1

Three months ended March 31, 2004

2004 Aecon Group Inc. First Quarter Report

Dear Fellow Shareholders,

I am pleased to report that in the first quarter of fiscal 2004, Aecon recorded significant year over year improvement in both top line and bottom line results. These improvements are consistent with our expectations of a return to profitability in 2004 and, while we still have much work to do, it would appear that the measures we have taken to improve Aecon's financial performance are beginning to take hold.

Aecon's revenue increased to $198 million in the first quarter of 2004 from $184 million in the same period last year and our net loss decreased to $2.4 million ($0.10 per share) from a net loss of $9.9 million ($0.42 per share) in the first quarter of 2003.

These results were driven by a number of factors, including better operating results and a claim settlement in the Industrial segment, improved operating results in the Infrastructure segment and unrealized foreign exchange gains recorded in the first quarter of 2004. Partially offsetting these improvements were a year over year decline in the Buildings segment as well as increased corporate costs resulting from a one-time provision associated with the consolidation of Aecon's three offices in the Greater Toronto Area into a single location.

New contract awards for the quarter totaled $229 million, a $116 million increase from the same period last year. Due in part to these substantial new business awards, backlog at the end of the first quarter was $584 million, an increase of $27 million from the same time last year. This increase was achieved despite a decline in major projects backlog, which fell by $80 million over the past 12 months as Aecon's major projects in India and Israel progressed toward completion. The decline in major projects backlog is expected to be reversed later this year when the anticipated financial close of the Quito Airport project, expected in the fourth quarter, will add approximately $250 million to Aecon's backlog (based on current expectations that Aecon will perform 50% of the project's construction).

Core backlog, representing all backlog not associated with the India and Israel projects, was $566 million at the end of the quarter, a 23% increase over the $459 million existing at the same time last year.

Revenue in the Infrastructure segment during the quarter declined by 14% as compared to the same quarter last year, largely due to reduced contributions from our two major projects in India and Israel as they near final completion. Major milestones were reached this quarter on both of these projects, as the last of six 250-megawatt units at the Nathpa Jhakri power project in India were successfully synchronized and made available for power production, and the final leg of the Cross Israel Highway was opened to traffic and the electronic tolling system was successfully activated along the entire 86-kilometre route.

Continued softness in roadbuilding volumes, due in large part to ongoing delays in the release of new work by the Ministry of Transportation of Ontario following last year's election, contributed to the segment's year over year revenue decline. This decline in volume is expected to be regained throughout the year as the Ministry of Transportation begins to release greater volumes of work and as our increased concentration on winning municipal and private sector work continues to pay-off. In this respect, Aecon's backlog of roadbuilding work for municipal and private sector clients has grown substantially since the end of 2003.

Operating losses in the Infrastructure segment fell to $5.9 million from $10.5 million in the same period last year. Results were positively affected by a number of factors including: an improvement in the impact of foreign exchange; a reduction in marketing, general and administrative costs (MG&A); contributions from the Light Rapid Transit project in Edmonton, Alberta; and improved earnings in the segment's utilities and roadbuilding operations (earned despite a decline in revenues from the same period last year).

Revenue from Aecon's Buildings segment increased to $84 million in the quarter, a 19% increase over the same period last year. This increase is largely attributable to improved volume in the segment's Quebec operations, as well as revenue contributions from Aecon's recent acquisition of the assets and operations of Westeinde Construction Ltd.

Operating income in the Buildings segment was $1.9 million lower than recorded in the same quarter last year, principally due to $0.5 million in losses on projects acquired as part of the Westeinde acquisition and a $1.5 million loss incurred on a college renovation project in Ontario (a portion of which is expected to be recovered through a claim settlement).

While the Buildings segment is expected to reverse the operating losses reported in the first quarter, the increased revenues anticipated in 2004 are not expected to translate into increased operating profit at year-end.

The recent acquisition of the assets and operations of Cegerco CCI Inc. – one of the largest general contractors in the Montreal area – effectively doubles our size in the Montreal buildings market. While neither the Cegerco acquisition nor the addition of Westeinde Construction are expected to add to Aecon's bottom line in 2004, both are important additions that are expected make healthy profit contributions to the Buildings segment in the medium term.

In the Industrial segment, both revenue and operating income made significant gains over the comparable quarter last year. These gains are due primarily to volume growth at Innovative Steam Technologies (IST), continued success in Aecon's pipe fabrication and module assembly business in western Canada and a claim settlement recorded early this year.

First quarter revenue from the Industrial segment grew to $59 million, a 21% increase over the same period in 2003. Excluding the claim settlement noted above, revenues were $2.9 million or 6% higher than the same period last year.

Operating income in the Industrial segment improved substantially to $10.8 million versus an operating loss of $2 million recorded in the same period last year.

The turnaround at IST, which began in 2003, continued in the first quarter, reinforcing management's expectations of a return to profitability for this division in 2004. In fact, the six steam generators sold in the quarter and the resulting addition of $18.9 million to backlog should be sufficient to allow IST to achieve at least breakeven results in 2004.

Another positive development in the first quarter was the establishment of a joint venture company with Fabco Industries Ltd., one of Atlantic Canada's leading industrial contractors. The newly formed company, Aecon-Fabco, will be based in Dartmouth, Nova Scotia and will specialize in pipe fabrication and module assembly projects for clients in Atlantic Canada. This new partnership builds on Aecon's long established presence in the region and helps to achieve Aecon's strategy of developing profitable growth opportunities in Atlantic Canada.

Overall, the first quarter of 2004 was a significant step forward for Aecon. Management believes that Aecon's financial turnaround, after two years of disappointing results, has begun to take hold. Results in the first quarter of 2004 serve to reinforce management's expectations for significant bottom line improvements and a return to profitability in 2004.

On behalf of the Board of Directors,

John M. Beck
Chairman and CEO
May 12, 2004

Management's Discussion and Analysis of operating results and financial condition ("MD&A")

This Management's Discussion and "MD&A") for Aecon Group Inc. ("Aecon") should be read in conjunction with the Company's Interim Consolidated Financial Statements and Notes (which have not been reviewed by the Company's external auditors) and in conjunction with the Company's annual MD&A for 2003.This interim MD&A has been prepared as of May 12, 2004. Additional information on Aecon is available through the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and includes the Company's Annual Information Form and other security filings.

RESULTS OF CONTINUING OPERATIONS

Introduction

Aecon operates in three principal segments within the construction industry – Infrastructure, Buildings and Industrial.

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 lower revenues and profits than the other three quarters. Consequently, results in any one quarter are not indicative of results in any other quarter or for the year as a whole.

Consolidated

Financial Highlights

$ millions	2004	2003	% Change
Revenues	$ 198.5	$ 184.2	7.7%
Operating Loss*	(1.9)	(14.1)	86.3%
Return on Revenue	(1.0%)	(7.6%)	86.8%
Backlog – March 31	583.7	557.1	4.8%

* Operating profit (loss) represents net income (loss) before interest and income taxes.

Revenues for the three months ended March 31, 2004 amounted to $198.5 million, representing an increase of $14.3 million or 7.7% over the same period last year. The $14.3 million increase in revenues, which is explained in more detail in the commentary on Reporting Segments, was attributable to increases in the Buildings and Industrial segments of $13.1 million and $10.2 million respectively, partially offset by declines in Infrastructure and Corporate and Other by $8.7 million and $0.3 million respectively.

