

AECON

3

**Aecon Group Inc.
Third Quarter Report**

Nine months ended September 30, 2002

AECON

Report to Shareholders

Dear Fellow Shareholders,

The first three quarters of 2002 have produced mixed results from Aecon's four business segments.

Revenue declines in the Infrastructure, Industrial and Corporate and Other segments have been largely offset by strong top line growth from the Buildings segment. As a result, Aecon's consolidated revenue of \$764 million for the nine-month period is approximately 2% lower than revenue for the same period last year.

Aecon's operating profit improved in the Buildings segment but declined in the Infrastructure and Industrial segments. At the same time, we significantly reduced the operating loss in our Corporate and Other segment by 60%.

For the nine-month period, Aecon recorded a net loss of \$2.3 million or 10 cents a share, compared to net income of \$5.4 million or 30 cents a share basic (27 cents a share diluted) for the same period last year.

While we expect consolidated earnings to be positive again this year, we indicated in late October that Aecon's net profit would be significantly below the level achieved last year. A number of factors have contributed to this shortfall. The primary cause however, has been the dramatic reduction in the construction of new gas fired generating plants which represent the principal market for the once through steam generators manufactured by our wholly owned subsidiary, Innovative Steam Technologies (IST).

To offset IST's revenue decline, we have accelerated measures to re-size and re-focus its operations. These measures have included staff reductions of more than 50% since the end of the second quarter and a reorientation of IST's sales efforts.

IST has had its share of challenges this year but it is worth noting that this business made a significant contribution to our overall financial performance last year. In the seven quarters since the beginning of 2001, IST has made a positive net contribution of over \$10 million to Aecon's operating profit and we see a very bright future for IST over the long term.

As Aecon's largest personal shareholder, let me be the first to say that I am disappointed in the year-to-date results. However, as Aecon's Chairman and CEO, I also remain very bullish about our experienced management team, our diversified business model and our prospects going forward.

We are managing through this period of softness in many of our markets by continuing to do what we do best – scrutinizing our costs, bidding carefully, and completing contracts on time, on budget and to the highest quality standards.

Aecon continues to maintain a strong balance sheet enabling us to execute our business plan. Over the first nine months of 2002, we have significantly reduced our debt level and increased our working capital.

Subsequent to the end of the third quarter, we announced that an Aecon-led consortium had signed agreements to take over management of the Mariscal Sucre International Airport in Quito, Ecuador as the first step in the proposed US\$550 million development of a new international airport in the Ecuadorian capital. There are a number of conditions that must be met over the next several months, including the successful closing of financial agreements for the project, before Aecon can begin work on this major infrastructure project.

Aecon received contract awards totaling \$260 million in the third quarter of 2002, up from \$197 million in the same quarter last year. These contracts include:

- A \$14.5 million contract from Imperial Oil Limited for 61 km of 12-inch steel pipeline to carry product from the Sarnia Refinery to the Nanticoke Refinery in south-western Ontario;
- A \$10 million contract by the Ministry of Transportation of Quebec for rehabilitation of concrete structures and overpasses as well as miscellaneous repairs to the Highway 15 Decarie expressway and service road in Montreal;

- a \$22 million contract from the University of Toronto to build a seventeen-storey student residence;
- a \$20 million contract from Syncrude Canada to fabricate 400,000 diameter inches of pipe spools at Aecon's Edmonton, Alberta fabrication plant;
- three contracts from the Ministry of Transportation of Ontario valued at more than \$55 million for the rehabilitation of bridge structures on Highway 427 in Toronto, the construction of a 6.5 km extension to Highway 417 west of Ottawa and the upgrading and widening of a 10.2 km section of Highway 401 near Kitchener;
- a \$25 million contract from Hydro-Quebec for work on the Toulustouc dam, bringing Aecon's total contracts on this project to \$86 million; and
- an \$11 million contract from Toyota Tsusho Canada to design and install a paint mix and circulation system in Toyota's Cambridge, Ontario plant.

Finally, I am pleased to report that Aecon earned an overall 99.3% rating in its annual Health and Safety Audit conducted by the Construction Safety Association of Ontario. This rating is the highest ever achieved by a construction company in Ontario, bettering the previous high established by Aecon in last year's audit. Aecon's industry-leading safety record is an important part of what differentiates us from our competition and it is something we are very proud of.

On behalf of the Board of Directors,



John M. Beck

Chairman and Chief Executive Officer

November 8, 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, many of Aecon's operations experience a seasonal pattern in 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 third quarter of 2002 amounted to \$299.9 million, a decrease of \$32.5 million or 9.8% from the same period of 2001. The decline was principally due to weak sales within the Industrial segment as demand was soft in most of its sectors, but particularly so within the power sector and the related impact on Aecon's steam generator business. For the first nine months of the year revenues of \$764.3 million were \$15.3 million or 2.0% lower than last year. Declines within the Industrial and Infrastructure segments more than offset strong year-over-year gains in the Buildings segment.

