

AECON

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**Aecon Group Inc.
Second Quarter Report**

Six months ended June 30, 2002

AECON

Report to Shareholders

Dear Fellow Shareholders,

As anticipated in our 2001 annual report, Aecon experienced a softening of consolidated results in the first half of 2002, with an increased net loss compared to the first half of 2001. This increased loss was recorded entirely in our Industrial segment and was most pronounced in the once through steam generator business, which has been hit harder than anticipated by the downturn in the power sector.

Aecon's other three segments: Infrastructure, Buildings and Corporate/Other, reported increased operating profits or a decreased operating loss in the first six months of 2002 compared to the same period last year.

Overall, Aecon's revenue in the first six months of 2002 grew to \$464 million, a 3.8 percent increase over the same period last year despite a second quarter decline of 8.7 percent. For the six months, Aecon reported a loss of \$4.97 million or \$0.25 cents a share, an increase in loss of approximately \$3.6 million over last year. The second quarter loss was \$3.92 million or \$0.17 per share, compared to net income of \$794 thousand or \$0.04 per share, in the second quarter last year.

During the second quarter, Aecon's backlog ended four quarters of decline with a \$30 million gain to \$762 million. This improvement in backlog is encouraging and was not expected until the second half of the year.

During the quarter Aecon was awarded \$266 million in new contracts, up from \$196 million in the same period last year. Year to date Aecon has been awarded over \$375 million in new business.

Aecon completed a major financing initiative with the successful private placement of approximately 6.2 million common shares and for net proceeds of \$32.5 million. The funds provided by the equity issue have further strengthened Aecon's balance sheet, allowing total debt to be reduced by more than 25 percent to \$63.7 million and working capital to be more than doubled to \$44.6 million during the quarter. These achievements have helped to provide the financial strength required to continue to grow our company.

Looking at our performance on a segmented basis, Aecon's Infrastructure segment which accounted for 41 percent of Aecon's total revenue in the first half of 2002, posted a healthy gain in operating profit from \$0.5 million in the first half of last year to \$1.6 million this year.

Infrastructure's improved operating profit was earned despite lower revenue in the first half of the year compared with the same period last year. The revenue decline was largely due to the completion last year of the Vancouver Sky Train project as well as unusually inclement weather this spring and a reduced number of tenders issued by Ontario's Ministry of Transportation during the strike by the Ontario Public Service Employees.

The increased margins in this segment were achieved, in part, through the improved performance of our hydro-electric project in India as well as reduced overheads and cost reductions across the segment.

In the first half of 2002 Aecon incurred foreign exchange losses amounting to \$1.4 million, largely in the Infrastructure segment, related to undistributed profits from international projects. Since the net investments in these foreign operations have yet to be repatriated and converted into Canadian dollars, these foreign exchange losses remain unrealized.

The Buildings segment, which provided 39 percent of our total revenue in the first half of 2002, continues to perform extremely well with an operating profit of \$2.6 million, an increase of 45 percent over last year.

Revenue in the Buildings segment increased 78 percent in the first half of the year to almost \$182 million. This growth was led by results in the suburban office market as well as the educational and multi-unit residential sectors.

While this kind of year over year improvement is not expected to continue throughout the second half, the Buildings segment is expected to produce strong earnings for Aecon this year.

Our Industrial segment, which accounted for 15 percent of Aecon's revenue in the first half of 2002, continues to struggle, largely as a result of the ongoing weakness in the power sector.

The Industrial segment reported an operating loss of \$5.3 million in the first half and \$3.1 million in the second quarter after posting operating profits in both periods last year. Revenue from this segment was down 21 percent in the first half and 33 percent in the second quarter.

Within the Industrial segment, Innovative Steam Technologies ("IST"), our wholly-owned manufacturing subsidiary, has been hit hard by the extremely soft demand for their once through steam generators as a result of reduced capital spending in the power industry. We do not anticipate a quick turnaround in this segment, as the downturn in the power sector has been more severe than anticipated. For this reason, we have taken steps to reduce overhead costs in both our IST and fabrication divisions until a recovery in their markets is underway.

Finally, the Corporate/Other segment continues to reduce its operating loss due to the combined effects of improved margins in the nuclear sector earned through our 38.75 percent interest in Canatom NPM, as well as further reductions in corporate costs for the period. This segment provided 5 percent of our revenue in the first half of 2002.

Major achievements and contracts signed during the second quarter of 2002 include:

- the aforementioned successful closing of a \$32.5 million special warrant financing underwritten by a syndicate led by Yorkton Securities Inc. and including Griffiths McBurney & Partners and National Bank Financial Inc.;
- a \$61 million contract from Hydro-Quebec for the construction of a hydro-electric dam on the Toulmoustouc River;
- a \$35.5 million contract from Queen's University in Kingston, Ontario for the construction of two new student residences;
- a \$24.5 million contract from the Ministry of Transportation of Ontario to widen portions of Highway 11 near North Bay - awarded to a joint venture in which Aecon holds a 58 percent interest;
- an \$11 million contract for the design and installation of the Lexus 483N Paint Shop in Toyota's Cambridge, Ontario assembly plant - awarded to a joint venture in which Aecon holds a 62 percent interest;

- an \$11.6 million contract from the Ministry of Transportation of Quebec for the reconstruction of Mgr Langlois Bridges 3 and 4 in the municipality of Coteau-du-Lac near Valleyfield;
- a \$6.2 million contract from the City of Edmonton for the rehabilitation of the Capilano Bridge; and
- the payment of a \$0.12 per share dividend, representing a 20 percent increase over the dividend paid in 2001.