Operating margins (revenues less costs and expenses) as a percent of revenues increased from 1.4% in the first quarter of 2003 to 7.1% in the first quarter of this year. Large operating margin improvements in both the Infrastructure and Industrial segments were only partially offset by a decrease in margin from the Company's Buildings segment. Significant to the improvement in operating margins was a $7.3 million gain in the Industrial segment from the settlement of a claim for additional revenue where, consistent with Aecon's revenue recognition policy, no accrual for such revenue was made while the costs had already been recognized in previously reported results. Also significant were unrealized exchange gains of $1.0 million compared to $2.3 million in unrealized exchange losses reported for the same quarter last year. Results for each of the three principal segments are discussed separately under Reporting Segments.

Marketing, general and administrative expenses ("MG&A") declined by $0.4 million in the quarter, amounting to $14.2 million, compared to $14.6 million in the same quarter last year. Included in the current quarter is a $2.6 million charge to cover the cost to Aecon of terminating the lease on its premises at Midland Avenue in Toronto. Excluding the impact of this charge and excluding the impact of foreign exchange ($0.2 million in exchange gains in 2004 and $0.8 million in exchange losses in 2003), MG&A in the quarter is $2.0 lower than the same quarter last year and as a percentage of revenues is 6.0% compared to 7.5% in 2003. The reduction in MG&A is spread across all segments and reflects for the most part the continued focus by all divisions and the corporate office on reducing their MG&A burden by carefully managing salaries and office related costs.

Depreciation and amortization, which amounted to $1.8 million for the first quarter of 2004, declined from the same quarter last year by $0.4 million. The reduction, most of which is in the utility services and roadbuilding operations, reflects a combination of a reduced fleet size because of improved fleet management and the continued move by Aecon to operating leases when obtaining certain types of equipment or equipment for certain types of projects, rather than outright purchase.

Net interest of $0.9 million in the first quarter of 2004 was $0.4 million higher than the corresponding quarter last year. Interest expense in 2004 was $0.1 million higher as a result of interest on the standby facility agreement with Hochtief that came into force in September 2003. Interest expense was also higher by $0.1 million within the Nathpa Jhakri Hydroelectric project in India due to the higher rates of interest charged on the working capital facility. As well, interest income on the funds on deposit within the India project was lower $0.2 million due to lower rates.

Aecon's effective income tax recovery rate for the first quarter 2004 is 25.7% (2003 – 33.7%) on pre-tax losses from continuing operations of $2,847 (2003 – $14,635). These rates compare to the combined Canadian federal and provincial (Ontario) statutory income tax rates of 36.1% in 2004 and 36.6% in 2003. The distorted recovery rate in the first quarter 2004 results from a surcharge levied on taxes payable in India, a provincial rate differential, non-deductible expenses for tax purposes, and Large Corporations tax, partially offset by foreign exchange translation gains which are not subject to tax. The following table reconciles the statutory tax rate of 36.1% to the effective tax rate of 25.7%:

Loss before income taxes from continuing operations	$	2,847
Statutory income tax rate		36.1%
Expected income tax recovery		1,028
Effect on income tax of:		
Surcharge levied on taxes payable in India		(332)
Provincial rate differential		(124)
Non-deductible expenses		(106)
Large corporations tax		(113)
Foreign exchange translation gains		372
Other		6
Income tax recovery from continuing operations	$	731
Effective income tax rate		25.7%

The net loss from continuing operations for the three months ended March 31, 2004 amounted to $2.1 million or $0.09 per share, compared to a net loss from continuing operations of $9.7 million or $0.41 per share in the three months ended March 31, 2003.

New contract awards of $229.3 million were recorded in the first quarter of 2004, which compares with $113.6 million in 2003. Backlog at March 31, 2004 was $583.7 million, which was $30.8 million higher than the beginning of the year. The 2003 backlog levels have been restated to reflect a change in Aecon's policy regarding amounts to be included in reported backlog. Aecon no longer includes in backlog contracts where the extent of the services to be provided under the contract are undefined (such as exclusive mandate contracts where the extent of services to be provided are identified in purchase orders issued subsequent to the contract award). Previously, the estimated value of purchase orders issued under such contracts was included in backlog. This policy change has the effect of reducing reported backlog at March 31, 2003 by $44.2 million.

Reporting segments

Infrastructure

Financial Highlights

$ millions		2004		2003	% Change
Revenues	$	55.9	$	64.7	(13.5%)
Segment Operating Loss		(5.9)		(10.5)	43.5%
Return on Revenue		(10.6%)		(16.2%)	34.6%
Backlog – March 31		201.8		288.6	(30.1%)

Revenues from the infrastructure segment for the three months to March 31, 2004 were lower than the same period in 2003 by $8.7 million or 13.5%.

The most significant decline in revenues - $7.1 million - came from the Cross Israel Highway project and the Nathpa Jhakri Hydro-electric power project in India. Work volumes on these projects continued to decline as they near final completion, which, for both projects, is expected to occur in the second quarter of 2004. Revenues from these projects, excluding the effect of foreign exchange (which was approximately $3.0 million positive quarter-over-quarter), were $21 million in the first quarter of 2003 compared to $13.9 million in the first quarter of this year.

Another area of significant revenue decline was in roadbuilding operations where revenues of $8.5 million in the first quarter of 2004 were $4.5 million less than the corresponding period last year. The sharp decline in revenues from this sector resulted primarily from a continuation of the delay witnessed in the fourth quarter of 2003 in the release of new work by the Ministry of Transportation of Ontario. Such delays are not unusual after a change in government, which Ontario experienced at both the provincial and municipal levels in the latter part of 2003. Revenues in the quarter were also negatively impacted by the delay in commencement of the project awarded to Aecon for the construction of a bridge connecting Toronto island to the mainland. It should be noted that while roadbuilding revenues are down, backlog is improving and the trend continues towards less dependence on Ministry of Transportation work in favour of more regional and municipal government work, as well as more private sector work, as a result of the strategic targeting of these markets since early 2003.

A less significant decline ($3.1 million) in revenues was reported by the segment's utility services group. The decline was mostly due to lower volumes in the group's traffic technology and pipeline operations, both of which were involved in unusually large projects that increased revenues in 2003 and which were not replaced by similar sized projects in 2004. The utility services group also saw a decline in revenues as a result of continuing weaker demand within the telecommunications sector, which is the group's largest market, although some more recent encouraging signs of improvement are emerging.

Partly offsetting the revenue declines noted above was a net increase in revenues of $3 million (from $11.5 million in the first quarter of 2003 to $14.5 million in the first quarter of 2004) from the balance of the segment's operations. The principal contributors to this net increase were a large light rapid transit project in Edmonton, which started in mid 2003 and is still in progress, and a large hydro-electric power house project in Eastmain, Quebec, which commenced in early 2004.

The segment operating loss of $5.9 million in 2004 represents a $4.6 million improvement over the same quarter of 2003. When the impact of foreign exchange is removed (unrealized gains of $1.2 million in 2004 compared to unrealized losses of $2.6 million in 2003) operating results were better by $0.8 million.

The $0.8 million net improvement in operating results can be traced to a variety of factors, the principal ones being:

Positive factors:

- Roadbuilding operations, despite a decline in revenues, reported a $1.1 million improvement in earnings reflecting savings in equipment costs as a result of a reduced fleet size and better fleet management, and a continuing focus on reductions in all other cost areas.

- Similarly, despite the decline in revenues from the segment's utility services group, earnings were ahead of last year by $0.5 million due principally to productivity improvements and reduced equipment and overhead costs.

- The segment also benefited in the quarter from a $0.7 million reduction in MG&A as a result of closing its Calgary office and centralizing its heavy civil and infrastructure development activities in Toronto.