Operating margins, which are equal to revenues less costs and expenses, represented 6.8% of revenues in the third quarter, compared to 8.8% for the same period last year and were lower in each of the three principal segments. For the year-to-date, operating margins were 6.3%, compared to 7.9% in 2001. Margins fell in each of the Buildings and Industrial segments but were higher in the Infrastructure segment due to the positive impact of the contribution from the Nathpa Jhakri hydroelectric power project in India.

Marketing, general and administrative expenses ("MG&A") for the third quarter of 2002 amounted to \$13.0 million, an increase of \$0.4 million or 2.8% from the same period of 2001. For the nine months, MG&A of \$41.7 million was

\$2.2 million or 5.5% higher than the first nine months last year. This increase is in part related to an increase in bidding activity, particularly within the Infrastructure segment, as bid costs are \$2.3 million higher thus far in 2002 compared to 2001. The largest expenditure relates to Aecon's thus far successful pursuit of the new international airport in Quito, Ecuador.

Depreciation and amortization amounted to \$2.4 million in the third quarter, a decrease of \$1.1 million from the same period of 2001, of which \$0.3 million is due to the fact that goodwill, in accordance with new accounting rules, is no longer systematically amortized. For the nine months, depreciation and amortization amounted to \$7.0 million, a reduction of \$0.8 million compared to last year, the full amount of this reduction being the result of discontinuing goodwill amortization.

Net interest expense of \$1.3 million in the third quarter was 21.1% less than last year and for the nine months interest expense of \$3.1 million was 23.5% lower than 2001. The reduction in interest expense reflects the decrease in interest bearing debt which at September 30, 2002 was 26.4% lower than the same time last year.

Operating results for the third quarter included a gain of \$0.3 million from the sale of property, plant and equipment and a profit of \$1.2 million on the disposal of Aecon's interest in a joint venture. For the first nine months of the year profit from the sale of assets totaled \$2.0 million.

Unrealized foreign exchange gains amounted to \$1.9 million in the third quarter, the majority of which related to currency gains on Aecon's major international projects in Israel and India. For the first nine months unrealized foreign exchange gains amounted to \$0.5 million.

The mix of income significantly affects Aecon's income tax rate in any period. Domestic and international rate differentials, as well as different rates on capital gains and losses and manufacturing and processing income, impact tax expense. For the third quarter of 2002 the effective income tax rate was 46.6%. For the first three-quarters of the year, although the Company had a pre-tax loss of \$1.6 million, an income tax expense of \$0.7 million was recorded because of the incidence of losses within low-rate entities and profits within high-rate jurisdictions.

Net income of \$2.7 million for the three months ended September 30, 2002 compares with a profit of \$6.7 million for the same period last year and for the first nine months of the year a loss of \$2.3 million compares with a profit of \$5.4 million in 2001.

Reporting segments

Infrastructure

Infrastructure Financial Highlights

| \$ millions | Three months ended September 30 | | | Nine months ended September 30 | | |
|---------------------------------|---------------------------------|----------|----------|--------------------------------|----------|----------|
| | 2002 | 2001 | % Change | 2002 | 2001 | % Change |
| Revenues | \$ 170.1 | \$ 174.7 | (2.7)% | \$ 360.5 | \$ 401.6 | (10.3)% |
| Segment Operating Profit (Loss) | 4.7 | 8.8 | (46.5)% | 6.3 | 9.3 | (32.4)% |
| Return on Revenue | 2.8% | 5.0% | (45.0)% | 1.7% | 2.3% | (24.7)% |

Infrastructure segment revenues declined by \$4.6 million in the third quarter compared to the same period of 2001 and fell by \$41.1 million for the nine months. Progress on the segment's two large international projects – the Cross Israel Highway and the Nathpa Jhakri hydroelectric power project in India – proceeded at an accelerated pace and their combined revenue was \$15.3 million or 64.8% higher than last year in the third quarter. Year-to-date, revenue from these two projects is up \$32.8 million or 46.3%. However revenue from utilities construction and services declined by 16.4% in the quarter and is down 19.3% for the year-to-date. Roadbuilding operations, which were affected by the lingering impact of a provincial civil servants strike in Ontario earlier in the year, saw revenues decline by 7.3% in the quarter. This sector is starting to rebound and the revenue decrease in the quarter is comparatively better than the 41.8% drop experienced during the first half.

Infrastructure segment operating profit declined by \$4.1 million in the third quarter. The generally lower revenue volumes adversely affected earnings, although the majority of the drop in profits was due to a reduction in estimated profit at completion from the Cross Israel

Highway, due to higher projected construction costs. The negative impact of the profit revision amounted to \$3.8 million in the quarter. During the quarter Aecon reached agreement with Hydro Quebec regarding its claim for additional costs incurred on the Ste. Marguerite Powerhouse project. The claim recovery amounts to \$10.9 million, which resulted in a \$1.3 million contribution to earnings in the third quarter.