Financially and operationally, Aecon is very sound and is enjoying a great deal of success on several high profile projects. The Nathpa Jhakri hydro-electric project in India has made great progress after some early uncertainty, the new terminal building at Pearson airport is on schedule and I am pleased to report that the first section of the Cross Israel Highway was opened on August 4. We anticipate the official opening as well as the start of tolling this fall.

Aecon remains committed to the long-term goal expressed at our annual meeting of becoming the largest Canadian company in our industry by the end of the decade while producing returns for our shareholders above the industry average.

We will accomplish this by continuing our diversification strategy, by mitigating risk through disciplined management and by pursuing both organic and acquisitive growth while reducing costs and increasing margins to produce improved results for Aecon and our shareholders.

As we enter the second half of 2002, our franchise is strong, our backlog has ended a four-quarter trend of negative growth, our balance sheet is solid and our outlook for 2002 remains positive in three of our four segments. Despite the soft consolidated results in the first half of the year and the tougher than expected market in our Industrial segment, I remain optimistic that, with a concerted effort, we can make up ground in the second half of 2002 and attain revenue and net income levels approaching those achieved in 2001.

On behalf of the Board of Directors,



John M. Beck

Chairman and Chief Executive Officer

August 9, 2002

Management's Discussion and Analysis of operating results and financial condition

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. ("Aecon") should be read in conjunction with the Company's Interim Consolidated Financial Statements and Notes.

Results of Operations

Introduction

Aecon operates in three principal segments within the construction and infrastructure development industry – Infrastructure, Buildings and Industrial. The Company's joint venture interest in the nuclear power market, as well as its corporate activities, are included in a fourth segment titled Corporate and Other.

The construction industry in Canada is seasonal in nature due to weather conditions, with less work performed in the winter and early spring months. Accordingly, Aecon experiences a seasonal pattern in its operating results with the first quarter of the year typically reflecting the lowest revenue as well as operating losses. Results in any one quarter are therefore not indicative of results in any other quarter or for the year.

Consolidated

Revenues for the second quarter of 2002 amounted to \$236.3 million, a decline of 8.7% from 2001. Aecon's Buildings segment grew revenues by 51.7% in the quarter but each of the other three segments had lower sales than the year before. For the first six months of the year revenues of \$464.4 million were 3.8% higher than the previous year, all of which was due to gains in the Buildings group.

Operating margins, which are equal to revenues less costs and expenses, amounted to 5.5% of revenues in the quarter, compared to 7.4% of revenues for the same period of 2001. Margins fell in each of the three principal segments in the second quarter. For the first half of the year margins were 6.0% of revenues, compared to 7.1% 2001. The Infrastructure segment showed improvement in the six-month period, due to the contribution from the Nathpa Jhakri hydro-electric power project in India, but the Buildings and Industrial segments were both lower than last year. Operating results in each of the three principal segments are discussed under Reporting Segments.

Marketing, general and administrative expenses ("MG&A") for the second quarter of 2002 amounted to \$14.9 million, an increase of 4.0% over the same period of 2001. For the six months, MG&A amounted to \$28.7 million, which was 6.7% more than the first six months last year. The increases are principally the result of expanded activities within infrastructure development and fabrication

Reporting segments

Infrastructure

Infrastructure Financial Highlights

\$ millions	Three months ended June 30			Six months ended June 30		
	2002	2001	% Change	2002	2001	% Change
Revenues	\$ 105.2	\$ 138.2	(23.9)%	\$ 190.4	\$ 226.9	(16.1)%
Segment Operating Profit (Loss)	(0.1)	1.7	n/a	1.6	0.5	234.6%
Return on Revenue	(0.1)%	1.3%	n/a	0.8%	0.2%	298.9%

operations in western Canada as well as the establishment of a separate Quebec division.

Depreciation and amortization amounted to \$2.3 million for the second quarter, a slight decline from \$2.6 million in the same period of 2001. For the six months, depreciation and amortization of \$4.6 million was \$0.4 million higher than the same period of the previous year. In accordance with new recommendations of The Canadian Institute of Chartered Accountants, effective January 1, 2002, the accounting for goodwill has been changed from an amortization method to an impairment-only approach. As a result, goodwill is no longer systematically amortized to income, but is only expensed when there has been an impairment. In 2001 amortization amounted to \$0.3 million for the second quarter and \$0.5 million for the first half of 2001. No goodwill expense has been recorded in 2002.

Net interest expense amounted to \$1.3 million in the second quarter and was \$1.8 for the first half of the year. There was an increase in expense in the second quarter over the first three months of the year, despite the benefit of cash raised on issuance of Special Warrants, because of interest recorded within the Nathpa Jhakri hydro-electric power project in India. This was due to the settlement of terms related to contract advances from the owner. Nevertheless, interest for the first half was \$0.6 million or 25.1% lower than 2001.

Aecon is currently involved in several international projects, the two largest being in India and Israel. These involve currency risk since cost effective hedging options to fully hedge this exposure are not generally available. The Company incurred losses on foreign exchange amounting to \$0.9 million in the second quarter and \$1.4 million in the first half. Since the net investments in these foreign operations, which are principally in Indian rupees, Israeli shekels and United States dollars, have yet to be repatriated and converted into Canadian dollars, these losses represent unrealized foreign exchange losses.