- The light rapid transit project in Edmonton contributed $0.4 million to the improved earnings of the segment. However, there was no corresponding increase from the Eastmain project because, in accordance with Aecon's accounting policy for large multi-year fixed price contracts, income is not recognized until progress reaches a stage of completion (generally 20%) sufficient to reasonably determine the probable results. The Eastmain project was 8.6% complete at the end of March 2004.

Negative factors:

- Losses of $1.2 million on a substantially completed highway construction project in Quebec;

- No profit recognition during the quarter (compared to the recognition of $0.4 million of profit last year) on a hydro-electric dam project, also in, Quebec.

- A provision of $1 million against a 2002 receivable on a fully completed pipeline project in Ontario.

While Aecon will be filing a claim against the owners of the highway project in Quebec and has filed a claim against the owner of the pipeline project in Ontario, in accordance with the Company's accounting policy, recovery against claims are only recognized when the claims are settled. With respect to the Toulnustouc hydro-electric dam project, this project has incurred significant cost overruns, primarily because of customer changes to the original contract scope. Aecon is currently negotiating with the owners of the project for a full recovery of these cost overruns. In the interim, the project owner has advanced $16 million to Aecon which it will retain or pay back, wholly or partly, depending on the outcome of the negotiations. While management believes that it will be successful in these negotiations, which are expected to be completed before the end of May, it is considered prudent, pending their outcome, not to forecast any profit on this project. Consequently, the $0.4 million profit recognized on this project in the first quarter of 2003 was reversed in the last quarter of 2003.

New contract rewards of $38.5 million were recorded in the first quarter of 2004, which compares with $34.1 million in the same period last year. Backlog decreased by $17.4 million during the quarter principally because of work completed on the two major international projects in Israel and India.

Buildings

Financial Highlights

$ millions		2004		2003	% Change
Revenues	$	83.6	$	70.4	18.7%
Segment Operating (Loss) Profit		(1.7)		0.2	n/a
Return on Revenue		(2.0%)		0.3%	n/a
Backlog – March 31		300.1		191.9	56.4%

n/a = not applicable

Revenues from the Buildings segment increased by $13.2 million or 18.7% from the same quarter last year. Of the $13.2 million increase, $5.6 million came from the segment's Quebec operations where greater focus is being placed on growing Aecon's presence in this market. Revenues from Quebec were only $0.6 million in the first quarter of 2003 compared to $6.2 million in the first quarter of 2004. Most of the balance of the increase is attributable to the acquisition in the last quarter of 2003 of the assets and operations of Westeinde Construction Ltd. ("Westeinde"), a leading general contractor in eastern Ontario.

Operating results from the Building's segment were $1.9 million lower than the same quarter last year. There were two principal reasons for this decline. Firstly, the segment incurred $0.5 million in losses on projects acquired as part of the Westeinde acquisition and secondly, the segment's interiors and renovations division suffered a loss of $1.5 million in the quarter compared to a profit of $0.1 million in the same quarter last year. The loss in the segment's interiors and renovations division is attributable to cost overruns on a college renovation project. The loss recorded on this project in the quarter amounted to $1.5 million of which the Company feels it will eventually recover some portion of this amount through a claim against the client. However, as noted above, Aecon does not recognize the expected income from claims until they are resolved.

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 higher by $49 million for the year compared to being higher by $20 million in 2003. The Buildings' segment largest construction management contract is the Pearson Airport joint venture. The first phase of the new Terminal 1 at Toronto Pearson International Airport was opened in April, 2004.

New contract awards of $141.0 million were recorded in the quarter, which compares with $75.8 million in 2003. Backlog increased by $57.4 million from the beginning of the year mostly on account of increased work in the Greater Toronto Area.

Industrial

Financial Highlights

$ millions	2004	2003	% Change
Revenues	$ 59.4	$ 49.2	20.7%
Segment Operating Profit (Loss)	10.8	(2.0)	n/a
Return on Revenue	18.1%	(4.1%)	n/a
Backlog – March 31	81.7	76.6	6.6%

n/a = not applicable

Revenues of $59.4 from the Industrial segment in the first quarter of 2004 were $10.2 million or 20.7% higher than the same quarter in 2003, though among the various sectors movements in volumes differed significantly. Included in the segment's revenues for the 2004 is $7.3 million from a claim settlement. Excluding the impact of this settlement, revenues were $2.9 million or 5.9% higher than last year.

Pipe fabrication and module assembly volumes increased $11.2 million, which was well over double the corresponding quarter in 2003. Most of the increase results from Aecon's manufacturing operations in western Canada where modules are being assembled and supplied to Syncrude and site work is being performed for Suncor in Fort McMurray. Automotive industry work was $9.5 million lower than 2003 reflecting not only lower volumes but also reflecting the decision made in the latter part of 2003 to be much more selective in the type of automotive work that the segment will bid on. This decision was taken because of the highly competitive and lower margin characteristics in the automotive sector compared to the other sectors in which the Company is active. Project work, primarily for the power and steel industries, was slightly ahead of last year.

Nuclear revenues, derived from Aecon's 38.75% interest in Canatom NPM Inc., were down $3.5 million due to the completion of the Qinshan project in China.

Revenues at Innovative Steam Technologies ("IST"), which sells and licenses the technology for once-through steam generators, were up $4.0 million over the first quarter of 2003. IST entered 2003 with no backlog and only booked the first contract in late January 2003. As a result, there were very low production levels in the first quarter of 2003. On the other hand, IST started 2004 with $10.1 million of backlog and with two contracts already in production. Although the market for steam generators is still relatively slow, IST has been successful in taking a large share of the existing orders available. During the quarter IST was awarded contracts for six steam generators with a total value of $18.9 million. This compares to two awards with a contract value of $10.8 million in the same period last year. Management believes that IST now has sufficient backlog to achieve at least breakeven results in 2004, thus finally evidencing the successful turnaround of this business in response to the very challenging market conditions over the last two and a half years.

Operating profit of the Industrial segment was $10.8 million in the quarter which represents a significant improvement over the loss of $2.0 million reported in 2003. The most significant element of the improvement, $7.3 million, resulted from the claim settlement noted above. However, significant improvements were also reported by the segment's fabrication and project units, and by IST. An improvement of $2.0 million in the fabrication unit was due to an increase in volumes, particularly from contracts in Western Canada. The projects unit improved by $1.7 million, mostly on account of a $31 million power contract in New Brunswick which started in late 2003 but for which profit recognition did not commence until the first quarter of 2004, which is consistent with Aecon's accounting policy for large multi-year fixed price contracts policy noted earlier. IST reported a profit improvement of $1.9 million compared to the first quarter of 2003 most of which relates to the increase in revenue noted above.

New contract awards of $50.2 million were recorded in the quarter, which compares with $44.2 million in 2003. Backlog decreased by $9.2 million from the beginning of the year.

Corporate and Other

Net corporate expenses amounted to $5.1 million in the first quarter, which was $3.3 million higher than last year. Included in the 2004 first quarter costs is $2.6 million to cover lease termination payments the Company will incur as a result of its contractual obligation to terminate the lease on its premises at Midland Avenue in Toronto. The lease is being terminated to facilitate the consolidation of the Company's Midland Avenue, Victoria Park (Toronto) and Indell Lane (Brampton) offices into one jointly used leased facility near Toronto's Pearson Airport. Excluding the cost of the lease buyout and excluding exchange gains of $0.6 million from 2003 (there were no exchange gains or losses in Corporate and Other in 2004) net corporate expenses were $0.2 million higher than the corresponding quarter last year. The $0.2 million increase represents an increase of $0.8 million in inter-segment earnings eliminations offset partially by $0.6 million in lower corporate overheads. Reductions in corporate overheads affected all departments, with salaries and related benefits being the most significant area of savings.