For the nine months, operating profits are down from 2001 by \$3.0 million. Aecon only began recording accrued financing fees owing from the Nathpa Jhakri joint venture in the fourth quarter of 2001 and began recording its share of joint venture income starting in the first quarter of 2002. As a result, contribution from the Nathpa Jhakri hydroelectric power project was \$11.6 million higher in the first nine months of 2002 compared to the same period last year. However all other operations within the segment had lower earnings, the largest decline being \$6.1 million from the Cross Israel Highway, as earnings from this project were also lower in the first half of the year. At September 30, the Nathpa Jhakri hydroelectric power project was slightly more than 80% complete and the Cross Israel Highway project was just over 62% complete.

Buildings

Buildings Financial Highlights

| \$ millions | Three months ended September 30 | | | Nine months ended September 30 | | |
|---------------------------------|---------------------------------|---------|----------|--------------------------------|----------|----------|
| | 2002 | 2001 | % Change | 2002 | 2001 | % Change |
| Revenues | \$ 79.9 | \$ 73.3 | 9.1 % | \$ 261.7 | \$ 175.2 | 49.4 % |
| Segment Operating Profit (Loss) | 1.3 | 1.7 | (26.0)% | 3.9 | 3.5 | 9.9 % |
| Return on Revenue | 1.6% | 2.4% | (32.1)% | 1.5% | 2.0% | (26.4)% |

Revenues in the Buildings segment improved by \$6.6 million in the third quarter, although this was at a slower pace than experienced in the first half as construction activity in the now slowing suburban office segment was very strong earlier in the year. However, the reduction in activity in suburban office towers is being replaced by increased activity in high-rise residential buildings, with four projects underway in Eastern Canada and three in Western Canada. The newly formed Interiors and Renovations group, targeted as a significant growth area for the Buildings group and which achieves better margins on its interior renovation and tenant fit up activities than construction of new structures, continued to increase in the quarter and represented 8% of total volume in the period compared to 6% in the first half. The Seattle market for the Buildings group was weak however, with revenue down 26.3% in the quarter compared to the same period in 2001, largely as a result of the weak economic conditions in their market.

A certain amount of the work undertaken by the Buildings segment is construction management or fee based. The revenue from these contracts is recorded only to the extent the fee income earned and thus the full value of the construction activity that is managed is not recorded as revenues. If the value of construction that the group manages were included in revenue, its total construction volume would have been \$144.7 million for the third quarter and \$422.8 million year-to-date. The Buildings segment's 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.

Return on revenue in the quarter, although improved from earlier in the year, is below 2001 levels as more work was performed on a lump sum basis and competition increased in all major markets. Segment operating profit, as a result, fell by \$0.4 million in the three months ended September 30, 2002.

Industrial

Industrial Financial Highlights

| \$ millions | Three months ended September 30 | | | Nine months ended September 30 | | |
|---------------------------------|---------------------------------|---------|----------|--------------------------------|----------|----------|
| | 2002 | 2001 | % Change | 2002 | 2001 | % Change |
| Revenues | \$ 39.1 | \$ 75.2 | (48.1)% | \$ 110.6 | \$ 165.6 | (33.2)% |
| Segment Operating Profit (Loss) | 1.6 | 6.2 | (74.8)% | (3.7) | 12.5 | n/a |
| Return on Revenue | 4.0% | 8.2% | (51.5)% | (3.4)% | (7.6)% | n/a |

Demand for Industrial construction services remained weak in the third quarter. Revenue from automotive sector work was down \$15.8 million in the three months compared to the same period a year ago, fabrication volume was \$15.2 million lower than last year and once-through steam generator sales at Aecon's Innovative Steam Technologies ("IST") division were \$9.5 million below a year ago. Overall, Industrial revenue was down \$36.1 million in the quarter.

For the nine-month period, revenues fell \$55.0 million from 2001. Lower sales of steam generators represented \$19.9 million of the decline and reduced volume from automotive and fabrication work accounted for the remainder of the drop.

Operating profit fell \$4.6 million from the third quarter of 2001. All of this reduction was from the IST division.

Corporate and Other

Other revenue, which is derived principally from Aecon's 38.75% interest in Canatom NPM Inc., a nuclear consulting and project management firm, amounted to \$10.8 million in the third quarter compared to \$9.2 million in the corresponding period of 2001. The segment loss of \$1.2 million in this period compares with a loss of \$3.5 million in 2001. Almost all of the \$2.3 million improvement in the three-month period was due to lower corporate costs.

Financial Condition, Liquidity and Capital Resources

Cash and cash equivalents at September 30, 2002 totaled \$90.4 million – a decrease of \$4.5 million from the end of the second quarter and a decline of \$16.7 million from the beginning of the year. The majority of the cash and cash equivalents, amounting to \$89.5 million, are on deposit in joint venture and affiliate bank accounts, which the Company cannot access directly.