The effective rate of tax recovery amounted to 23.6% in the second quarter, and 25.0% for the first half. These low rates of recovery are the result of incurring losses during the first half of the year in businesses, such as the manufacturing and processing operations in the Industrial segment, which have lower than average tax rates. For the full year, however, it is expected that the Company's overall consolidated tax rate will be approximately 43%.

For the three months ended June 30, 2002 Aecon had a net loss of \$3.9 million, compared to a profit of \$0.8 million for the same period last year. For the first half of the year the Company incurred a loss of \$5.0 million, which compares with a loss of \$1.3 million in 2001.

Revenues in the second quarter declined by \$33 million in the Infrastructure segment. The largest decline was in road building operations in Ontario due to poor weather conditions and less work being tendered by Ontario's Ministry of Transportation, largely due to a strike by Ontario civil servants. Volume was \$18 million less than the second quarter of 2001, which, in contrast to 2002, was favourably affected by weather conditions. Revenue from utilities construction and services declined by \$11 million, principally due to lower volume at its Traffic Technology division as a major highway lighting contract was completed late last year. Construction progress on the Cross Israel highway was also slower in the second quarter compared to the same period of 2001 and revenue generated from this project was down by \$5 million. For the six months, revenues were \$37 million lower than 2001 due to similar factors affecting the second quarter. In addition to these factors, completion in 2001 of the Sky Train rapid transit system project in Vancouver resulted in a reduction in revenue of \$10 million. Improved performance, and the recognition of contribution, from the Nathpa Jhakri hydroelectric power project in India partially offset these declines.

The Infrastructure segment incurred an operating loss of \$0.1 million in the second quarter compared to a profit of \$1.7 million in the corresponding period of 2001. Earnings from Ontario road building operations and the Cross Israel highway project fell by \$2.9 million due to the decline in revenues noted above. Contribution from utilities construction and services was only slightly less than 2001, despite the lower revenues, as margins improved and overheads were reduced through spending restraints. Loss provisions amounting to \$0.7 million were taken in the quarter on two large civil jobs in Quebec, although negotiations are continuing with the clients in order to recover costs that Aecon incurred. Progress on the Nathpa Jhakri hydro-electric power project in India continues to be satisfactory and a contribution of \$2.1 million was recognized in the quarter. For the project to date \$15.3 million has been recognized, of which \$5.3 million was recorded in fiscal 2001. These contributions largely represent the recovery of costs previously expensed. For the first six months of the year the segment operating profit of \$1.6 million was more than triple the same period of 2001.

Buildings

Revenues from the Buildings segment continued to yield strong year-over-year gains in the second quarter as the number of larger projects undertaken has increased significantly from 2001. Construction in the suburban office segment has been strong year-to-date but is projected to decline over the remainder of the year. This decline is expected to be offset by increased activity in the Interiors and Renovations division and additional projects in the

high-rise residential market. The buildings group has been successful in penetrating the high-rise residential market with two projects currently underway.

Much of the work undertaken by the Buildings segment is construction management or fee based. Accordingly, the revenue recorded only reflects the management fee income and not the full value of the construction. If the value of construction that the group manages were included in revenue, its total construction volume for the three months ended June 30, 2002 would be \$197 million, which represents a 64.8% increase over the value of work under management in the same period of 2001. For the six months, the value of work under management was \$373 million, representing an 83.6% increase over the first half of 2001. The Buildings' segment largest construction management contract is the Pearson Airport joint venture, which continues on schedule towards the initial opening date of October 2003 and final completion in 2006.

Segment operating profit increased at a lower rate than revenue in the quarter and six month periods as competition among construction companies has increased in all major market segments. The second quarter was also affected by weaker operating margins from the Seattle market. Geographically, the construction market in Southern Ontario is reasonably strong notwithstanding the difficult economic climate, but there has been a significant softening in the Seattle market.

Industrial

Revenues declined by \$16.6 million in the Industrial segment in the second quarter from the same period in 2001. This was due to weakness in fabrication work in western Canada, a decline in automotive industry volume and lower sales of once-through steam generators due to reduced capital spending in the power industry. Operating income fell by \$6.4 million, with more than three-quarters of the decline attributable to lower contribution from sales of once-through steam generators.

For the six months, revenues were less than 2001 by \$18.8 million and operating profit was down by \$11.6 million. A significant reduction in operating profit from the manufacture and sale of once-through steam generators represented \$9.4 million of the decline.

The swift and significant downturn in the power sector had a more pronounced impact in the steam generator business than in other areas in the company due largely to the substantial fixed overhead costs associated with the manufacturing elements of this business. While the downturn in the power sector was more rapid and dramatic than anticipated, significant initiatives, including staff reductions, are now well underway to reduce fixed costs in this business unit.

Buildings Financial Highlights

\$ millions	Three months ended June 30			Six months ended June 30		
	2002	2001	% Change	2002	2001	% Change
Revenues	\$ 87.8	\$ 57.9	51.7%	\$ 181.7	\$ 101.9	78.3%
Segment Operating Profit	1.1	0.9	13.5%	2.6	1.8	45.1%
Return on Revenue	1.2%	1.6%	(25.2)%	1.4%	1.7%	(18.7)%

Industrial Financial Highlights

\$ millions	Three months ended June 30			Six months ended June 30		
	2002	2001	% Change	2002	2001	% Change
Revenues	\$ 33.3	\$ 49.9	(33.2)%	\$ 71.6	\$ 90.4	(20.8)%
Segment Operating Profit (Loss)	(3.1)	3.3	n/a	(5.3)	6.3	n/a
Return on Revenue	(9.2)%	6.6%	n/a	(7.4)%	7.0%	n/a

Corporate and Other

Other revenue, which is derived principally from the Company's 38.75% interest in Canatom NPM Inc., a nuclear consulting and project management firm, amounted to \$10.0 million in the second quarter compared to \$12.9 million in the corresponding period of 2001. The segment loss of \$1.8 million in the quarter compares with a loss of \$3.6 million in 2001. All of the \$1.8 million improvement in the three-month period was due to lower corporate costs.