Discontinued Operations

See note 7 to the Company's interim consolidated financial statements.

Quarterly Financial Data

The reader is referred to the Company's 2003 Management Discussion and Analysis for an analysis of the results of the eight quarters that ended on December 31, 2003.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOUCES

Cash and cash equivalents at March 31, 2004 totaled $48.4 million, which compares with $50.2 million at the end of 2003. Of these amounts, $41.7 million and $42.5 million, respectively, were on deposit in joint venture and affiliate bank accounts, which Aecon cannot access directly.

Cash used in operating activities amounted to $1.5 million in the quarter ended March 31, 2004 compared to cash used in the same quarter last year of $19.8 million. The significant improvement in cash reflects the combination of improved operating results in the quarter and improved management of working capital. Cash used in operating activities, before accounting for changes in other (non-cash) balances relating to operations, was $6.2 million lower than in the first quarter last year, while cash generated from changes in other balances relating to operations, which represent operating working capital items, was $12.3 million higher than last year.

Investing activities during the first quarter of 2004 resulted in a use of cash of $10.5 million (2003 - $1.2 million). Of the outflow of $10.5 million, $10.2 million relates to a net increase in other assets. The net increase in other assets includes the Company's final deposit of $12.3 million made in March to the trust that funded in April, 2004, Aecon's committed investment of US $27.2 million in Derech Eretz Highways (1997) Ltd. ("Derech Eretz"), the concessionaire of the Cross Israel Highway. Aecon's investment in Derech Eretz will be accounted for on a cost basis. Accordingly, income will be recognized only to the extent of dividends received from accumulated earnings. Although Derech Eretz is expected to be very profitable over the term of the remaining 25 years that it will have the right to operate and collect tolls on the Cross Israel Highway, under the terms of the financing agreements the first distribution from Derech Eretz is not expected until 2009. Also included in the change in other assets is a net decrease of $2.9 million in deferred costs related to the Company's airport project in Quito, Ecuador. Although during the quarter the Company incurred $1.4 million in deferred costs related to this project, it recovered $4.3 million upon the transfer to a new partner of a portion of the Company's interest in the project.

Cash generated from financing activities during the quarter ended March 31, 2004 amounted to $9.4 million, compared to $25 million in the same quarter in 2003. On March 18, 2004 the Company issued 4,600,000 common shares at $5.25 per share. Net proceeds, after deducting agents' fees and estimated expenses of the issue were approximately $23,341. Hochtief Canada Inc., the Company's largest shareholder, exercised its pre-emptive right in connection with this offering and acquired 2,214,440 common shares, thus maintaining its 48.1% interest. Primarily because of the share issue the Company was able to make its final installment to the trust company that will fund Aecon's investment in Derech Eretz and to reduce bank indebtedness.

Interest bearing debt amounted to $67.2 million at March 31, 2004, compared to $81.3 million at December 31, 2003, the composition of which is as follows ($ millions):

	Mar.31,2004	Dec.31,2003**
Bank indebtedness*	$ 14.3	$ 30.1
Current portion of long-term debt	15.3	15.9
Long-term debt	30.2	27.4
Convertible debenture	7.4	7.4
Total	$ 67.2	$ 80.8

* Includes issued but uncleared cheques.

** These amounts exclude $0.5 million of debt related to discontinued operations (see note 7 to the Company's Interim Consolidated Financial Statements)

To finance its working capital requirements Aecon principally depends on its access to a working capital facility and a revolving term loan.

Availability under the working capital facility, which is to be renewed and extended by June 4, 2004, is linked to seasonally fluctuating current assets and liabilities, including accounts receivable, and certain accounts payable. The working capital facility typically consists of a committed core facility and an uncommitted seasonal facility. The uncommitted seasonal facility was available from June through November 2003. Upon renewal of the working capital facility it is anticipated that again a seasonal facility for the period June through November 2004 will be provided. In 2003, utilization of the seasonal facility was modest and sporadic, primarily to accommodate very short term temporary cash flow gaps.

The working capital facility agreement includes several financial covenants which have been adjusted from year to year to accommodate the requirements of the Company while providing comfort to the participating lenders. No other funding arrangements of the Company have financial covenants, although some include the working capital facility covenants by reference.

Based on current feedback from its core financial creditors, the Company is confident that it will successfully renew its working capital facility and that it has adequate liquidity to meet the requirements of its planned 2004 operations. However, if the Company is not successful in renewing this facility or if there are material adverse performance deviations from the Company's 2004 operating plan, then the Company's liquidity position would be highly constrained and alternative financing and/ or deferral of certain operating activities would need to be implemented.

The revolving term facility has a remaining maturity of 14 years and an annuity style amortization schedule. The amount of the revolving term loan was established by reference to the appraised value of certain real estate and aggregate reserve assets which serve as primary collateral for the loan. On the seventh anniversary, which is six years hence, the lender can request that a repayment be made to restore the agreed ratio between the then available loan amount and the then appraised value of the collateral assets. The revolving term loan provides Aecon with a very flexible and stable source of operating funding.

As of March 31, 2004 the Company experienced a very strong liquidity position, in part as a result of the recent equity issue, but also as a result of strong operating cash flow. This liquidity position is anticipated to partially reverse itself over the next three to six months as the construction season start requires a substantially larger investment in work in progress and accounts receivable. The availability of credit under the term revolver and bank credit facility, supplemented by the Company's equity and cash flow from operations, is expected to be sufficient to meet operating requirements.

To fund investments in property, plant and equipment, Aecon has access to several committed and uncommitted equipment financing and leasing facilities. Remaining availability under these lines of credit is sufficient to meet Aecon's anticipated requirements in 2004.

CHANGES IN ACCOUNTING POLICIES

For Aecon's 2004 fiscal year, new rules (Accounting Guideline 13 issued by the Canadian Institute of Chartered Accountants (CICA)) related to hedge accounting became effective. These rules set out the conditions that must be met in order to apply hedge accounting. Each hedging relationship is also subject to an effectiveness test on a regular basis to determine whether there is reasonable assurance that the hedge will continue to be effective. Any derivative financial instrument that does not qualify for hedge accounting will be accounted for on a mark-to-market basis. The impact of not applying hedge accounting is that gains or losses on a derivative financial instrument that is marked-to-market may not be recorded in the same accounting period as gains or losses on the hedged item. During the three months ended March 31, 2004 the Company recorded net gains of $0.2 million on foreign currency transactions which did not qualify for hedge accounting. The $0.2 million is referenced above in the discussion on MG&A. The Company did not enter into any transactions during the quarter that qualified for hedge accounting.

Effective January 1, 2004, the Company adopted CICA Handbook section 1100, "Generally Accepted Accounting Principles" which establishes standards for financial reporting in accordance with generally accepted accounting principles (GAAP), defines primary sources of GAAP and requires that an entity apply every relevant primary source. Adoption of this new standard did not have an impact on the Company's financial position, results of operations, cash flows or on the Company's business operations.

Also effective January 1, 2004, the Company adopted CICA Handbook section 3110, "Asset Retirement Obligations". This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time. Adoption of this new standard did not have a material impact on the Company's financial position, results of operations, cash flows or on the Company's business operations.

PENDING ACCOUNTING POLICY CHANGES

Effective with the issuance of its third quarter results, the Company will comply with new disclosure requirements for pensions and other employee future benefit plans. The purpose of these new rules is to allow readers to better understand how an employee's obligations under these plans affect its financial condition, operations and cash flows.

SUPPLEMENTAL DISCLOSURES

Contractual Obligations

There were no material changes in the quarter ended March 31, 2004 that were outside the ordinary course of the Company's business.

