of its core North American market and to convince its customers of the reduced life cycle costs that IST’s products offer compared to its competitors’ products based on more traditional technology.

### **ITEM 4**

#### **DIVIDENDS**

Aecon has established a formal dividend policy whereby a dividend will be declared each year at the time of the release of annual financial statements of the Corporation. The size of the dividend will be determined each year based on the financial performance of Aecon. The Corporation declared a dividend of \$0.03 per Common Share in 2003. Aecon did not declare a dividend in 2004 or 2005.

Pursuant to an indemnity agreement dated January 20th, 2006 between the Corporation and American International Companies in connection with the provision of bonds on the Quito Airport Project (the “Indemnity Agreement”), the Corporation is restricted from paying dividends, except for an aggregate of \$10 million per fiscal year (less any payments, loans or payment for stock repurchases to affiliates who are not party to the Indemnity Agreement).

### **ITEM 5**

#### **DESCRIPTION OF CAPITAL STRUCTURE**

The authorized capital of the Corporation consists of an unlimited number of common shares. As at March 24, 2006, there were 38,103,198 common shares outstanding and options to acquire an aggregate of 1,350,000 common shares. As at March 24, 2006, the Corporation had also issued: a) 30,000 convertible debentures convertible at a price of \$7.50 per common share (subject to adjustment in certain circumstances); and b) 32,500 convertible debentures convertible at a price of \$7.60 per common share (subject to adjustment in certain circumstances). (See Section 6.2 “Prior Sales” and Section 6.2 of the 2005 Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com)). Pursuant to an underwriting agreement, a syndicate of underwriters also has an option to acquire 675,000 common shares. See Item 11 “Material Contracts” for additional details.

Holders of common shares are entitled to receive notice of all meetings of shareholders of the Corporation, to attend such meetings and to cast one vote per common share at all such meetings. Holders of common shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of the majority of the common shares entitled to vote in any election of directors may elect all directors standing for election. Holders of common shares are entitled to receive ratably such dividends, if any, as and when declared by the board of directors at its discretion from funds legally available therefore and upon the liquidation, dissolution or winding-up of the Corporation are entitled to receive ratably the net assets of the Corporation after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or ratably with the holders of the common shares with respect to dividends or liquidation. The common shares do not by their terms carry any pre-emptive, subscription, redemption or conversion rights.

The convertible debentures are direct, unsecured obligations of the Corporation, are subordinated to other indebtedness of the Corporation for borrowed money and rank equally with all other unsecured subordinated indebtedness. See Section 6.2 “Prior Sales” and Section 6.2 of the 2005 AIF as well as the November 2004 and March 2005 Material Change Reports available on SEDAR at [www.sedar.com](http://www.sedar.com) for additional details.

## ITEM 6 MARKET FOR SECURITIES

### **6.1 Trading Price and Volume**

The Common Shares are listed and posted for trading on the TSX under the trading symbols ARE. The following table sets forth, for the periods indicated, the reported high and low trading prices and the aggregate volume of trading of the Common Shares on the TSX:

<b>MONTH</b>	<b>HIGH (\$CDN)</b>	<b>LOW (\$CDN)</b>	<b>VOLUME</b>
February 2006	7.04	6.20	904,173
January 2006	6.65	5.25	696,943
December 2005	5.73	5.27	381,596
November 2005	5.59	5.40	264,046
October 2005	5.88	5.50	106,821
September 2005	6.10	5.70	124,444
August 2005	6.14	5.70	70,486
July 2005	5.95	5.70	177,593
June 2005	6.08	5.75	354,049
May 2005	6.02	5.70	344,665
April 2005	6.35	5.90	271,313
March 2005	6.65	6.12	1,209,926
February 2005	6.65	6.30	633,422
January 2005	6.69	6.00	700,880

Source: The Toronto Stock Exchange Monthly Review

### **6.2 Prior Sales**

On March 17, 2005, the Corporation issued and sold a total of 32,500 convertible subordinated debentures at an issue price of CDN\$1,000 per convertible debenture pursuant to a private placement. The convertible debentures were placed through a syndicate of underwriters led by GMP Securities, Paradigm and Canaccord. A copy of the underwriting agreement between the parties was filed on SEDAR in connection with the filing of a material change report on March 22, 2005 (the “March 2005 Material Change Report”). The convertible debentures were issued pursuant to a trust indenture between Aecon and Computershare Trust Company of Canada. A copy of the trust indenture was also filed on SEDAR with the March 2005 Material Change Report.

The convertible debentures will mature on March 17, 2010 (the “2010 Maturity Date”) and accrue interest at a rate of 8.25% per annum. They may be converted at any time by the holder into common shares of the Corporation up to the 2010 Maturity Date at a price of \$7.60 per share (subject to adjustment in certain circumstances). From March 18, 2008 until the 2010 Maturity Date, Aecon may redeem the convertible debentures, in whole or in part, at par plus accrued and unpaid interest based on the weighted average closing price of the common shares of the Corporation on the TSX during a specified period for not less than 125% of the conversion price. Subject to certain specified conditions, the Corporation may repay the outstanding principal amount of the convertible debentures through the issuance of additional

common shares or cash. For additional details see the March 2005 Material Change Report or the 2005 AIF both previously filed on SEDAR.