For the six months, other revenue was \$20.7 million, compared to \$28.0 million in the first half of 2001. The segment operating loss of \$3.6 was \$4.9 million lower than the same period in 2001. Nuclear operations generated \$1.3 million of the improvement; losses on disposition of assets in 2001 accounted for \$1.0 million of the year-over-year reduction in costs and lower corporate expenses represented \$2.6 million of the improvement.

Financial Condition, Liquidity and Capital Resources

Cash and cash equivalents at June 30, 2002 totaled \$94.9 million, compared to \$98.6 million at the end of the first quarter and \$107.1 million at the end of 2001. Of these amounts, \$92.9 million, \$96.2 million and \$103.8 million respectively are on deposit in joint venture and affiliate bank accounts, which the Company cannot access directly.

Cash used in operations, before changes in other balances, amounted to \$3.3 million in the second quarter, which compares with a positive cash flow of \$2.6 million in the same period of 2001. For the first six months of the year, operating activities, before changes in other balances, resulted in a use of cash of \$3.5 million, compared to a use of \$0.1 million for the same period in 2001.

Changes in other balances related to operations, representing increases or decreases in working capital items, resulted in a use of cash of \$10.3 million in the second quarter of 2002 and \$25.8 million for the first half of the year. This compares with \$2.7 million provided from working capital changes in the second quarter of 2001 and \$6.7 million provided for the first half of last year. Although the changes in working capital resulted in a much greater use of cash in 2002 than in 2001, this was due to the comparatively low level of working capital existing at the end of 2001 in comparison to the end of 2000. As at June 30, net working capital is actually \$9.6 million lower than it was at the same time last year.

Purchases of property, plant and equipment have not been significant in 2002, amounting to \$0.9 million for the second quarter and \$1.8 million for the six months. This compares to \$5.3 million and \$8.2 million for the

corresponding periods of 2001. The Company is increasingly obtaining equipment by means of operating leases rather than outright purchase. Proceeds from the sale of property, plant and equipment amounted to \$6.1 million in the second quarter and included \$4.5 million on the sale and leaseback of the company's corporate office in Toronto.

Proceeds from the issuance of special warrants, after expenses, amounted to \$31.5 million in the second quarter of which \$6.3 million was used to repay term debt and the balance to pay down the company's revolving working capital operating lines, thereby increasing availability under those lines. On July 29, after filing a final prospectus with regulatory authorities qualifying the distribution of certain of the common shares, the Company issued 6,192,150 common shares upon the exercise of these special warrants. Also in the second quarter dividends of \$0.12 per share were declared and paid. Net cash provided from these financing activities amounted to \$8.4 million in the three months ended June 30, 2002 compared to \$2.8 million from financing activities in 2001. For the six months, cash generated from financing activities amounted to \$16.8 million compared to \$18.9 million last year.

The effect of foreign exchange on cash balances resulted in a reduction in cash of \$3.4 million in the second quarter and \$4.1 million for the six months. As noted previously, the net effect of foreign exchange on all assets and liabilities was a loss of to \$0.9 million in the quarter and \$1.4 million for the first half of the year.

Interest bearing debt amounted to \$63.7 million at June 30, 2002 compared to \$87.0 million at March 31, 2002, and \$78.9 million at the end of 2001. The composition of interest bearing debt is as follows (\$ millions):

	June 30 2002	March 31 2002	December 31 2001
Bank indebtedness	\$ 28.3	\$ 41.2	\$ 32.2
Current portion of long-term debt	5.9	8.6	8.7
Long-term debt	22.2	28.0	28.8
Convertible debenture	7.3	9.2	9.2
Total	\$ 63.7	\$ 87.0	\$ 78.9

Management considers that with internally generated cash flow, bank credit lines and the proceeds from the issue of Special Warrants, Aecon has sufficient capital to support its normal ongoing operations and is also now in a stronger position to selectively pursue other growth opportunities.

Outlook

As anticipated, second quarter and year to date results are generally down from the same periods last year as the overall economic downturn in the Canadian economy in 2001 works its way through the construction sector. At the same time, the company's backlog of work awarded but not yet completed increased by \$30 million to \$762 million, reversing four consecutive quarters of decline.

While this pattern of a softening of overall results and a reversal of the downward trend in backlog were anticipated by management in the company's 2001 annual report, the improved trend in backlog was not expected to take hold until the second half of 2002. This earlier than anticipated increase in backlog was generated by a \$35 million increase in the Infrastructure segment and an \$18 million increase in the Industrial segment, partially offset by declines in backlog recorded by the Buildings and Corporate & Other segments.

On a year over year basis, results from the Infrastructure segment are expected to improve in the second half of 2002 as the growing backlog begins to be worked-off, as recoveries from the Nathpa Jhakri hydroelectric project in India continue, and as the road building activities recovers from its slow start caused by the impact of the OPSEU strike and the unfavourable weather in the second quarter. The strong year over year growth within Buildings segment is not expected to continue at the same pace during the second half of the year, but overall its performance is expected to remain positive through the year. At the same

time the year over year decline in the Industrial segment is expected to continue. This decline in the Industrial segment is expected to be most pronounced in the once-through steam generator business, which has been hit even harder than anticipated by the downturn in the power sector.