As of December 31, 2003 Aecon was committed to invest a further US $9.3 million by March 27, 2004 in Derech Eretz Highways (1997) Ltd., the concessionaire of the Cross Israel Highway. As noted previously, this commitment was fulfilled on the due date.

At March 31, 2004 Aecon had contractual obligations to complete construction contracts which were in progress. The revenue value of these contracts, which represents backlog, was $583.7 million.

Off-Balance Sheet Arrangements

In connection with its joint venture operations in India and Israel, Aecon has provided various financial and performance guarantees and letters of credit, which are described in note 5 to the interim Consolidated Financial Statements.

There was no material change in the funded status of Aecon's pension plans during the first quarter of 2004. Details relating to Aecon's defined benefit plans are set out in note 17 to the Company's 2003 Consolidated Financial Statements.

Aecon from time to time enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. At March 31, 2004 the Company had net outstanding contracts to buy US $0.3 million, sell US $9.2 million and sell EURO 5.4 million (December 31, 2003 - buy US$ 2.5 million and sell EURO 3.4 million) on which there were unrealized net exchange gains of $0.2 million (December 31, 2003 – net exchange losses of $22 thousand) Financial instruments are discussed in note 19 to the Company's 2003 Consolidated Financial Statements.

Related Party Transactions

Aecon from time to time receives financial support from its largest shareholder Hochtief Canada Inc. ("HCI"). At March 31, 2004 Aecon was indebted to HCI for a total of $17.5 million (December 31, 2003 -$17.4) million of which $7.7 million (December 31, 2003 - $7.7 million) was in the form of a convertible subordinated debenture as described in note 10 to the Company's 2003 Consolidated Financial Statements and $9.8 million (December 31, 2003 - $9.7 million) under a stand-by facility agreement as described in note 8 to the Company's 2003 Consolidated Financial Statements. Hochtief AG, the parent of HCI, has issued guarantees in support of the financial and performance related obligations of the Nathpa Jhakri hydro-electric project in India in which Aecon has a joint venture interest. Aecon paid Hochtief AG $0.1 million during the quarter ended March 31, 2004 (2003 - $0.1 million) in connection with these guarantees. In addition, Aecon paid Hochtief $0.2 million of interest and fees in connection with the stand-by facility ($0 in 2003). Aecon has also developed a new partnership agreement with Hochtief for bidding and executing large civil projects in North America.

Critical Accounting Estimates

The reader is referred to the detailed discussion on Critical Accounting estimates as outlined in the notes to the Company's 2003 Consolidated Financial Statements.

In 2003 Aecon acquired the assets and operations of Westeinde Construction Ltd. ("Westeinde") which is described in note 16 to the Company's 2003 Consolidated Financial Statements. Since certain post-closing adjustments are still outstanding, and as the determination of the fair value of certain of the intangible assets is not final, the purchase price allocation for Westeinde, as at March 31, 2004 and December 31, 2003 is preliminary.

Outstanding Share Data

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

(in thousands of dollars, except share amounts)

	March 31, 2004	May 12, 2004
Number of common shares outstanding	29,973,209	29,994,109
Paid up capital of common shares outstanding (1)	$ 91,791	$ 91,852
Outstanding securities exchangeable or convertible into common shares:		
Number of employee stock options outstanding	1,632,400	1,611,500
Number of common shares issuable on exercise of employee stock options	1,632,400	1,611,500
Increase in paid up capital on exercise of employee stock options	$ 6,024	$ 5,963
Number of compensation options outstanding	166,750	-
Number of common shares issuable on exercise of compensation options	166,750	-
Increase in paid up capital on exercise of compensation options	$ 875	-
Principal amount of convertible debentures outstanding (see note 10 to the Company's 2003 Consolidated Financial Statements)	$ 7,731	$ 7,731
Number of common shares issuable on conversion of convertible debenture	1,994,796	1,996,033
Increase in paid up capital on conversion of convertible debenture	$ 7,731	$ 7,731

(1) As described in note 2 to the Company's interim Consolidated Financial Statements, in accordance with recommendations of The Canadian Institute of Chartered Accountants share capital has been reduced by $857 on account of share purchase loans receivable from employees.

OUTLOOK

The first quarter of the year is traditionally the slowest period within the Canadian construction industry and is not normally indicative of performance over the balance of the year. The typical trend of losses reported early in the year, followed by profits in the second half, is expected to be repeated this year.

Aecon's backlog, sometimes viewed as a good indicator of future revenue prospects, increased to $583.7 million at March 31, 2004, an increase of $26.6 million from the same time last year. This increase was achieved despite a decline in major projects backlog which fell by $80.1 million over the past 12 months as Aecon's major projects in India and Israel progressed toward completion. The decline in major projects backlog is expected to be reversed later this year when the anticipated financial close of the Quito Airport project will add approximately $250 million to Aecon's backlog (based on current expectations that Aecon will perform 50% of the project's construction).

Aecon's core backlog increased by $106.8 million to $565.9 million at March 31, 2004, a 23.3% increase compared to a year earlier. On a segmented basis, an increase of $108.2 million in the Buildings segment and a $5.1 million increase in the Industrial segment were partially offset by a decrease of $6.5 million in the Infrastructure segment. Aecon's core backlog is defined as all backlog not related to the company's major projects in India and Israel.

The decline in the Infrastructure segment's roadbuilding revenues recorded in the first quarter as compared with the same period in 2003 is expected to be regained throughout the year as the Ministry of Transportation of Ontario begins to release greater volumes of work and as Aecon's increased concentration on winning municipal and private sector work continues to pay-off. In this respect, Aecon's backlog of roadbuilding work for municipal and private sector clients has grown substantially and this bodes well for the balance of 2004.

Notwithstanding the decline in first quarter roadbuilding revenues as compared to last year and a smaller revenue decline experienced in the Infrastructure segment's utilities sector, ongoing margin improvement in both of these sectors is expected to result in improved operating results for the year as compared to 2003.

The Infrastructure segment's heavy civil sector will also be positively impacted later this year when the Eastmain hydro-electric project in northern Quebec reaches the stage of completion (generally 20%) where probable results can be determined and, according to Aecon's accounting policy, construction profits can begin to be booked. This project is expected to contribute towards increased operating profit in Aecon's Infrastructure segment in 2004.

While the Buildings segment is expected to reverse the operating losses reported in the first quarter, the increased revenues anticipated in 2004 are not expected to translate into increased operating profit at year-end. In addition to the operating losses incurred at Westeinde and at a renovation project in Ontario, increased pressure on operating margins across much of the Buildings segment is expected to result in a decreased profit contribution from this segment in 2004 as compared to 2003.

This pressure on margins is due in part to a continuing shift in the market away from the commercial buildings sector, where new projects are often negotiated between clients and contractors, to the institutional sector, where each contract must generally be competitively tendered. Negotiated contracts often result in faster turnaround and greater contractor input for the client and improved margins for the contractor.

Aecon is continuing its strategic focus on growing its Buildings business in major markets across Canada. The recently announced expansion of its Montreal area operations through the acquisition of Cegerco CCI Inc. builds on last year's expansion into the Ottawa and Halifax markets. These expansions generally do not provide significant earnings contributions immediately, but, over the medium term, all are expected to contribute positively to Aecon's earnings. Aecon is also considering options for expanding in the western Canada market in order to position itself for active participation in the building-related activities leading up to the 2010 winter Olympics in Vancouver/Whistler. In addition, Aecon plans to strengthen its already strong presence in Seattle, Washington.

In the Industrial segment, a trend established last year where growth in the segment is led by Aecon's manufacturing and fabrication operations, is expected to continue throughout the year.