On March 17, 2006, the Corporation issued and sold a total of 4,500,000 common shares at an issue price of \$6.25 per share on a bought deal basis pursuant to a short form prospectus to a syndicate of underwriters led by National Bank Financial Inc. and GMP Securities L.P. and including Paradigm Capital Inc and Raymond James Ltd. A copy of the short form prospectus was filed on SEDAR on March 10, 2006 and a material change report on March 20, 2006. Pursuant to the underwriting agreement, the syndicate has an option to acquire 675,000 common shares. See Item 11 "Material Contracts" for additional details.

## ITEM 7 DIRECTORS AND OFFICERS

### 7.1 Name, Occupation and Security Holding

#### *Directors*

The names, municipalities of residence and principal occupations of the directors of Aecon are set out below. Each director will hold office until the next annual meeting of shareholders set for June 20, 2006 or until a successor is elected or appointed.

Name and Municipality of Residence	Office Held and Occupation	Year Became Director
SCOTT C. BALFOUR Oakville, Ontario	President and Chief Financial Officer of the Corporation	1995
JOHN M. BECK Toronto, Ontario	Chairman and Chief Executive Officer of the Corporation	1963
AUSTIN C. BEUTEL Toronto, Ontario	Chairman, Oakwest Corporation Limited	2005
MICHAEL A. BUTT Gormley, Ontario	Chairman and Chief Executive Officer, Buttcon Limited	1994
JOHN A. DICIURCIO Chicago, Illinois	Executive Vice President, Turner Construction Company	2004
ROLF KINDBOM Erin, Ontario	Consultant, Officer and Director, Hochtief Canada Inc.	2000
DR. ING. HERBERT LÜTKESTRATKÖTTER Essen, Germany	Member of Executive Board, Hochtief	2005
DR. MARTIN ROHR Essen, Germany	Member of Executive Board, Hochtief	2004
The HON. BRIAN V. TOBIN, P.C. Toronto, Ontario	Senior Business Advisor,	2005

	Fraser Milner Casgrain LLP	
ROBERT P. WILDEBOER Milton, Ontario	Vice Chairman of the Corporation; Executive Chairman, Martinrea International Inc., an automotive manufacturing company	1993

### ***Committees of the Board of Directors***

Members of the Audit Committee are Michael Butt (Chair), Austin Beutel and John DiCiurcio.

Members of the Human Resources and Compensation Committee are Robert Wildeboer (Chair), Dr. Ing. Herbert Lütkestratkötter and the Hon. Brian V. Tobin.

There is no Executive Committee of the Board of Directors.

### ***Biographies of Directors***

**Scott C. Balfour** is President and Chief Financial Officer of Aecon. He has executive responsibility for all aspects of the Corporation's operations including finance, treasury, risk management, investor relations and administrative initiatives. Mr. Balfour has been a member of the Board of Directors of Aecon since 1995 and has been with Aecon since 1994. Prior to joining Aecon, Mr. Balfour had an extensive career in corporate banking at a number of major financial institutions. Mr. Balfour has an HBBA from Wilfrid Laurier University and an MBA from the Richard Ivey School of Business, University of Western Ontario.

**John M. Beck** is the Chairman of the Board and Chief Executive Officer of Aecon and is a leader in the Canadian construction industry. He also serves as Chairman of Derech Eretz Consortium and of Canadian Highways Infrastructure Corporation. Mr. Beck has been a member of the Board of Directors since 1963. Mr. Beck also serves as a director of the Ontario Power Authority. A graduate in Civil Engineering from McGill University, Mr. Beck has more than 40 years of experience in the construction industry in Canada and internationally. His background includes corporate leadership in numerous construction activities including heavy civil projects such as bridges, highways, airport infrastructure, precast concrete manufacturing as well as buildings, commercial and industrial projects, and public-private partnerships for the development of infrastructure, such as airports and toll roads.

**Austin C. Beutel** is the Chairman of Oakwest Corporation Limited. Mr. Beutel again became a member of the Aecon Board of Directors in 2005 after having served previously on the Board from 1989 to 1993 and 1997 to 2000. Mr. Beutel retired in 1994 as Chairman of Beutel Goodman and Company Ltd., an investment counselling firm, which he co-founded in 1967. He is the non-executive Chairman of the Equitable Group Inc. and a director of Accord Financial Corp. and Astral Media Inc. Mr. Beutel has a B. Comm. (McGill) and MBA (Harvard). He is also a Chartered Financial Analyst.

**Michael A. Butt** is the Chairman and CEO of Buttcon Limited ("Buttcon"), general contractors. Mr. Butt has been a member of the Board of Directors since 1994. He started his career in the construction industry in the 1960s with Mitchell Construction where he rose to managing director and was a member of the steering committee of the Mitchell Construction Kinear Moodie Group. He founded M.A. Butt Construction Limited in 1973 and Buttcon Limited in 1979. Mr. Butt has a

Bachelor of Applied Science in Civil Engineering from the University of Toronto. Mr. Butt was formerly a Director of both The Ontario General Contractors Association (OGCA) and the Canadian Construction Association (CCA) and served as Chairman of the OGCA in 1998 and as Chairman of the CCA in 1999. Shortly after the transfer in 1996 of Pearson Airport from the Federal Government to The Greater Toronto Airports Authority, Michael was elected Chairman of the Board of Directors and remained in that capacity until December of 2004. Mr. Butt was appointed a member of the Board of Governors for Trent University in July 2005.