Operating activities, before changes in other balances, resulted in an increase in cash of \$3.2 million in the third quarter and a use of cash of \$0.3 million for the nine months. Changes in other balances relating to operations, representing increases and decreases in working capital balances, resulted in a net use of cash of \$12.2 million in the three months ended September 30, 2002 and \$38.0 million for the nine months. As at September 30, net working capital was \$21.0 million higher than it was at the same time last year. Although funds tied up in accounts receivable and other working capital assets are actually

significant steps have been taken to reduce IST's overhead and expenses. Staff levels have been reduced by approximately 75% since the beginning of the year, the majority of which occurred during the last three months including the layoff of 43 plant and management staff in October. Although Aecon does not foresee significant improvement in the power sector in 2003, these steps will reduce IST's ongoing costs and break even point while a refinement and refocusing of its marketing efforts will better position IST toward those markets showing the greatest potential for recovery. During the quarter Aecon completed the sale of its interest in a joint venture involved in pipe fabrication in Atlantic Canada, which resulted in a profit on disposition of \$1.2 million.

For the first nine months of the year, income from the Industrial segment fell by \$16.2 million, of which IST represented \$14.8 million.

For the nine months, other revenue was \$31.5 million, compared to \$37.2 million for the same period of 2001. The segment operating loss of \$4.9 million was \$7.3 million lower than the same period in 2001. Reduced corporate expenses accounted for \$4.8 million of the improvement. In addition, nuclear operations generated \$1.5 million of the improvement and losses on disposition of assets in 2001 accounted for \$1.0 million of the year-over-year change.

lower than last year by \$37 million, accounts payable and other current working capital liabilities have decreased by \$58 million.

Investing activities resulted in a use of cash of \$3.0 million in the quarter and an increase in cash of \$1.5 million for the nine months. Proceeds from the sale of property, plant and equipment in the quarter amounted to \$1.1 million, which was slightly more than was spent on new equipment purchases. The Company is increasingly obtaining equipment by means of operating leases rather than outright purchase as a means of reducing ownership and valuation risk of such assets, while still maintaining competitive pricing and the flexibility to purchase such assets at a later date if valuations at such times are favourable. The sale of the Company's joint venture interest, referred to previously, generated proceeds of \$2.6 million. Other assets increased by \$5.7 million in the quarter, of which \$5.4 million represented a further deposit

in trust to fund Aecon's obligation to invest in the company that will operate and collect tolls on the Cross Israel Highway. This obligation is described in note 8 to Aecon's Consolidated Financial Statements for the year ended December 31, 2001. The total amount currently on deposit is \$17.6 million.

For the nine months, purchases of property, plant and equipment amounted to \$2.7 million and proceeds from the sale of assets totaled \$7.5 million, which included \$4.5 million on the sale and leaseback of the company's corporate office in Toronto.

Financing activities, principally increased bank borrowings, generated \$4.6 million cash in the third quarter after the repayment of \$2.3 million of long-term debt. For the nine months, cash generated from financing activities amounted to \$21.4 million, which included \$31.5 million from the issuance of special warrants. These warrants were converted to common shares during the third quarter.

Cash balances increased by \$2.8 million in the third quarter due to the effect of foreign exchange as the Canadian dollar weakened against major currencies in the period. For the nine months, foreign exchange resulted in a decrease in cash of \$1.3 million.

Interest bearing debt amounted to \$69.8 million at September 30, 2002 compared to \$63.7 million at June 30, 2002 and \$78.9 million at the end of 2001. The composition of interest bearing debt is as follows (\$ millions):

| | September 30 2002 | June 30 2002 | December 31 2001 |
|--------------------------------------|----------------------|-----------------|---------------------|
| Bank indebtedness | \$ 36.7 | \$ 28.3 | \$ 32.2 |
| Current portion of long-term debt | 5.8 | 5.9 | 8.7 |
| Long-term debt | 20.0 | 22.2 | 28.8 |
| Convertible debenture | 7.3 | 7.3 | 9.2 |
| Total | \$ 69.8 | \$ 63.7 | \$ 78.9 |

Over the last four quarters, Aecon's interest bearing debt has been reduced by \$25.1 million and the long-term debt to equity ratio has been cut almost in half from .29:1 at September 30 last year to .15:1 at September 30 this year. Over the same period, working capital has been increased by 45.7 million, from minus \$4.8 million last year to plus \$40.9 million this year.

Management considers that liquidity is adequate to meet the requirements of its regular operations. Efforts continue to extend the maturity for at least part of the Company's credit facilities, which are available for operating purposes to provide an even more solid footing for the Company's liquidity requirements.

Outlook

Aecon separates its backlog into two broad categories: major project backlog and core backlog. Major project backlog continued to decline in the quarter as substantial progress was made toward completion of the Cross Israel

Highway and the Nathpa Jhakri hydroelectric project. While core backlog fell by 2.8% to \$565 million over the quarter, it remains 8.8% higher than the \$519 million recorded at the end of the first quarter. This healthy increase in core backlog over the prime construction months of April through September is a positive sign that prospects in Aecon's core construction markets remain strong.