The very strong growth recorded in 2003 and the first quarter of 2004 at Aecon's fabrication and module assembly operations in western Canada is expected to slow somewhat in the second and third quarters due to a lack of large capital projects in the oil and gas sector currently at the stage where they are purchasing specialty pipe and modules. As a result of the very strong first quarter, contributions from western operations are expected to match those achieved last year, but the balance of Aecon's fabrication and module assembly operations are expected to lag last year's results.

The turnaround at IST, which began in 2003, continued in the first quarter - reinforcing management's expectations of a return to profitability for this division in 2004. In fact, as a result of the six new steam generators sold in the quarter and the resulting addition of $18.9 million to backlog, IST today has sufficient backlog to achieve at least breakeven results in 2004.

Aecon recorded unrealized foreign exchange gains of $1.2 million in the first quarter of 2004, reversing the trend seen in 2003 when unrealized losses of $2.9 million and $6.8 million were recorded in the first quarter and the year respectively. While Aecon hedges all of its transactional foreign exchange exposure, its translational exposure cannot be efficiently hedged.
As a result, Aecon remains exposed to fluctuations in the value of the Canadian dollar and there is a risk that a stronger Canadian dollar could reverse some or all of the unrealized foreign exchange gains made to date.

Overall, management believes that Aecon's financial turnaround, after two years of disappointing results, has begun to take hold. Results in the first quarter of 2004 serve to reinforce management's expectations for significant bottom line improvements and a return to profitability in 2004.

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.

Notice To Reader

The management of Aecon Group Inc. is responsible for the preparation of the accompanying interim consolidated financial statements. The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

These interim financial statements have not been reviewed by an auditor. These interim consolidated financial statements are unaudited and included 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.

(signed) John M. Beck, Chief Executive Officer

(signed) Scott C. Balfour, Chief Financial Officer

Aecon Group Inc.

Consolidated Balance Sheets

(in thousands of dollars) (unaudited)

	March 31, 2004	December 31, 2003
Assets		
Current assets		
Cash and cash equivalents	$ 48,437	$ 50,157
Marketable securities	6,966	8,984
Accounts receivable	129,274	144,749
Holdbacks receivable	34,612	37,113
Deferred contract costs and unbilled revenue	47,763	46,926
Inventories	11,457	11,809
Prepaid expenses	3,264	3,603
Future income tax assets	12,559	8,311
Discontinued operations(note 7)	1,921	21,723
	296,253	333,375
Property, plant and equipment	57,986	59,028
Future income tax assets	38,953	38,953
Other assets	62,599	52,002
	$ 455,791	$ 483,358

Aecon Group Inc.

Consolidated Balance Sheets...*continued*

(in thousands of dollars) (unaudited)

	March 31, 2004	December 31, 2003
Liabilities		
Current liabilities		
Bank indebtedness	$ 14,333	$ 30,090
Accounts payable and accrued liabilities	119,297	151,694
Holdbacks payable	29,901	24,496
Deferred revenue	53,021	43,349
Income taxes payable	4,007	2,363
Future income tax liabilities	24,764	24,660
Current portion of long-term debt	15,194	15,944
Discontinued operations(note 7)	1,018	20,574
	261,535	313,170
Long-term debt	30,227	27,367
Other liabilities	364	364
Future income tax liabilities	18,101	18,032
Convertible debenture	7,484	7,457
	317,711	366,390
Shareholders' Equity		
Capital stock (notes 2 and 3)	91,791	68,216
Contributed surplus (note 3)	96	204
Convertible debenture	836	836
Retained earnings	45,357	47,712
	138,080	116,968
	$ 455,791	$ 483,358

Approved by the Board of Directors

(signed) John M. Beck, Director

(signed) Scott C. Balfour, Director

Aecon Group Inc.

Consolidated Statements of Operations

For the Three Months ended March 31, 2004 and 2003

(in thousands of dollars, except per share amounts) (unaudited)

	2004	2003
Revenues	$ 198,491	$ 184,228
Costs and expenses	184,461	181,726
Marketing, general and administrative expenses (note 8)	14,176	14,591
Depreciation and amortization	1,758	2,145
Loss (gain) on sale of assets	30	(154)
Interest expense, net	913	555
	201,338	198,863
Loss before income taxes	(2,847)	(14,635)
Income taxes		
Current	3,344	1,937
Future	(4,075)	(6,876)
	(731)	(4,939)
Net loss for the period from continuing operations	(2,116)	(9,696)
Net loss for the period from discontinued operations (note 7)	(246)	(205)
Net loss for the period	$ (2,362)	$ (9,901)
Net loss per share from continuing operations (note 3)		
Basic	$ (0.09)	$ (0.41)
Diluted	$ (0.09)	$ (0.41)
Net loss per share (note 3)		
Basic	$ (0.10)	$ (0.42)
Diluted	$ (0.10)	$ (0.42)
Average number of shares outstanding (note 3)		
Basic	24,552,582	23,650,157
Diluted	28,467,596	27,570,629

Aecon Group Inc.

Consolidated Statements of Retained Earnings

For the Three Months ended March 31, 2004 and 2003

(in thousands of dollars) (unaudited)

	2004	2003
Retained earnings - beginning of period	$ 47,712	$ 62,314
Net loss for the period	(2,362)	(9,901)
Dividends	-	(756)
Interest received on share purchase loans	7	-
Retained earnings - end of period	$ 45,357	$ 51,657

Aecon Group Inc.

Consolidated Statements of Cash Flows

For the Three Months ended March 31, 2004 and 2003

(in thousands of dollars) (unaudited)

	2004	2003
Cash provided by (used in)		
Operating activities		
Net loss for the period from continuing operations	$ (2,116)	$ (9,696)
Items not affecting cash		
Depreciation and amortization	1,758	2,145
Loss (gain) on sale of assets	30	(154)
(Gain) loss on foreign exchange	(1,199)	2,896
Notional interest representing accretion	27	27
Future income taxes	(4,075)	(6,967)
	(5,575)	(11,749)
Change in other balances relating to operations (note 4)	4,920	(7,387)
Discontinued operations	(817)	(661)
	(1,472)	(19,797)
Investing activities		
Purchase of property, plant and equipment	(498)	(528)
Proceeds on sale of property, plant and equipment	138	630
Additions to other assets	(14,505)	(1,305)
Proceeds from disposition of other assets (note 4)	4,326	
Discontinued operations	12	18
	(10,527)	(1,185)
Financing activities		
(Decrease) increase in bank indebtedness	(15,921)	4,716
Issuance of long-term debt	2,944	20,000
Repayments of long-term debt	(1,272)	(344)
Issuance of capital stock (note 3)	23,575	360
Interest received on share purchase loans	7	-
Discontinued operations	28	254
	9,361	24,986
(Decrease) increase in cash and cash equivalents	(2,638)	4,004
Effects of foreign exchange on cash balances	918	(3,507)
Cash and cash equivalents - beginning of period	50,157	76,213
Cash and cash equivalents - end of period	$ 48,437	$ 76,710

Supplementary disclosure (note 4)

(in thousands of dollars, except per share amounts) (unaudited)

1. Summary of significant accounting policies

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial statements. They do not include all of the disclosures required by 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 1 to the Consolidated Financial Statements for the year ended December 31, 2003, except for those accounting policies adopted on January 1, 2004 as described in note 2 hereunder. In the opinion of management these statements include all adjustments, consisting of normal and recurring items, that are necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

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, the Company experiences a seasonal pattern in its operating results with the first quarter of the year typically reflecting lower revenues and profits than the other three quarters. Results for the three-month ended March 31, 2004 are not necessarily indicative of results expected for the full fiscal year or any other future period.