**John DiCiurcio** joined the Board of Directors in 2004. He currently serves as Executive Vice President for Turner Construction Company, where he oversees several business units. Mr. DiCiurcio has been in the construction business and with Turner for 25 years. He has a B.S.C.E. in Civil Engineering and Business Administration from Rutgers University and attended the Kellogg School of Management at Northwestern University.

**Rolf Kindbom** heads a consulting company in Toronto and is a director of Hochtief Canada Inc. and HT Civil Canada Inc. Mr. Kindbom has been a member of the Board of Directors of Aecon since 2000. He has almost 40 years of international business and project management experience in construction, commercial real estate and infrastructure development including Skanska Group of Sweden and Cathay International Ltd. Mr. Kindbom is also a member of the Arbitration and Mediation Institute of Ontario.

**Dr. Ing. Herbert Lütkestratkötter** studied mechanical engineering and gained a doctorate in civil engineering at Aachen Technical University. He held senior positions at Lahmeyer International GmbH, later becoming a member and then President of the Management Board. Dr. Lütkestratkötter was a member of the Executive Board of Lahmeyer AG, with responsibility for the business area Technical Services and was the Labour Relations Director and member of the Executive Board of Philipp Holzmann AG, with responsibility for the area of International Business and Project Development. He was the CEO of Dussmann AG and since December 2003 Dr. Lütkestratkötter has been a member of the Executive Board of Hochtief, with responsibility for the Corporate Division Hochtief Development and the Corporate Development department and for Hochtief Construction Services Americas.

**Dr. Martin Rohr** joined the Aecon Board of Directors in 2004. Dr. Rohr has lent his expertise to several boards associated with Hochtief since 1994 and is a member of the Executive Board of Hochtief. Before joining Hochtief, Dr. Rohr completed a graduate traineeship and worked in operational positions in the civil engineering field at various medium-sized construction companies. Dr. Rohr is responsible for networking of the Hochtief group of companies, business development and Hochtief's Corporate Center Global Procurement. Dr. Rohr received his doctorate in 1983 from Hanover University.

**The Honourable Brian V. Tobin** is Senior Business Advisor at the national law firm of Fraser Milner Casgrain LLP. He is currently a member of a number of public company boards including New Flyer Industries where he serves as Chairman. He is Chairman of Consolidated Thompson-Lundmark Gold Mines Limited and serves as a director of Lions Gate Entertainment Corp. He is also Special Advisor for the Canadian Youth Business Foundation (CYBF). Mr. Tobin is a former Member of Parliament and a former member of the Newfoundland and Labrador House of Assembly. Mr. Tobin's political career spanned twenty-two years from 1980 to 2002. Mr. Tobin is a former Premier of Newfoundland and Labrador, former Federal Minister of Industry and former Federal Minister of Fisheries and Oceans.

**Robert P. Wildeboer** is the Executive Chairman of Martinrea International Inc., a leading automotive supplier and industrial company, where he focuses on the strategic direction and development of the company as a member of the Senior Executive team. He is the Vice Chairman of Aecon and a member of the Board of Directors since 1993. He is counsel to the

law firm Wildeboer Dellelce, LLP. which he co-founded in 1993. Mr. Wildeboer is a specialist in the areas of corporate and securities law and has participated in a broad range of securities and related transactions, including public and private financings for both start-ups and mature companies, mergers and acquisitions, take-over bids, proxy fights and defences thereto, and derivative products transactions. Mr. Wildeboer has a B.A. from the University of Guelph, an LL.B. from Osgoode Hall Law School, an MBA from York University and an LL.M. from Harvard University. He is also a director or officer of several private charitable organizations, private companies, the Auto Parts Manufacturers Association (APMA) and the Canadian Automotive Partnership Council (CAPC).

### **Senior Officers**

The names, municipalities of residence and titles of the senior officers of Aecon are:

<b>Name and Municipality of Residence</b>	<b>Office</b>
John M. Beck, Toronto, Ontario	Chairman and Chief Executive Officer
Scott C. Balfour, Oakville, Ontario	Executive Vice-President and Chief Financial Officer
Jake Berg, Ayr, Ontario	President, Aecon Industrial
Bob Dautovich, Cambridge, Ontario	President, Innovative Steam Technologies
Andy DeHaan, Oakville, Ontario	Vice-President, Information Technology
Gerry Kelly, Toronto, Ontario	Senior Vice-President, Finance
Paul Koenderman, Campbellville, Ontario	Executive Vice-President
Teri McKibbon, Oakville, Ontario	President, Aecon Civil and Utilities
Robert J. (Bob) Molgat, Mississauga, Ontario	President, Aecon Buildings
Steven N. Nackan, Thornhill, Ontario	President, Aecon Concessions
J. Mitchell Patten, Milton, Ontario	Vice-President, Corporate Affairs and Vice-President, Human Resources
H. William Pearson, Oakville, Ontario	Executive Vice-President
Douglas E. Steels, Whitby, Ontario	President, Aecon Constructors

L. Brian Swartz, Markham, Ontario

Senior Vice-President, Legal and Commercial Services

Gernot Wittig, Toronto, Ontario

Senior Vice-President, Contract and Project Controls

### ***Biographies of Senior Officers***

**Scott C. Balfour** is President and Chief Financial Officer of Aecon. He has executive responsibility for all aspects of the Corporation's operations including finance, treasury, risk management, investor relations and administrative initiatives. Mr. Balfour has been a member of the Board of Directors of Aecon since 1995 and has been with Aecon since 1994. Prior to joining Aecon, Mr. Balfour had an extensive career in corporate banking at a number of major financial institutions. Mr. Balfour has an HBBA from Wilfrid Laurier University and an MBA from the Richard Ivey School of Business, University of Western Ontario.