As outlined in Aecon's October 22nd news release, the rapid decline in the North American power sector over the past twelve months is continuing to have a significant negative impact on Aecon's 2002 earnings. While the power sector is expected to remain slow throughout the balance of 2002 and into 2003, the measures taken to improve systems and reduce overhead costs at Innovative Steam Technologies have substantially reduced this division's break even revenue requirements.

The strong year-to-date results posted in the Buildings segment are expected to continue as Aecon expands its market presence in this sector. The Buildings segment is experiencing a shift in the origin of its revenue from the suburban commercial market, which may have reached its peak, to the high rise residential market, which shows continuing strength in this current low interest rate environment. As well, the educational market is expected to provide significant contributions to the Buildings segment throughout 2003 while a continued focus on the renovation and retrofit market is expected to result in further growth of this business.

While the Infrastructure segment continues to experience a decline in both revenue and margins compared to 2001, prospects in this segment are improving, particularly in the roadbuilding sector. In addition, notwithstanding the recently reduced forecast in the anticipated final profit from the Cross Israel Highway, this project continues to provide healthy revenue and margin contributions to the Infrastructure segment. Of particular significance, however, is the recently announced signing of core development and construction agreements for the new international airport in Quito, Ecuador. If the anticipated financial closure can be reached over the next several months this project will add significant backlog to the Infrastructure segment, with construction revenue contributions potentially beginning in the second half of 2003.

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)

| | September 30, 2002 | December 31, 2001 |
|--|-----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 90,414 | \$ 107,097 |
| Accounts receivable | 193,546 | 187,259 |
| Holdbacks receivable | 39,745 | 40,655 |
| Deferred contract costs and unbilled revenue | 62,092 | 74,211 |
| Inventories | 14,389 | 11,156 |
| Prepaid expenses | 5,243 | 3,936 |
| Future income tax assets | 19,202 | 34,526 |
| | 424,631 | 458,840 |
| Property, plant and equipment | 82,146 | 92,772 |
| Future income tax assets | 21,087 | 3,787 |
| Other assets | 39,782 | 33,854 |
| | <u>\$ 567,646</u> | <u>\$ 589,253</u> |
| Liabilities | | |
| Current liabilities | | |
| Bank indebtedness | \$ 36,734 | \$ 32,180 |
| Accounts payable and accrued liabilities | 189,874 | 215,867 |
| Holdbacks payable | 32,224 | 27,769 |
| Deferred revenue | 83,988 | 101,260 |
| Income taxes payable | 1,733 | 3,034 |
| Future income tax liabilities | 33,306 | 46,239 |
| Current portion of long-term debt | 5,829 | 8,752 |
| | 383,688 | 435,101 |
| Long-term debt | 19,855 | 28,791 |
| Other liabilities | 2,305 | 2,922 |
| Future income tax liabilities | 19,362 | 7,097 |
| Redeemable preferred shares of subsidiary | 6,075 | 6,371 |
| Convertible debenture (note 4) | 7,339 | 9,195 |
| | 438,624 | 489,477 |
| Shareholders' Equity | | |
| Capital stock (notes 3 and 4) | 68,299 | 33,713 |
| Contributed surplus (note 2) | 68 | |
| Convertible debenture (note 4) | 836 | 1,075 |
| Retained earnings | 59,819 | 64,988 |
| | 129,022 | 99,776 |
| | <u>\$ 567,646</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 Nine Months ended September 30, 2002 and 2001 (in thousands of dollars, except per share amounts) (unaudited)

| | Three Months ended September 30 | | Nine Months ended September 30 | |
|---|------------------------------------|------------|-----------------------------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| Revenues | \$ 299,895 | \$ 332,390 | \$ 764,281 | \$ 779,612 |
| Costs and expenses | 279,643 | 303,007 | 716,017 | 718,268 |
| Marketing, general and administrative expenses | 12,995 | 12,641 | 41,708 | 39,544 |
| Depreciation and amortization | 2,399 | 3,543 | 6,986 | 7,744 |
| Loss (gain) on sale of assets | (330) | 10 | (829) | 847 |
| Gain on disposal of joint venture | (1,169) | | (1,169) | |
| Interest expense, net | 1,292 | 1,637 | 3,131 | 4,091 |
| | 294,830 | 320,838 | 765,844 | 770,494 |
| Income (loss) before income taxes | 5,065 | 11,552 | (1,563) | 9,118 |
| Income taxes | | | | |
| Current | 875 | 2,381 | 3,346 | 5,160 |
| Future | 1,487 | 2,454 | (2,644) | (1,417) |
| | 2,362 | 4,835 | 702 | 3,743 |
| Net income (loss) for the period | \$ 2,703 | \$ 6,717 | \$ (2,265) | \$ 5,375 |
| Earnings (loss) per share | | | | |
| Basic | \$ 0.11 | \$ 0.37 | \$ (0.10) | \$ 0.30 |
| Diluted | \$ 0.10 | \$ 0.32 | \$ (0.10) | \$ 0.27 |
| Average number of shares outstanding (note 3) | | | | |
| Basic | 25,071,696 | 18,017,250 | 21,875,130 | 17,959,069 |
| Diluted | 27,750,665 | 21,260,373 | 24,578,187 | 21,075,191 |