Notwithstanding the soft results in the Industrial segment, management continues to be optimistic that the diversity of Aecon's operations and ongoing gains in backlog will result in consolidated revenues and net income approaching the levels achieved in 2001.

Forward-Looking Information

In various places in Management's Discussion and Analysis and in other sections of this document, management's expectations regarding future performance of Aecon was discussed. These "forward-looking" statements are based on currently available competitive, financial and economic data and operating plans, but are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future results of operations or financial position of Aecon, as well as statements preceded by, followed by, or that include the words "believes", "expects", "anticipates", "estimates", "projects", "intends", "should" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of Aecon and could cause those results to differ materially from those expressed in any forward-looking statements.

Consolidated Balance Sheets

(in thousands of dollars) (unaudited)

	June 30, 2002	December 31, 2001
Assets		
Current assets		
Cash and cash equivalents	\$ 94,930	\$ 107,097
Accounts receivable	168,039	187,259
Holdbacks receivable	42,975	40,655
Deferred contract costs and unbilled revenue	61,259	74,211
Inventories	18,209	11,156
Prepaid expenses	5,106	3,936
Future income tax assets	21,928	34,526
	412,446	458,840
Property, plant and equipment	84,952	92,772
Future income tax assets	21,087	3,787
Other assets	33,489	33,854
	<u>\$ 551,974</u>	<u>\$ 589,253</u>
Liabilities		
Current liabilities		
Bank indebtedness	\$ 28,361	\$ 32,180
Accounts payable and accrued liabilities	172,568	215,867
Holdbacks payable	31,219	27,769
Deferred revenue	92,287	101,260
Income taxes payable	2,995	3,034
Future income tax liabilities	34,548	46,239
Current portion of long-term debt	5,862	8,752
	367,840	435,101
Long-term debt	22,164	28,791
Other liabilities	3,110	2,922
Future income tax liabilities	19,359	7,097
Redeemable preferred shares of subsidiary	6,075	6,371
Convertible debenture (note 5)	7,299	9,195
	425,847	489,477
Shareholders' Equity		
Capital stock (notes 3 and 5)	36,567	33,713
Special warrants (note 4)	31,540	
Contributed surplus (note 2)	68	
Convertible debenture (note 5)	836	1,075
Retained earnings	57,116	64,988
	126,127	99,776
	<u>\$ 551,974</u>	<u>\$ 589,253</u>

Approved by the Board of Directors



John M. Beck, Director



Scott C. Balfour, Director

Consolidated Statements of Operations

For the Three Months and Six Months ended June 30, 2002 and 2001 (in thousands of dollars, except per share amounts) (unaudited)

	Three Months ended June 30		Six Months ended June 30	
	2002	2001	2002	2001
Revenues	\$ 236,341	\$ 258,904	\$ 464,386	\$ 447,222
Costs and expenses	223,362	239,691	436,374	415,261
Marketing, general and administrative expenses	14,908	14,336	28,713	26,903
Depreciation and amortization	2,349	2,578	4,587	4,201
Loss (gain) on sale of assets	(471)	(56)	(499)	837
Interest expense, net	1,322	1,006	1,839	2,454
	241,470	257,555	471,014	449,656
Income (loss) before income taxes	(5,129)	1,349	(6,628)	(2,434)
Income taxes				
Current	927	2,304	2,471	2,779
Future	(2,137)	(1,749)	(4,131)	(3,871)
	(1,210)	555	(1,660)	(1,092)
Net income (loss) for the period	\$ (3,919)	\$ 794	(4,968)	(1,342)
Earnings (loss) per share				
Basic	\$ (0.17)	\$ 0.04	\$ (0.25)	\$ (0.07)
Diluted	\$ (0.17)	\$ 0.04	\$ (0.25)	\$ (0.07)
Average number of shares outstanding (note 3)				
Basic	22,451,642	17,935,336	20,250,356	17,929,905
Diluted	25,255,062	21,198,372	23,013,491	20,951,857

Consolidated Statements of Retained Earnings

For the Three Months and Six Months ended June 30, 2002 and 2001 (in thousands of dollars) (unaudited)

	Three Months ended June 30		Six Months ended June 30	
	2002	2001	2002	2001
Retained earnings – beginning of period	\$ 63,280	\$ 50,466	\$ 64,988	\$ 52,617
Net income (loss) for the period	(3,919)	794	(4,968)	(1,342)
Dividends	(2,245)		(2,245)	
Change in accounting treatment for stock-based compensation (note 2)			(659)	
Common shares purchased in excess of carrying amount (note 3)				(15)
Retained earnings – end of period	\$ 57,116	\$ 51,260	\$ 57,116	\$ 51,260

Consolidated Statements of Cash Flows

For the Three Months and Six Months ended June 30, 2002 and 2001 (in thousands of dollars) (unaudited)