**John M. Beck** is the Chairman of the Board and Chief Executive Officer of Aecon and is a leader in the Canadian construction industry. He also serves as Chairman of Derech Eretz Consortium and of Canadian Highways Infrastructure Corporation. Mr. Beck has been a member of the Board of Directors since 1963. Mr. Beck also serves as a director of the Ontario Power Authority. A graduate in Civil Engineering from McGill University, Mr. Beck has more than 40 years of experience in the construction industry in Canada and internationally. His background includes corporate leadership in numerous construction activities including heavy civil projects such as bridges, highways, airport infrastructure, precast concrete manufacturing as well as buildings, commercial and industrial projects, and public-private partnerships for the development of infrastructure, such as airports and toll roads.

**Jake Berg** is President of Aecon's Industrial Division. Mr. Berg's career in the construction, engineering and development industry spans over 30 years. Since joining Aecon in 1992, he has held a variety of key leadership roles. Prior to joining Aecon, he held senior engineering and management positions at Gotaverken Energy Systems Inc. and Babcock and Wilcox Canada. Mr. Berg graduated from the University of Waterloo with a Bachelor of Science Degree in Mechanical Engineering in 1976.

**Bob Dautovich** is President of Innovative Steam Technologies, a wholly owned Aecon subsidiary. He was appointed President in 2000 after serving as the company's Vice President, Sales and Marketing. Prior to joining Innovative Steam Technologies, Mr. Dautovich worked for several years at Gotaverken Energy Systems Ltd., a Swedish based company that designed and manufactured boilers for the pulp and paper industry. While there, he held several positions in both engineering and management. Mr. Dautovich holds a Bachelor of Science in Mechanical Engineering from the University of Waterloo and is a member of the Professional Engineers of Ontario. He has been with Aecon since 1992.

**Andy DeHaan** is the Vice-President of Information Technology of Aecon and is responsible for all aspects of information technology for the Corporation. Prior to joining Aecon, Mr. DeHaan had an extensive career in information technology and held senior information technology positions in some of Canada's largest organizations, including McCarthy Tetrault, one of Canada's largest law firms, Agra Inc., now Amec Inc., Maclean Hunter and Extendicare. Mr. DeHaan has a Masters in Computer Science from the University of Waterloo.

**Gerry Kelly** is Senior Vice-President, Finance of Aecon and is responsible for financial reporting, management and control within Aecon Group as well as IT and treasury functions. He has experience in all aspects of financial management having held senior financial positions at Canadian Pacific and Marathon Realty. His most recent position prior to joining Aecon in 2001

was as Chief Financial Officer at ProFac Facilities Management Services Inc., a subsidiary of SNC-Lavalin. Mr. Kelly is a Chartered Accountant and has a B. Comm. (Honours) degree from University College Dublin.

**Paul P. Koenderman** is Executive Vice-President, Aecon Group Inc. and CEO, Aecon Industrial Group. Mr. Koenderman has extensive experience in the industrial sector, serving in senior positions in the power generation field as well as the petro-chemical and pulp and paper industries. He was President of Babcock & Wilcox Canada for over ten years and spent five years in the Babcock & Wilcox U.S. operations, where he became Senior Vice President and Group Executive of the Power Generation Group responsible for all of the Babcock & Wilcox U.S. operations. He graduated from the University of Waterloo with a degree in Mechanical Engineering in 1971 and completed an Executive MBA program at Northeastern University in Boston in 1981.

**Teri McKibbin** is President of Aecon Civil and Utilities. Mr. McKibbin has been involved with the management of construction-related companies for 25 years including founding, acquiring and integrating companies and the overall management of companies that are active in all aspects of infrastructure construction. Awarded the Canadian Construction Association's Gold Seal Project Manager Certification in 1997, Mr. McKibbin is also on the Aecon - Lafarge Caledon Board of Directors; the Aecon - Alarie Joint Venture Executive Board; the Utility Contractors Association of Ontario Board of Directors and the Ontario Roadbuilders Association Board of Directors. Mr. McKibbin attended Carleton University's Geology as well as Integrated Science and Economics programs and has been with Aecon since 1996.

**Robert J. (Bob) Molgat** is President of Aecon Buildings which specializes in the construction of office, institutional, high-rise residential, retail, airport, hospitality, entertainment and gaming facilities. Mr. Molgat brings to Aecon an extensive background in the buildings construction and development sector, most recently as President and CEO of Eastern Construction. Prior to his time at Eastern, Mr. Molgat worked 18 years at Marathon Realty where he spent six years leading Marathon's Buildings Group and was Executive Vice President of Marathon Developments Inc. Mr. Molgat graduated in 1977 with a B. Comm. (Honours) degree from the University of Manitoba.

**Steven N. Nackan** is the President of Aecon Concessions and is responsible for Aecon's infrastructure development and concession management activities. Prior to joining Aecon in 2002, Mr. Nackan worked for the global law firm of White & Case LLP, advising government agencies, banks and industry in the development, implementation and financing of major international infrastructure projects. Mr. Nackan studied in Boston where he gained a Bachelor of Arts degree in Psychology from Brandeis University and a Juris Doctor degree from Boston College Law School.