Consolidated Statements of Retained Earnings

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

| | Three Months ended September 30 | | Nine Months ended September 30 | |
|---|------------------------------------|-----------|-----------------------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| Retained earnings – beginning of period | \$ 57,116 | \$ 51,260 | \$ 64,988 | \$ 52,617 |
| Net income (loss) for the period | 2,703 | 6,717 | (2,265) | 5,375 |
| Dividends | | | (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 | \$ 59,819 | \$ 57,977 | \$ 59,819 | \$ 57,977 |

Consolidated Statements of Cash Flows

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

| | Three Months ended September 30 | | Nine Months ended September 30 | |
|---|------------------------------------|-----------|-----------------------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| Cash provided by (used in) | | | | |
| Operating activities | | | | |
| Net income (loss) for the period | \$ 2,703 | \$ 6,717 | \$ (2,265) | \$ 5,375 |
| Items not affecting cash – | | | | |
| Depreciation and amortization | 2,399 | 3,543 | 6,986 | 7,744 |
| Loss (gain) on sale of assets | (330) | 10 | (829) | 847 |
| Gain on disposal of joint venture | (1,169) | | (1,169) | |
| Gain on foreign exchange | (1,944) | (1,092) | (508) | (1,042) |
| Notional interest representing accretion | 40 | 41 | 114 | 123 |
| Future income taxes | 1,487 | 2,454 | (2,644) | (1,417) |
| | 3,186 | 11,673 | (315) | 11,630 |
| Change in other balances relating to operations (note 4) | (12,196) | 19,503 | (37,963) | 26,258 |
| | (9,010) | 31,176 | (38,278) | 37,888 |
| Investing activities | | | | |
| Purchase of property, plant and equipment | (960) | (3,897) | (2,720) | (12,056) |
| Proceeds on sale of assets | 1,130 | 52 | 7,521 | 1,175 |
| Proceeds disposal of joint venture | 2,603 | | 2,603 | |
| Increase in other assets | (5,724) | (13,416) | (5,928) | (13,231) |
| | (2,951) | (17,261) | 1,476 | (24,112) |
| Financing activities | | | | |
| Increase (decrease) in bank indebtedness | 7,558 | (9,456) | 4,619 | 13,028 |
| Issuance of long-term debt | | 2,826 | | 4,877 |
| Repayments of long-term debt | (2,342) | (2,951) | (12,758) | (6,047) |
| Increase (decrease) in other liabilities | (805) | 588 | (617) | (469) |
| Issuance of capital stock (note 3) | 192 | 16 | 837 | 340 |
| Issuance of special warrants (note 3) | | | 31,540 | |
| Dividends paid | | | (2,245) | (1,798) |
| Repurchase of capital stock (note 3) | | | | (44) |
| | 4,603 | (8,977) | 21,376 | 9,887 |
| Increase (decrease) in cash and cash equivalents | (7,358) | 4,938 | (15,426) | 23,663 |
| Effects of foreign exchange on cash balances | 2,842 | 1,775 | (1,257) | 1,906 |
| Cash and cash equivalents – beginning of period | 94,930 | 76,767 | 107,097 | 57,911 |
| Cash and cash equivalents – end of period | \$ 90,414 | \$ 83,480 | \$ 90,414 | \$ 83,480 |

Supplementary disclosure (note 4)

Notes to Consolidated Financial Statements

September 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 nine-month periods ended September 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 have been reduced by \$659 and compensation expense has been reduced by \$296 for the three months ended September 30, 2002 and increased by \$62 for the nine months ended September 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 September 30, 2002. During the nine months ended September 30, 2002, 75,000 options were granted to employees for which compensation expense of \$68 was recognized 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 3).

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 nine-month periods ended September 30, 2002. Goodwill amortization amounted to \$283 for the three months ended September 30, 2001 and \$824 for the nine months ended September 30, 2001.

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

3. Capital stock

| Authorized – Unlimited common shares | 2002 | | 2001 | |
|---|------------------|-----------|------------------|-----------|
| | Number of shares | Amount | Number of shares | Amount |
| Balance – January 1 | 18,018,583 | \$ 33,713 | 17,936,682 | \$ 33,402 |
| Common shares issued on exercise of options | 198,833 | 645 | 92,067 | 324 |
| Common shares issued on the conversion of convertible debenture | 613,543 | 2,209 | | |
| Common shares repurchased pursuant to normal course issuer bids | | | (15,500) | (29) |
| Balance – June 30 | 18,830,959 | 36,567 | 18,013,249 | 33,697 |
| Common shares issued on the exercise of special warrants | 6,192,150 | 31,540 | | |
| Common shares issued on exercise of options | 59,000 | 192 | 5,334 | 16 |
| Balance – September 30 | 25,082,109 | \$ 68,299 | 18,018,583 | \$ 33,713 |

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 fees and expenses, amounted to \$31,540, which was recorded as an increase in capital stock in the third quarter