	Three Months ended June 30		Six Months ended June 30	
	2002	2001	2002	2001
Cash provided by (used in)				
Operating activities				
Net income (loss) for the period	\$ (3,919)	\$ 794	\$ (4,968)	\$ (1,342)
Items not affecting cash –				
Depreciation and amortization	2,349	2,578	4,587	4,201
Loss (gain) on sale of assets	(471)	(56)	(499)	837
Loss on foreign exchange	857	991	1,436	50
Notional interest representing accretion	33	41	74	82
Future income taxes	(2,137)	(1,749)	(4,131)	(3,871)
	(3,288)	2,599	(3,501)	(43)
Change in other balances relating to operations (note 5)	(10,346)	2,748	(25,767)	6,755
	(13,634)	5,347	(29,268)	6,712
Investing activities				
Purchase of property, plant and equipment	(932)	(5,279)	(1,760)	(8,159)
Proceeds on sale of property, plant and equipment	6,122	255	6,391	1,123
Decrease (increase) in other assets	(216)	(334)	(204)	185
	4,974	(5,358)	4,427	(6,851)
Financing activities				
Increase (decrease) in bank indebtedness	(11,885)	4,004	(2,939)	22,484
Issuance of long-term debt		371		2,051
Repayments of long-term debt	(9,477)	(1,258)	(10,416)	(3,096)
Increase (decrease) in other liabilities	(38)	(605)	188	(1,057)
Issuance of capital stock (note 3)	499	324	645	324
Issuance of special warrants (note 4)	31,540		31,540	
Dividends paid	(2,245)		(2,245)	(1,798)
Repurchase of capital stock (note 3)				(44)
	8,394	2,836	16,773	18,864
Increase (decrease) in cash and cash equivalents	(266)	2,825	(8,068)	18,725
Effects of foreign exchange on cash balances	(3,414)	(1,797)	(4,099)	131
Cash and cash equivalents – beginning of period	98,610	75,739	107,097	57,911
Cash and cash equivalents – end of period	\$ 94,930	\$ 76,767	94,930	76,767

Supplementary disclosure (note 5)

Notes to Consolidated Financial Statements

June 30, 2002 and 2001 (in thousands of dollars, except per share amounts) (unaudited)

1. Summary of significant accounting policies

These interim consolidated financial statements are unaudited and include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows. Results for the three-month and six-month periods ended June 30, 2002 are not necessarily indicative of results expected for the full fiscal year or any other future period.

The disclosures provided in these interim periods do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and accordingly, the interim financial information should be read in conjunction with the Company's annual financial statements. The interim financial information has been prepared using the same accounting policies as set out in note 2 to the Consolidated Financial Statements for the year ended December 31, 2001, except as described in note 2 hereunder.

2. Adoption of new accounting standards and financial statement classification

Effective January 1, 2002 the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants for Stock-Based Compensation and Other Stock-Based Payments. In accordance with these recommendations, the liability for stock based awards that will be settled in cash, which is recognized through compensation expense, are recorded at an amount equivalent to the quoted market value of the related shares. For Aecon's stock based compensation arrangement (referred to as phantom share agreements), the new section requires that the cumulative amount that would have been recognized in prior years had this new section been in effect, less any amounts previously recognized, is to be recognized as the effect of a change in accounting policy and charged to opening retained earnings

at January 1, 2002. Subsequently, at each balance sheet date before settlement, the changes in the share value will result in an adjustment to the award liability, which is recognized through compensation expense. As a result of adopting the new recommendations, retained earnings at January 1, 2002 has been reduced by \$659 and compensation expense has been recorded in the amount of \$92 for the three months ended June 30, 2002 and \$358 for the six months ended June 30, 2002. The Company has adopted fair value accounting to account for employee stock options issued after January 1, 2002. No options were granted during the three months ended March 31, 2002. During the three months ended June 30, 2002, 75,000 options were granted to employees. Compensation expense of \$68 was recognized in the three months ended June 30, 2002 with respect to these options and Contributed Surplus was increased by the same amount. In addition, 166,750 non-transferable compensation warrants, exercisable into 166,750 compensation options were granted to the underwriters in connection with the issue of special warrants (note 4).

Effective January 1, 2002 the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants for Goodwill and Other Intangible Assets. In accordance with these recommendations, the accounting for goodwill is changed from an amortization method to an impairment-only approach. As a result, goodwill will no longer be amortized to income but will be subject to an annual impairment review and should there be an impairment, that amount would be charged to income. No impairment charge was recorded in either the three-month or six-month periods ended June 30, 2002. Goodwill amortization amounted to \$263 for the three months ended June 30, 2001 and \$541 for the six months ended June 30, 2001.

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

3. Capital stock

	2002		2001	
	Number of shares	Amount	Number of shares	Amount
Authorized – Unlimited common shares				
Balance – January 1	18,018,583	\$ 33,713	17,936,682	\$ 33,402
Common shares issued on exercise of options	40,833	146		
Common shares repurchased pursuant to normal course issuer bids			(15,500)	(29)
Balance – March 31	18,059,416	33,859	17,921,182	33,373
Common shares issued on the conversion of convertible debentures	613,543	2,209		
Common shares issued on exercise of options	158,000	499	92,067	324
Balance – June 30	18,830,959	\$ 36,567	18,013,249	\$ 33,697

During the six months ended June 30, 2001 the Company repurchased 15,500 of its common shares on the open market pursuant to the terms and conditions of a Normal Course Issuer Bid at a net cost of \$44. The amount in excess of the carrying value of the common shares was charged to retained earnings. All shares repurchased by the Company pursuant to its normal course issuer bid have been cancelled.

Pursuant to the loan agreement with the Company's bankers, the Company is restricted from paying dividends, except for an aggregate of \$4,000 per fiscal year provided that the financial covenants set out in the loan agreement have been satisfied.