**J. Mitchell Patten** is Vice-President, Corporate Affairs and Vice-President, Human Resources of Aecon and is responsible for managing the Corporation's positioning in the marketplace (including marketing, investor relations, public affairs and corporate communications) and for managing Aecon's human resources department. Prior to joining Aecon in 2001, Mr. Patten was President of the Olympic Sports and Waterfront Development Agency, established by the Ontario government to coordinate its involvement in the redevelopment of Toronto's waterfront and in the city's 2008 Olympic bid. His career has included service in the office of three Ontario Premiers as well as several years as a strategic planning consultant and as Vice President of Canadian Highways International Corporation from 1996 to 1999.

**H. William (Bill) Pearson** is an Executive Vice President of Aecon and the President and CEO of Canadian Highways International Corporation. Mr. Pearson's career in the construction, engineering and development industry spans over 30 years. He spent more than ten years with

AGRA Inc., including serving as President of AGRA Development Group. Prior to joining AGRA, Mr. Pearson worked with SNC-Lavalin where he gained an extensive background in international projects, eventually becoming President of SNC International. Mr. Pearson has a B.Sc., Civil Engineering from the University of Detroit and has completed numerous graduate level courses in hydrodynamics and mathematics.

**Douglas E. Steels** is President of Aecon Constructors focusing on major international projects which include the New Quito International Airport, the Nathpa Jhakri hydroelectric project and the Cross Israel Toll Highway project. Doug's career with Aecon began after his graduation from the University of Windsor in 1969. He has held the positions of field engineer, project engineer, senior estimator, general superintendent, project manager, contracts manager and chief estimator. Doug is a member of the Association of Professional Engineers of the provinces of Alberta, British Columbia, Quebec and Ontario.

**L. Brian Swartz** is Senior Vice-President, Legal and Commercial Services at Aecon and is responsible for managing the provision of legal, corporate secretarial, safety, labor relations and procurement services. He also has responsibility for insurance and bonding matters and coordinates Aecon's acquisition and divestiture initiatives. Prior to joining Aecon in 1997, Mr. Swartz was General Counsel and Corporate Secretary to the Ontario Transportation Capital Corporation. He has been actively involved in the development of several major infrastructure projects in Canada and abroad. Mr. Swartz is a graduate of Osgoode Hall Law School in Toronto and is continuing legal education liaison and a member of the Executive Committee of the Construction Law Section of the Ontario Bar Association.

**Gernot Wittig** is Senior Vice-President, Contracts and Project Controls. Mr. Wittig has several years of experience in project management and control within buildings and civil construction. His experience with several global projects, in regions including Asia Pacific, Middle East, Europe and Russia, add a unique international perspective to the Aecon executive team. Mr. Wittig obtained his financial engineering degree from the University of Augsburg, Germany in 1993. Before coming to Aecon in 2004, Mr. Wittig worked for Hochtief AG and Bilfinger Berger AG in Germany.

## **7.2 Cease Trade Orders, Bankruptcies, Penalties and Sanctions**

As disclosed in the Management Information Circular dated May 11, 2005, Dr. Ing. Lütkestratkötter was a director of Phillip Holzmann AG when it filed for insolvency under German law on March 21, 2002.

## **7.3 Conflicts of Interest**

Michael Butt is President and a Director of Buttcon, a general contractor based in the Toronto, Ontario area. Buttcon may bid on some projects in the Buildings segment that Aecon is also bidding on. Mr. Butt has agreed to excuse himself from portions of Board of Directors' meetings when discussions take place on projects where he may be in a potential conflict of interest.

Four directors of the Corporation are also officers or consultants to Hochtief AG or its subsidiaries which may bid on some projects that Aecon may bid on. Where appropriate said directors may be asked to excuse themselves to avoid conflicts of interest.

## **ITEM 8**

### **LEGAL PROCEEDINGS**

In the ordinary course of its business, Aecon may be subject to certain contractual claims and contingent liabilities (some of which may be substantial) in connection with projects in which it

has been historically involved. Disputes with clients for additional payments owing as a result of changes in contract specifications, delays, additional work or changed conditions are an unfortunate but unavoidable part of the construction process. See Section 3.2 "Risk Factors-Litigation Risk". However, the Corporation is not a party to any individual proceedings involving the Corporation, its business, or operations which is likely to have a material adverse effect on the business, operations or financial conditions of the Corporation as a whole. To the knowledge of the Corporation, no such legal proceedings are contemplated.

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 an extension of contract time as well as claims for significant compensation arising from the costs of delays. Please see Section 3.2 "Risk Factors - Large Project Risk" for additional details.

## **ITEM 9**

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as disclosed herein, no director or senior officer of the Corporation and, to the knowledge of the directors and senior officers of the Corporation, none of their respective associates or affiliates, nor any person who beneficially owns or exercises control or direction over more than 10% of the outstanding Common Shares, nor their respective associates or affiliates, has had any material interest, direct or indirect, in any transaction since the commencement of the Corporation's last financial year or in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries.