During the nine months ended September 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 September 30, 2002, the maximum number of shares reserved for issuance under the plan, after deducting options which have been exercised, is 2,339,766, of which 1,940,233 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 | 75,000 | 5.55 | 720,000 | 3.73 |
| Exercised | (198,333) | 3.24 | (92,067) | 3.52 |
| Forfeited | (20,000) | 4.10 | (125,367) | 3.56 |
| Balance outstanding – June 30 | 1,999,233 | 3.69 | 2,308,566 | 3.58 |
| Exercised | (59,000) | 3.26 | (5,334) | 2.90 |
| Forfeited | | | (5,166) | 2.90 |
| Balance outstanding – September 30 | 1,940,233 | \$ 3.70 | 2,298,066 | \$ 3.58 |
| Options exercisable at end of period | 1,023,566 | \$ 3.59 | 585,233 | \$ 3.45 |

Options were exercised during the three months ended September 30, 2002 for 59,000 shares (2001 – 5,334) for which share capital was increased by \$192 (2001 – \$16). For the nine months ended September 30, 2002, 257,833 options were exercised (2001 – 97,401) for which share capital was increased by \$837 (2001 – \$340). Options currently outstanding have the following exercise prices and expiry dates:

| Options granted in | Number of shares | Exercise price | Expiry date |
|--------------------|------------------|----------------|----------------|
| 1999 | 58,733 | \$ 2.90 | April 15, 2004 |
| 2000 | 1,106,500 | 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 issued on May 6, 2002 have been treated as common share equivalents from their issue date.

Three months ended September 30

| | 2002 | | |
|---|-------------------------------|---------------------------------|------------------|
| | Income (numerator) | Shares (denominator) | Per share |
| Net income for the period | \$ 2,703 | 25,071,696 | \$ 0.11 |
| Effect of dilutive securities: | | | |
| Options | | 579,066 | |
| Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006 | 86 | 2,081,903 | |
| | <u>\$ 2,789</u> | <u>27,750,665</u> | <u>\$ 0.10</u> |

| | 2001 | | |
|---|-------------------------------|---------------------------------|------------------|
| | Income (numerator) | Shares (denominator) | Per share |
| Net income for the period | \$ 6,717 | 18,017,250 | \$ 0.37 |
| Effect of dilutive securities: | | | |
| Options | | 491,834 | |
| Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006 | 130 | 2,751,289 | |
| | <u>\$ 6,847</u> | <u>21,260,373</u> | <u>\$ 0.32</u> |

Nine months ended September 30

| | 2002 | | |
|---|-----------------------------|---------------------------------|----------------------|
| | Loss (numerator) | Shares (denominator) | Per share (i) |
| Net loss for the period | \$ (2,265) | 21,875,130 | \$ (0.10) |
| Effect of dilutive securities: | | | |
| Options | | 621,154 | |
| Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006 | 249 | 2,081,903 | |
| | <u>\$ (2,016)</u> | <u>24,578,187</u> | <u>\$ (0.10)</u> |

| | 2001 | | |
|---|-------------------------------|---------------------------------|------------------|
| | Income (numerator) | Shares (denominator) | Per share |
| Net income for the period | \$ 5,375 | 17,959,069 | \$ 0.30 |
| Effect of dilutive securities: | | | |
| Options | | 364,833 | |
| Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006 | 389 | 2,751,289 | |
| | <u>\$ 5,764</u> | <u>21,075,191</u> | <u>\$ 0.27</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. Cash flow information

Change in other balances relating to operations:

| | Three months to September 30 | | Nine months to September 30 | |
|--|------------------------------|-------------|-----------------------------|-------------|
| | 2002 | 2001 | 2002 | 2001 |
| (Increase) decrease in: | | | | |
| Accounts receivable | \$ (27,673) | \$ (39,289) | \$ (9,996) | \$ (26,974) |
| Holdbacks receivable | 3,382 | (8,572) | 851 | (4,500) |
| Deferred contract costs and unbilled revenue | (810) | 2,610 | 11,245 | (15,707) |
| Inventories | 3,434 | (162) | (3,619) | (1,047) |
| Income taxes recoverable | | (107) | | 1,629 |
| Prepaid expenses | (49) | 1,350 | (1,336) | 2,285 |
| Assets held for sale | | (455) | | (740) |
| Increase (decrease) in: | | | | |
| Accounts payable and accrued liabilities | 20,389 | 40,708 | (22,257) | 55,579 |
| Holdbacks payable | 745 | 5,558 | 4,714 | (4,049) |
| Deferred revenue | (10,352) | 16,286 | (16,679) | 18,203 |
| Income taxes payable | (1,262) | 1,576 | (886) | 1,579 |
| | \$ (12,196) | \$ 19,503 | \$ (37,963) | \$ 26,258 |

Other supplementary information:

| | Three months to September 30 | | Nine months to September 30 | |
|------------------------|------------------------------|----------|-----------------------------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| Cash interest paid | \$ 2,209 | \$ 2,404 | \$ 4,955 | \$ 7,411 |
| Cash income taxes paid | \$ 1,508 | \$ 1,443 | \$ 4,254 | \$ 3,400 |

Property, plant and equipment acquired and financed by means of capital leases during the three months ended September 30, 2002 amounted to \$nil (2001–\$266) and \$899 for the nine months ended September 30, 2002 (2001–\$1,466).