2. Changes in accounting policies

Effective January 1, 2004 the Company adopted Accounting Guideline 13, "Hedging Relationships" issued by The Canadian Institute of Chartered Accountants ("CICA") These guidelines set out the conditions that must be met in order to apply hedge accounting. Each hedging relationship is also subject to an effectiveness test on a regular basis to determine whether there is reasonable assurance that the hedge will continue to be effective. Any derivative financial instrument that does not qualify for hedge accounting will be accounted for on a mark-to-market basis. The impact of not applying hedge accounting is that gains or losses on a derivative financial instrument that is marked-to-market may not be recorded in the same accounting period as gains or losses on the hedged item. During the three months ended March 31,2004 the Company recorded net unrealized gains of $0.2 million on foreign currency transactions which did not qualify for hedge accounting. The Company did not enter into any transactions during the quarter that qualified for hedge accounting.

Effective January 1, 2004, the Company adopted CICA Handbook section 1100, "Generally Accepted Accounting Principles" which establishes standards for financial reporting in accordance with generally accepted accounting principles (GAAP), defines primary sources of GAAP and requires that an entity apply every relevant primary source. Since the Company believes it was already in full compliance with these standards, this new standard did not have an impact on the Company's financial position, results of operations, cash flows or on the Company's business operations.

Also effective January 1, 2004, the Company adopted CICA Handbook section 3110, "Asset Retirement Obligations". This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is capitalized to the related asset and amortized into earnings in a systematic and rational basis. Adoption of this new standard had an immaterial impact on the Company's financial position, and had no impact on results of operations or cash flows.

(in thousands of dollars, except per share amounts) (unaudited)

Effective January 1, 2003, the Company adopted the new recommendations of the CICA on accounting for share purchase loans receivable from employees. Except in certain circumstances, such loans are now required to be presented as deductions from shareholders' equity. Accordingly, and notwithstanding that the Company considers the loans collectible, loans totaling $857 as at January 1, 2003 are no longer presented as loans receivable within other assets, but as a deduction from capital stock. Also, interest received on such loans is no longer considered as income, but accounted for as a capital transaction in shareholders' equity. In the three months ended March 31, 2004 interest amounting to $7, after provision for income taxes, was received on these loans.

Effective January 1, 2003, the Company adopted two new recommendations of the CICA related to the disposal of long-lived assets and discontinued operations, and guarantees. Disclosure in accordance with these guidelines is included in note 7 with respect to discontinued operations and in note 5 for guarantees.

3. Capital stock

	2004			2003		
	Number of shares issued		**Amount**	**Number of shares issued**		**Amount**
Balance - beginning of period (i)	25,308,542	$	68,216	25,111,109	$	67,479
Common shares issued on exercise of options	64,667		234	100,000		360
Common shares issued less expenses of $809 (ii)	4,600,000		23,341	-		-
Balance - end of period	29,973,209	$	91,791	25,211,109	$	67,839

(i) As described in note 2, in accordance with the new recommendation of The Canadian Institute of Chartered Accountants, which was adopted effective January 1, 2003, share capital has been reduced by $857 on account of share purchase loans receivable from employees.

(ii) On March 18, 2004, the Company issued 4,600,000 common shares at $5.25 per share. Net proceeds, after deducting agents' fees and estimated expenses of the issue were approximately $23,341. Hochtief Canada Inc., the Company's largest shareholder, exercised its pre-emptive right in connection with this offering and acquired 2,214,440 common shares, thus maintaining its 48.1% interest.

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

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.

(in thousands of dollars, except per share amounts) (unaudited)

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 March 31, 2004 the maximum number of shares reserved for issuance under the plan,after deducting options that have been exercised, is 2,048,666, of which 1,632,400 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.

	2004			2003		
	Shares		**Weighted average exercise price**	**Shares**		**Weighted average exercise price**
Balance outstanding at beginning of period	1,780,400	$	3.76	1,911,233	$	3.71
Granted	-		-	100,000		4.75
Exercised	(64,667)		3.62	(197,433)		3.73
Forfeited	(83,333)		5.40	(33,400)		4.00
Options outstanding at end of period	1,632,400	$	3.69	1,911,233	$	3.71
Options exercisable at end of period	1,407,400	$	3.61	1,027,900	$	3.61

Options were exercised during the period for 64,667 shares (2003 – 197,433) for which share capital was increased by $234 (2003 - $360). Options currently outstanding have the following exercise prices and expiry dates:

Options granted in	Number of shares		Exercise price	Expiry date
1999	20,900	$	2.90	April 15, 2004
2000	936,500		3.60	July 20, 2005
2001	200,000		3.60	March 5, 2006
2001	275,000		3.60	April 9, 2006
2001	100,000		4.00	May 7, 2006
2003	100,000		4.75	April 1, 2008

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.

The Company adopted fair value accounting for options granted to employees after 2001. During the period 75,000 options that were granted in 2002 were cancelled which resulted in a reduction in compensation expense of $124 and a decrease in Contributed Surplus of the same amount. Also during the period, compensation expense of $16 (2003 - $14) was recognized and Contributed Surplus was increased by the same amount, on account of options granted in 2003.

(in thousands of dollars, except per share amounts) (unaudited)

In connection with an issue of Special Warrants in May 2002, the Company issued to the underwriters 166,750 compensation options ("Compensation Options"). Each Compensation Option entitles the holder thereof to purchase one common share at an exercise price of $5.25 per common share. The Compensation Options, all of which were outstanding and vested at March 31, 2004 have an expiry date of May 6, 2004.

In addition to stock options, the Company had phantom share agreements with certain officers and with a firm in which a director of the Company is a partner. A final payment under these agreements was made in February 2003 in the amount of $879.

Details of the calculation of loss per share are set out below. For purposes of calculating basic loss per share the number of common shares in 2004 and 2003 have been reduced by 1,522,063 common shares on account of share purchase loans receivable from employees. For purposes of calculating diluted loss per share, these shares have been treated as options.

			2004		
		Loss (numerator)	**Shares (denominator)**		**Per share (i)**
Net loss per share					
Net loss for the period	$	(2,362)	24,552,582	$	(0.10)
Effect of dilutive securities					
Options		-	1,920,218		-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006		80	1,994,796		-
	$	(2,282)	28,467,596	$	(0.10)
Net loss per share from continuing operations					
Net loss from continuing operations		(2,116)	24,552,582		(0.09)
Effect of dilutive securities					
Options		-	1,920,218		-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006		80	1,994,796		-
	$	(2,036)	28,467,596	$	(0.09)

(in thousands of dollars, except per share amounts) (unaudited)

		2003			
		Loss (numerator)	**Shares (denominator)**		**Per share (i)**
Net loss per share					
Net loss for the period	$	(9,901)	23,650,157	$	(0.42)
Effect of dilutive securities					
Options		-	1,877,122		-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006		84	2,043,350		-
	$	(9,817)	27,570,629	$	(0.42)
Net loss per share from continuing operations					
Net loss from continuing operations		(9,696)	23,650,157		(0.41)
Effect of dilutive securities					
Options		-	1,877,122		-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006		84	2,043,350		-
	$	(9,612)	27,570,629	$	(0.41)

(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.