Under the terms and conditions of the 1998 Stock Option Plan (the 1998 Plan), the aggregate number of common shares, which may be reserved for issuance under the 1998 Plan, shall not exceed 2,700,000 common shares. At June 30, 2002 the maximum number of shares reserved for issuance under the plan, after deducting options which have been exercised, is 2,398,766, of which 1,999,233 have been issued. Each option agreement shall specify the period for which the option thereunder is exercisable (which in no event shall exceed ten years from the date of grant) and shall provide that the option shall expire at the end of such period. The Company's Board of Directors will determine the vesting period on the dates of option grants.

	2002		2001	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Balance outstanding – January 1	2,143,066	\$ 3.58	1,806,000	\$ 3.51
Granted			220,000	3.60
Exercised	(40,833)	3.59		
Forfeited	(20,000)	4.10	(125,367)	3.56
Balance outstanding – March 31	2,082,233	3.58	1,900,633	3.52
Granted	75,000	5.55	500,000	3.78
Exercised	(158,000)	3.15	(92,067)	3.52
Balance outstanding – June 30	1,999,233	\$ 3.69	2,308,566	\$ 3.58
Options exercisable at end of period	719,400	\$ 3.56	132,233	\$ 2.90

Options were exercised during the three months ended June 30, 2002 for 158,000 shares (2001 – 92,607) for which share capital was increased by \$499 (2001 – \$324). For the six months ended June 30, 2002, 198,833 options were exercised (2001 – 92,067) for which share capital was increased by \$645 (2001 – \$324). Options currently outstanding have the following exercise prices and expiry dates:

Options granted in	Number of shares	Exercise price	Expiry date
1999	87,733	\$ 2.90	April 15, 2004
2000	1,136,500	3.60	July 20, 2005
2001	200,000	3.60	March 5, 2006
2001	275,000	3.60	April 9, 2006
2001	225,000	4.00	May 7, 2006
2002	75,000	5.55	April 9, 2007

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

In addition to stock options, the Company has phantom share agreements with certain officers and directors whereby compensation will, in the aggregate, be paid in each of 2002 and 2003 in an amount equal to the total of 165,000 shares multiplied by the average share price of the Company's shares for a specified period prior to payment (see note 2).

Details of the calculation of earnings per share are set out below. For purposes of calculating the weighted average number of shares outstanding (the denominator), the Special Warrants, referred to in note 4, have been included from May 6, 2002.

Three months ended June 30

	2002		
	Loss (numerator)	Shares (denominator)	Per share (i)
Net loss for the period	\$ (3,919)	22,451,642	\$ (0.17)
Effect of dilutive securities			
Options		721,517	
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	80	2,081,903	
	<u>\$ (3,839)</u>	<u>25,255,062</u>	<u>\$ (0.17)</u>

	2001		
	Income (numerator)	Shares (denominator)	Per share
Net income for the period	\$ 794	17,935,336	\$ 0.04
Effect of dilutive securities			
Options		511,747	
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	136	2,751,289	
	<u>\$ 930</u>	<u>21,198,372</u>	<u>\$ 0.04</u>

Six months ended June 30

	2002		
	Loss (numerator)	Shares (denominator)	Per share (i)
Net loss for the period	\$ (4,968)	20,250,356	\$ (0.25)
Effect of dilutive securities			
Options		681,232	
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	163	2,081,903	
	<u>\$ (4,805)</u>	<u>23,013,491</u>	<u>\$ (0.25)</u>

	2001		
	Loss (numerator)	Shares (denominator)	Per share (i)
Net loss for the period	\$ (1,342)	17,929,905	\$ (0.07)
Effect of dilutive securities			
Options		270,663	
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	271	2,751,289	
	<u>\$ (1,071)</u>	<u>20,951,857</u>	<u>\$ (0.07)</u>

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

4. Special warrants

On May 6, 2002 the Company issued 6,192,150 special warrants ("Special Warrants") at a price of \$5.25 per Special Warrant for total proceeds of \$32,509. Each Special Warrant was exercisable, without additional consideration, for one common share of Aecon. On July 29, after filing a final prospectus with regulatory authorities qualifying the distribution of certain of the common shares, the Company issued 6,192,150 common shares. Net proceeds, after estimated after-tax fees and expenses, amounted to \$31,540, which will be recorded as an increase in capital stock in the third quarter.

5. Cash flow information

Change in other balances relating to operations:

	Three months to June 30		Six months to June 30	
	2002	2001	2002	2001
(Increase) decrease in:				
Accounts receivable	\$ (13,551)	\$ (20,950)	\$ 17,677	\$ 12,315
Holdbacks receivable	(5,353)	(1,825)	(2,531)	4,072
Deferred contract costs and unbilled revenue	(1,318)	(14,251)	12,055	(18,317)
Inventories	(5,800)	(1,694)	(7,053)	(885)
Income taxes recoverable		528		1,736
Prepaid expenses	(1,873)	832	(1,287)	935
Assets held for sale		(459)		(285)
Increase (decrease) in:				
Accounts payable and accrued liabilities	12,505	24,055	(42,646)	14,871
Holdbacks payable	4,183	675	3,969	(9,607)
Deferred revenue	967	15,378	(6,327)	1,917
Income taxes payable	(106)	459	376	3
	\$ (10,346)	\$ 2,748	\$ (25,767)	\$ 6,755

Other supplementary information:

	2002	2001	2002	2001
Cash interest paid	\$ 1,667	\$ 2,501	\$ 2,746	\$ 3,345
Cash income taxes paid	\$ 1,179	\$ 1,012	\$ 2,777	\$ 1,957

Property, plant and equipment acquired and financed by means of capital leases during the three months ended June 30, 2002 amounted to \$899 (2001 – \$687) and \$899 (2001 – \$1,200) for the six months ended June 30, 2002.