During the nine months ended September 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.

5. 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, highways 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 are 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 September 30 and the three months then ended

| 2002 | | | | | |
|---------------------------------|-----------------------|------------------|-------------------|----------------------------|--------------|
| | Infrastructure | Buildings | Industrial | Corporate and Other | Total |
| Revenues | \$ 170,084 | \$ 79,919 | \$ 39,059 | \$ 10,833 | \$ 299,895 |
| EBITDA | \$ 6,493 | \$ 1,324 | \$ 1,961 | \$ (1,022) | \$ 8,756 |
| Depreciation and amortization | 1,779 | 36 | 404 | 180 | 2,399 |
| Segment operating profit (loss) | \$ 4,714 | \$ 1,288 | \$ 1,557 | \$ (1,202) | \$ 6,357 |
| Interest and income taxes | | | | | (3,654) |
| Net income | | | | \$ | 2,703 |
| Total assets | \$ 351,250 | \$ 65,708 | \$ 61,333 | \$ 89,355 | \$ 567,646 |
| Capital expenditures | 129 | 18 | 249 | 564 | 960 |
| Cash flow from operations | \$ 4,216 | \$ 1,323 | \$ 796 | \$ (3,149) | \$ 3,186 |
| 2001 | | | | | |
| | Infrastructure | Buildings | Industrial | Corporate and Other | Total |
| Revenues | \$ 174,714 | \$ 73,281 | \$ 75,201 | \$ 9,194 | \$ 332,390 |
| EBITDA | \$ 11,415 | \$ 1,775 | \$ 6,748 | \$ (3,206) | \$ 16,732 |
| Depreciation and amortization | 2,608 | 35 | 564 | 336 | 3,543 |
| Segment operating profit (loss) | \$ 8,807 | \$ 1,740 | \$ 6,184 | \$ (3,542) | \$ 13,189 |
| Interest and income taxes | | | | | 6,472 |
| Net income | | | | \$ | 6,717 |
| Total assets | \$ 375,518 | \$ 75,239 | \$ 79,683 | \$ 90,817 | \$ 621,257 |
| Capital expenditures | 1,005 | 10 | 2,496 | 386 | 3,897 |
| Cash flow from operations | \$ 10,366 | \$ 1,771 | \$ 6,719 | \$ (7,183) | \$ 11,673 |

as at September 30 and the nine months then ended

2002

| | Infrastructure | Buildings | Industrial | Corporate and Other | Total |
|---------------------------------|----------------|------------|------------|---------------------|------------|
| Revenues | \$ 360,467 | \$ 261,665 | \$ 110,636 | \$ 31,513 | \$ 764,281 |
| EBITDA | \$ 11,211 | \$ 3,971 | \$ (2,406) | \$ (4,222) | \$ 8,554 |
| Depreciation and amortization | 4,941 | 111 | 1,315 | 619 | 6,986 |
| Segment operating profit (loss) | \$ 6,270 | \$ 3,860 | \$ (3,721) | \$ (4,841) | \$ 1,568 |
| Interest and income taxes | | | | | (3,833) |
| Net loss | | | | | \$ (2,265) |
| Capital expenditures | \$ 715 | \$ 53 | \$ 1,057 | \$ 895 | \$ 2,720 |
| Cash flow from operations | \$ 9,896 | \$ 3,965 | \$ (3,591) | \$ (10,585) | \$ (315) |

2001

| | Infrastructure | Buildings | Industrial | Corporate and Other | Total |
|---------------------------------|----------------|------------|------------|---------------------|------------|
| Revenues | \$ 401,645 | \$ 175,196 | \$ 165,600 | \$ 37,171 | \$ 779,612 |
| EBITDA | \$ 14,587 | \$ 3,643 | \$ 13,870 | \$ (11,147) | \$ 20,953 |
| Depreciation and amortization | 5,315 | 130 | 1,351 | 948 | 7,744 |
| Segment operating profit (loss) | \$ 9,272 | \$ 3,513 | \$ 12,519 | \$ (12,095) | \$ 13,209 |
| Interest and income taxes | | | | | 7,834 |
| Net income | | | | | \$ 5,375 |
| Capital expenditures | \$ 5,491 | \$ 38 | \$ 4,803 | \$ 1,724 | \$ 12,056 |
| Cash flow from operations | \$ 13,551 | \$ 3,639 | \$ 13,754 | \$ (19,314) | \$ 11,630 |

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.



Aecon Group Inc.

3660 Midland Avenue
Toronto, Ontario
Canada, M1V 4V3
Telephone 416-754-8735
Facsimile 416-754-1988
aecon@aecon.com
www.aecon.com