Since Hochtief's initial investment in the Corporation in 2000, it and Hochtief Canada have entered into various agreements and arrangements with or relating to the Corporation and certain of its subsidiaries, including those matters described below:

- (a) On March 20, 2000, Hochtief Canada and the Corporation entered into a credit agreement relating to a secured loan (the "Convertible Loan") provided by Hochtief Canada to the Corporation in the original principal amount of \$9,939,993. As of December 31, 2005, the principal amount outstanding under the Convertible Loan was \$7,731,238. Hochtief Canada has the right to convert the principal amount of such loan, or any portion thereof, at any time before June 30, 2006, into common shares at a conversion price of \$3.60 per common share. The Convertible Loan creates a security interest, behind the security granted to the Corporation's bankers, which includes assignment of accounts receivable, holdbacks receivable and pledges of inventory, equipment and property and other assets of the Corporation. Hochtief converted the outstanding balance into 2,147,566 common shares of the Corporation at a price of \$3.60 per share on March 15, 2006 in accordance with the terms of the Convertible Loan.
- (b) Commencing in 2000, Hochtief provided guarantees to ABN AMRO Bank in respect of certain letters of credit and performance guarantees provided by ABN AMRO Bank in respect of the Corporation's involvement through ACGI, its wholly owned subsidiary, in the Nathpa Jhakri Project. As at February 28, 2006, the amount of the guarantees provided by Hochtief is approximately \$17,799,156 in respect of a working capital facility and \$7,377,985 in respect of performance guarantees, for a total exposure to Hochtief of approximately \$25,177,141. ACGI and Hochtief entered into an Indemnity Agreement dated April 4, 2001 whereby ACGI agreed to pay Hochtief any amounts Hochtief is required to pay ABN AMRO Bank under the above guarantees.
- (c) The Convertible Loan and the indemnity obligations of ACGI referred to in (b) above are secured by the assets of the Corporation, ACGI and certain other material subsidiaries of

the Corporation. This security is subject to a subordination agreement between Hochtief Canada and the Corporation's bank lenders.

For further information regarding non-material related party transactions, please see Item 20 "Related Party Transactions" in the 2005 audited annual financial statements available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **ITEM 10**

### **TRANSFER AGENTS AND REGISTRARS**

The Computershare Trust Company of Canada of Toronto, Ontario is the Transfer Agent and Registrar for the common shares of the Corporation.

## **ITEM 11**

### **MATERIAL CONTRACTS**

On November 23, 2004 Aecon acquired the assets and operations of Westeinde Construction Ltd. ("Westeinde"). At the time, Westeinde was a private company based in Ottawa, Ontario. As a result of the acquisition, Aecon's capacity and market knowledge as it relates to the Buildings business in the Ottawa area and certain other specific markets was significantly increased. Westeinde was subsequently amalgamated with ACGI.

In March 2004, Aecon entered into an agency agreement with a syndicate of agents led by Paradigm Capital Corporation to offer 4,000,000 common shares at a price of CDN\$5.25 per share. Pursuant to the agreement, the agents were granted an over-allotment option, exercisable for 30 days following the closing to acquire an additional 600,000 shares at C\$5.25. On March 18, Aecon announced the closing of the financing having sold 4,600,000 shares (including the exercise of the over-allotment) for gross proceeds of CDN\$24,150,000. Please see press releases dated March 12 and 18, 2004 filed on SEDAR for additional details.

In May 2004, Aecon announced that it had acquired the assets and operations of Cegerco for \$800,000 plus potential earn-out payments over the next four (4) years totaling \$1,200,000.

In November 2004, the Corporation issued and sold a total of 30,000 Convertible Debentures at an issue price of CDN\$1,000 per Convertible Debenture. See Item 6.2, "Prior Sales" of the 2005 AIF for additional details.

In December 2004, Aecon sold its 38.75% interest in Canatom NPM Inc., a nuclear engineering company to SNC-Lavalin, the majority shareholder in the former joint venture. Under the refined terms, Canatom paid Aecon a \$2.75 million dividend prior to the sale. SNC-Lavalin then bought Aecon's shares in Canatom for \$8.25 million, resulting in total proceeds to Aecon of \$11 million. See news releases dated November 18, 2004 and December 16, 2004 available on SEDAR for additional details.

On January 24, 2005, the Corporation closed a series of transactions, first announced on September 27, 2004, to increase its stake in Derech Eretz Highways (1997) Ltd. from an effective 22.2% to 25%. Please see "Supplemental Disclosures – Contractual Obligations" in the MD&A for additional detail.

In March 2005, the Corporation issued and sold a total of 32,500 Convertible Debentures at an issue price of CDN\$1,000 per Convertible Debenture. See Item 6.2, "Prior Sales" for additional details.

In February 2006, Aecon entered into an underwriting agreement with a syndicate of agents led by National Bank Financial Inc. and Raymond James Ltd. to issue 4,500,000 common shares on a bought deal basis at a price of CDN\$6.25 per share. Pursuant to the agreement, the underwriters were granted an over-allotment option, exercisable for 30 days following the closing to acquire an additional 15% of the offering at a price of CDN\$6.25 per share. On March 17, Aecon announced the closing of the financing having sold 4,500,000 shares for gross proceeds of CDN\$28,125,000. As of March 30, 2006, the underwriters have not yet exercised the over-allotment option. Please see press releases dated February 27 and March 17, 2006 filed on SEDAR for additional details.

Please see public filings for March 9 and 10, 2006 available on SEDAR at [www.sedar.com](http://www.sedar.com) for further details.