During the three months ended June 30, 2002 the company's largest shareholder, Hochtief Canada Inc., exercised its option to convert \$2,209 of convertible debentures into common shares. This resulted in a decrease in the debt component of convertible debentures amounting to \$1,970, a decrease in the equity component of convertible debentures amounting to \$239 and an increase in capital stock amounting to \$2,209.

6. Segmented information and business concentration

The Company has four reportable segments: Infrastructure, Buildings, Industrial and Corporate and Other.

Infrastructure

This segment includes all aspects of the construction of infrastructure including roads and highways, expressways and toll routes, dams and tunnels, bridges, airports, marine facilities, transit systems and power projects as well as utility distribution systems including natural gas, telecommunications and electrical networks, water and sewer mains, traffic signals and highway lighting. Activities within this segment also include the development, design, construction, operation and financing of infrastructure projects by way of build-operate-transfer, build-own-operate-transfer or public-private partnership contract structures.

Buildings

Aecon Buildings is active in the construction of commercial and institutional buildings principally in Canada and the northwestern United States and selected international projects.

Industrial

This segment includes all of the Company's industrial manufacturing and industrial construction activities. These operations include the fabrication of small and large bore pipe and module assembly for the petrochemical industry, and the design and manufacture of once-through heat recovery steam generators for industrial and power plant applications. Also included is the Company's industrial construction, installation and maintenance activities where the Company has special expertise in the power, automotive and steel industries.

Corporate and Other

This segment includes the Company's 38.75% interest in Canatom NPM Inc., which provides engineering, procurement, construction and commissioning services to the Canadian and International nuclear power markets. In addition, it includes all corporate costs and other activities that are not directly allocable to other segments.

Information by reportable segments is as follows:

as at June 30 and the three months then ended

	2002				
	Infrastructure	Buildings	Industrial	Corporate and Other	Total
Revenues	\$ 105,183	\$ 87,839	\$ 33,297	\$ 10,022	\$ 236,341
EBITDA	\$ 1,577	\$ 1,112	\$ (2,603)	\$ (1,544)	\$ (1,458)
Depreciation and amortization	1,641	36	461	211	2,349
Segment operating profit (loss)	\$ (64)	\$ 1,076	\$ (3,064)	\$ (1,755)	\$ (3,807)
Interest and income taxes					(112)
Net loss					\$ (3,919)
Total assets	\$ 304,836	\$ 82,098	\$ 78,237	\$ 86,803	\$ 551,974
Capital expenditures	363	18	495	56	932
Cash flow from operations	\$ 1,968	\$ 1,112	\$ (2,608)	\$ (3,760)	\$ (3,288)
	2001				
	Infrastructure	Buildings	Industrial	Corporate and Other	Total
Revenues	\$ 138,176	\$ 57,919	\$ 49,871	\$ 12,938	\$ 258,904
EBITDA	\$ 3,543	\$ 995	\$ 3,698	\$ (3,303)	\$ 4,933
Depreciation and amortization	1,797	47	417	317	2,578
Segment operating profit (loss)	\$ 1,746	\$ 948	\$ 3,281	\$ (3,620)	\$ 2,355
Interest and income taxes					(1,561)
Net income					\$ 794
Total assets	\$ 363,661	\$ 49,667	\$ 61,730	\$ 77,235	\$ 552,293
Capital expenditures	2,975	6	1,665	633	5,279
Cash flow from operations	\$ 4,505	\$ 995	\$ 3,625	\$ (6,526)	\$ 2,599

as at June 30 and the six months then ended

2002

	Infrastructure	Buildings	Industrial	Corporate and Other	Total
Revenues	\$ 190,383	\$ 181,746	\$ 71,577	\$ 20,680	\$ 464,386
EBITDA	\$ 4,718	\$ 2,647	\$ (4,367)	\$ (3,200)	\$ (202)
Depreciation and amortization	3,162	75	911	439	4,587
Segment operating profit (loss)	\$ 1,556	\$ 2,572	\$ (5,278)	\$ (3,639)	\$ (4,789)
Interest and income taxes					(179)
Net loss					\$ (4,968)
Capital expenditures	\$ 586	\$ 35	\$ 808	\$ 331	\$ 1,760
Cash flow from operations	\$ 5,680	\$ 2,642	\$ (4,387)	\$ (7,436)	\$ (3,501)

2001

	Infrastructure	Buildings	Industrial	Corporate and Other	Total
Revenues	\$ 226,931	\$ 101,915	\$ 90,399	\$ 27,977	\$ 447,222
EBITDA	\$ 3,172	\$ 1,868	\$ 7,122	\$ (7,941)	\$ 4,221
Depreciation and amortization	2,707	95	787	612	4,201
Segment operating profit (loss)	\$ 465	\$ 1,773	\$ 6,335	\$ (8,553)	\$ 20
Interest and income taxes					(1,362)
Net loss					\$ (1,342)
Capital expenditures	\$ 4,486	\$ 28	\$ 2,307	\$ 1,338	\$ 8,159
Cash flow from operations	\$ 3,185	\$ 1,868	\$ 7,035	\$ (12,131)	\$ (43)

EBITDA represents earnings or loss before interest, income taxes, depreciation and amortization. Segment operating profit (loss) represents net income (loss) before interest and income taxes. Cash flow from operations is before change in other balances related to operations.



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