## **ITEM 12**

### **INTERESTS OF EXPERTS**

#### **12.1 PricewaterhouseCoopers LLP**

The Corporation's auditors are PricewaterhouseCoopers LLP, Chartered Accountants ("PWC"). PWC provided an opinion on the Financial Statement for the year ended December 31, 2004 contained in filings pursuant to National Instrument 51-102 during the year ended December 31, 2005. The direct and indirect interests of PWC and its partners do not exceed one percent in any securities of the Corporation.

PWC have prepared an independent auditors' report dated March 7, 2006 in respect of the Corporation's consolidated financial statements with accompanying notes as at and for the years ended December 31, 2005 and December 31, 2004. PWC have advised that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

## **ITEM 13**

### **AUDIT COMMITTEE**

#### **13.1 Audit Committee Charter**

The text of the Audit Committee's Charter is attached hereto as Appendix A.

#### **13.2 Composition of the Audit Committee**

The current members of the Audit Committee are Michael Butt (Chair), Austin Beutel and John DiCiurcio. All members of the Audit Committee are: (i) independent or exempt (as discussed in Item 13.5 below) and (ii) financially literate.

#### **13.3 Relevant Education and Experience**

Please see "Biographies of Directors and Executive Officers" under Item 7 Directors and Officers for additional background information.

#### **13.4 Reliance on Certain Exemptions**

The Corporation did not rely on any exemptions during the year ended December 31, 2005.

### **13.5 Reliance on Exemption in Subsection 3.3(2)**

If John DiCiurcio were deemed to not be independent as a result of his “affiliation” with Hochtief, the Corporation would be entitled to rely upon the exemption in the above noted subsection for the year ended December 31, 2005. Mr. DiCiurcio was selected on the basis of his financial literacy, as well as his relevant background, education and experience (including construction).

### **13.6 Audit Committee Oversight**

All recommendations of the Audit Committee were subsequently adopted by the Board of Directors.

### **13.7 Pre-Approval of Policies and Procedures**

The Audit Committee approves all non-audit services engagements.

### **13.8 External Auditor Service Fees**

The following table sets forth the fees paid to PWC, the external auditors of the Corporation, for services rendered for fiscal years ended December 31, 2005 and 2004:

Description	2005	2004
Audit Fees	\$616,500	\$585,950
<b>Audit Related Fees</b>		
Quito Bid Cost Report	\$45,000	--
Joint Venture Audit	--	\$10,000
Pension Plan Audit	\$37,500	\$37,500
Quarterly Meeting and Accounting Matters	\$35,500	\$35,500
Prospectus and Related Translation	\$60,000	\$164,500
Translation Services	\$60,000	\$61,500
Tax Services	\$12,000	--
<b>Total Fees</b>	<b>\$866,500</b>	<b>\$894,950</b>

## **ITEM 14**

### **ADDITIONAL INFORMATION**

Additional information on the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

In addition to the information available on SEDAR, Aecon will provide to any person or company, upon request to the Corporate Secretary of the Corporation at the registered office of the Corporation:

- (a) when the securities of Aecon are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a proposed distribution of its securities,
  - (i) one copy of the current renewal annual information form (“AIF”) of the Corporation, together with one copy of any document, or the pertinent pages of any document, incorporated therein by reference into the AIF;
  - (ii) one copy of the comparative financial statements of Aecon for the Corporation’s most recently completed financial year for which financial statements had been issued, together with the report of the auditors thereon, and one copy of any

interim financial statements of Aecon for any period after its most recently completed financial year;

- (iii) one copy of the information circular of the Corporation in respect of its most recent annual meeting of the shareholders which involves the election of directors or one copy of any annual filing prepared in lieu of that information circular;
  - (iv) one copy of any other documents that are incorporated by reference into a preliminary short form prospectus or a short form prospectus and not required to be provided under (i) to (iii) above; or
- (b) at any time, one copy of any of the documents referred to in (a)(i), (a)(ii), and (a)(iii) above, provided the Corporation may require the payment of a reasonable charge if the request is made by a person or company that is not a security holder of the Corporation.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Aecon's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Corporation's Management Information Circular dated May 11, 2005 for the most recent annual meeting of shareholders held on June 21, 2005. The next annual meeting is scheduled for June 20, 2006. Additional financial information is provided in the Corporation's audited consolidated financial statements for the year ended December 31, 2005 and its annual MD&A for the year ended December 31, 2005 and in its unaudited financial statements for its fiscal quarter ended December 31, 2005. A copy of the foregoing documents may be obtained by shareholders upon request from the Secretary of the Corporation.

## **APPENDIX A**

### **Audit Committee**

#### **Appointment and Purpose**

The Audit Committee is appointed by the Board of Directors (the “Board”) to assist the Board in monitoring:

1. the integrity of the financial statements of the Corporation;
2. the compliance by the Corporation with applicable legal and regulatory requirements relating to audit and internal controls;
3. the independence, qualifications and performance of the Corporation's external auditors; and
4. the Corporation's internal controls and audit function.

The Audit Committee shall be responsible for the selection (subject to Board and shareholder approval), compensation and oversight over the work of the Corporation's auditors.

#### **Composition**

The Audit Committee shall be composed of three members. The Board shall appoint a Chair. The members of the Audit Committee shall meet the independence and experience requirements of the principal securities exchanges on which the Corporation's common shares are traded. In particular, all members shall be “unrelated” directors, who are independent of Management and free from any interest and any business or other relationship which could, or be reasonably perceived to, materially interfere with the directors' ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholdings.

The members of the Audit Committee must have the requisite collective skills necessary to enable the committee to carry out its responsibilities, as set out in this Charter. One member of the Audit Committee must be “financially literate” as may be defined from time to time by the regulatory authorities.

#### **Authority and Responsibilities**

The Audit Committee shall have the authority and responsibility to recommend to the Board the appointment or replacement of the Corporation's auditors (subject to shareholder approval), shall approve all auditing engagement fees and terms and all non-audit engagements with the Corporation's auditors and shall determine which non-audit services the Corporation's auditors are prohibited from providing. The auditors shall be accountable to the Board and the Audit Committee as representatives of the Corporation's shareholders. The Audit Committee, as a committee of the Board, shall be directly responsible for the oversight of the work of the Corporation's auditors (including resolution of disagreements between Management and the auditors) for the purpose of preparing or issuing an audit report or related work, and the auditors shall report directly to the Audit Committee.

The Audit Committee shall have the authority to recommend that the Board retain special legal, accounting or other consultants to advise the Committee and to conduct or authorize investigations into any matters within the scope of its responsibilities. The Audit Committee may request any officer or employee of the Corporation or the Corporation's outside counsel or

independent auditor to attend any meeting of the Committee or to meet with any members of, or consultants to, the Committee.

While the Audit Committee has the responsibilities and powers set forth in this Charter, and its members may have financial experience, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate. This is the responsibility of Management and the independent auditor.

The Audit Committee shall make regular reports to the Board. The Audit Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Audit Committee shall annually review its own performance.

In carrying out its responsibilities, the Audit Committee shall undertake such tasks and responsibilities that, in its judgment, would most effectively contribute to and implement the purposes set out above. Set out below are the principal recurring activities of the Audit Committee in carrying out its oversight responsibility:

1. Review and evaluate the effectiveness of the Corporation's process for assessing significant risks or exposures and the steps Management has taken to monitor and control such risks to the Corporation.
2. Consider and review with Management and the independent auditors:
  - (a) The effectiveness of, or weaknesses in, the Corporation's internal controls, including the status and adequacy of information systems and security.
  - (b) Any related significant findings and recommendations of the independent auditors together with Management's responses, including the timetable for implementation of recommendations to correct weaknesses in the internal controls.
3. Instruct the independent auditors to communicate directly to the Audit Committee any material difficulties or disputes with Management.
4. Determine the remuneration for the services required to support the independent auditor's opinion on the Corporation's financial statements.
5. Receive at least annually written reports from the independent auditor, discuss such reports with the auditor, and if so determined by the Audit Committee recommend that the Board take appropriate actions. Such reports from the independent auditor should include:
  - (a) Outline of all existing and contemplated relationships between the independent auditor and the Corporation;
  - (b) Confirm that, in the auditor's professional judgment, it is independent of the Corporation; and
  - (c) Description of the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues;

and (to assess the auditor's independence) all relationships between the independent auditor and the Corporation.

6. Evaluate the performance of the independent auditor and, if so determined by the Audit Committee, recommend that the shareholders replace the independent auditor.
7. Review and approve the planning and staffing proposed for the audit in advance of its commencement.
8. Review the annual audited and interim unaudited financial statements and accompanying Management Discussion and Analysis ("MD&A") with Management and the independent auditor, discuss matters arising from the audit under generally accepted accounting standards, including major issues regarding accounting and auditing principles and practices, and discuss the adequacy of internal controls, that could materially affect the Corporation's financial statements, and recommend the approval of such financial statements and MD&A to the Board before they are publicly released or filed with regulators.
9. Review with the independent auditor any problems or difficulties the auditor may have encountered and any managerial letters provided by the auditor and the Corporation's response to such letters. Such review should include:
  - (a) Any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information; and
  - (b) Any changes required in the planned scope of the audit.
10. Meet with the independent auditor to review the independent auditor's judgements about the quality and acceptability of the Corporation's accounting principles and underlying estimates in the financial statements.
11. Prepare such reports and certifications or other evidence of review of financial information by the Audit Committee as may be required pursuant to applicable securities laws or stock exchange requirements.
12. Review the Corporation's policies and procedures regarding compliance with applicable financial and audit related laws and regulations.
13. Review and discuss with Management disclosure of financial information, including earnings press releases, as well as financial information and earnings guidance, if any, provided to analysts and rating agencies.
14. Meet with Management to review the Corporation's major financial risk exposures and the steps Management has taken to monitor and control such exposures.
15. Review major changes to the Corporation's accounting principles and practices as suggested by the independent auditor or Management.
16. Discuss and review with Management and the independent auditors any significant financial reporting issues and judgements made in connection with the preparation of the Corporation's financial statements, including review of analyses prepared by Management or the auditors regarding significant financial reporting issues and judgements, analyses of the effects of alternative GAAP methods on the financial statements, and the effect of regulatory and accounting initiatives, and off-balance sheet structures, on the financial statements.

17. Meet separately, periodically, with Management, including the Chief Financial Officer and with independent auditors.
18. Set clear hiring policies for employees or former employees of the independent auditors.
19. Establish procedures for (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting or audit matters, and (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding accounting or auditing matters.
20. Review disclosures made by the Corporation's Chief Executive Officer and Chief Financial Officer regarding compliance with their certification obligations under applicable securities law or stock exchange requirements, if any, including in respect of the Corporation's internal controls for financial reporting and evaluations thereof, and disclosure controls and procedures.