(in thousands of dollars, except per share amounts) (unaudited)

4. Cash flow information

Change in other balances relating to operations:

		2004		**2003**
(Increase) decrease in:				
Marketable securities	$	2,126	$	320
Accounts receivable		17,010		39,816
Holdbacks receivable		2,525		2,970
Deferred contract costs and unbilled revenue		(1,000)		(4,495)
Inventories		342		(1,472)
Prepaid expenses		341		(584)
Increase (decrease) in:				
Accounts payable and accrued liabilities		(32,839)		(37,565)
Holdbacks payable		5,368		(471)
Deferred revenue		9,486		(7,950)
Income taxes payable		1,561		1,992
Employee benefit plans		-		52
	$	4,920	$	(7,387)

Other supplementary information:

		2004		**2003**
Cash interest paid	$	1,233	$	2,166
Cash income taxes paid		1,343		1,108

During the three months ended March 31, 2004, property, plant and equipment amounting to $300 (2003 - $131) was acquired and financed by means of capital leases.

During the three months ended March 31, 2004, the Company received $4,326 upon the transfer to a new partner of a portion of its interest in the Quito, Ecuador airport project.

(in thousands of dollars, except per share amounts) (unaudited)

5. **Guarantees**

The Company has outstanding guarantees and letters of credit amounting to $36,249 (December 31, 2003 - $38,801) in support of financial and performance related obligations for the Nathpa Jhakri Hydro-electric Project in India, which has also been guaranteed by Hochtief AG, the parent of the Company's principal shareholder.

In connection with the Cross Israel Highway project, the Company has provided joint and several guarantees in the amount of $42,500 (December 31, 2003 - $42,000) in support of performance and holdback related obligations during construction, as well as joint and several guarantees of $nil (December 2003 - $19,000), net of funded deposits, in support of the requirement to invest in the project at the completion of construction. The Company is also jointly and severally liable for revenue guarantees during the period of highway construction, which is expected to extend to May 2004, in the maximum amount of approximately $8,200 (December 31, 2003 - $16,000). Management believes that the joint venture has adequate provisions to cover any liabilities that could arise from its revenue guarantee during the construction period. The Company has also provided two other joint and several guarantees in support of the project, a continuous guarantee, which guarantees the performance of the concessionaire in which the Company has a 22.2% interest and a leakage guarantee, which is a guarantee by the operator of the toll highway, in which the Company has a 34% interest, to the concessionaire and covers toll capture and collection rates generated from users of the highway during the operating period. These guarantees extend to the end of the concession period which ends in 2029. The continuous guarantee is in the amount of $17,700 (December 31, 2003 - $17,500) and is renewed annually to its full amount, irrespective of any drawings made thereunder. The leakage guarantee comes into effect once construction is complete and is renewable annually for the lesser of $13,100 (December 2003 - $13,000) or 6% of annual toll revenue.

In addition, the Company has also issued, in the normal conduct of operations, guarantees amounting to $6,917 (December 31, 2003 - $5,898) in support of financial and performance related obligations.

Under the terms of many of the Company's joint ventures' contracts with project owners, each of the partners is joint and severally liable for performance under the contracts. Circumstances that could lead to a loss include a partner's inability to contribute additional funds to the venture in the event that the project incurs a loss or additional costs that the Company could incur should the partner fail to provide the contractually committed services and resources. At December 31, 2003, the value of uncompleted work for which Aecon's joint venture partners are responsible, and which Aecon could be responsible for assuming, amounted to approximately $130,000 (December 31, 2003 - $186,000), a substantial portion of which is supported by performance bonds. In the event that Aecon assumed this additional work it would have the right to receive the partner's share of billings to the project owners pursuant to the joint venture contract.

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

(in thousands of dollars, except per share amounts) (unaudited)

6. Segmented information and business concentration

The Company has three reportable segments: Infrastructure, Buildings and Industrial. This segmentation reflects the Company's current structure and management. The Corporate and Other category in the summary below includes corporate costs and other activities not directly allocable to segments and also includes inter-segment eliminations.

Infrastructure

This segment includes all aspects of the construction of 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

This segment 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. This segment also includes the Company's interest in Canatom NPM Inc., which provides engineering and construction services to nuclear power markets.

(in thousands of dollars, except per share amounts) (unaudited)

Information by reportable segments is as follows:

2004

	Infrastructure	Buildings	Industrial	Corporate and Other	Total
Revenues	$ 55,881	$ 83,576	$ 59,389	$ (355)	$ 198,491
EBITDA	$ (4,866)	$ (1,581)	$ 11,180	$ (4,909)	$ (176)
Depreciation and amortization	1,039	125	415	179	1,758
Segment operating profit (loss)	$ (5,905)	$ (1,706)	$ 10,765	$ (5,088)	$ (1,934)
Interest and income taxes					$ (182)
Net loss from continuing operations					$ (2,116)
Total assets	$ 213,780 (i)	$ 73,109	$ 79,677	$ 89,225	$ 455,791
Capital expenditures	$ 374 (ii)	$ 36	$ 227	$ (139)	$ 498
Cash flow from continuing operations	$ (6,008)	$ (1,581)	$ 11,172	$ (9,158)	$ (5,575)

(i) Includes assets of discontinued operations of $1,921.
(ii) Includes capital expenditures for discontinued operations of $12.

2003

	Infrastructure	Buildings	Industrial	Corporate and Other	Total
Revenues	$ 64,623	$ 70,430	$ 49,207	$ (32)	$ 184,228
EBITDA	$ (8,958)	$ 236	$ (1,602)	$ (1,611)	$ (11,935)
Depreciation and amortization	1,500	39	410	196	2,145
Segment operating (loss) profit	$ (10,458)	$ 197	$ (2,012)	$ (1,807)	$ (14,080)
Interest and income taxes					$ 4,384
Net loss from continuing operations					$ (9,696)
Total assets	$ 264,434 (i)	$ 63,964	$ 83,664	$ 67,730	$ 479,792
Capital expenditures	$ 280 (ii)	$ 19	$ 141	$ 88	$ 528
Cash flow from continuing operations	$ (6,805)	$ 316	$ (1,626)	$ (3,634)	$ (11,749)

(i) Includes assets of discontinued operations of $20,261.
(ii) Includes capital expenditures for discontinued operations of $18.

(in thousands of dollars, except per share amounts) (unaudited)

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 the change in other balances related to operations. EBITDA, operating profit (loss), and cash flow from operations are not measures that have any standardized meaning prescribed by GAAP and are considered non-GAAP measures. Therefore, these measures may not be comparable to similar measures presented by other companies. These measures have been described and presented in order to provide shareholders and potential investors with additional information regarding the Company's finances and results of operations.

7. Discontinued operations

On May 7, 2004, the Company sold its one-third interest in a joint venture that was part of the Company's Infrastructure segment. Net proceeds from the sale were $1,200 and the after-tax gain from the sale, which will be reported in the Company's second quarter results, amounted to approximately $270. For the three months ended March 31, 2004, the Company's proportionate share of revenues, expenses and net loss from this joint venture were as follows: revenues of $nil (2003 - $100); expenses other than income taxes of $315 (2003 - $394); net loss of $246 (2003 - $205).

In February, 2004, the Company sold its interest in Europort Poland Sp. z o.o., SC Infrastructure (Poland) Sp. z o.o, and related affiliated companies (Europort). Proceeds from disposition were nominal.

Reflected on the consolidated balance sheets as Discontinued operations are the carrying values of the assets sold. Included as Discontinued operations in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows are the results of operations and cash flows related to the Company's sale of its one-third joint venture interest. There were no operating earnings or losses and no cash flows in 2003 and 2004 related to the Company's interests in Europort Poland Sp. z o.o., SC Infrastructure (Poland) Sp. z o.o, and related affiliated companies.

8. Lease termination cost

During the first quarter of 2004, the Company reached agreement with its landlord to terminate, effective July 5, 2004, the lease on the Company's premises at 3660 Midland Avenue in Toronto. By exercising its right to terminate the lease before the lease termination date, the Company is required to pay on July 5, 2004 the sum of $2,550 to the landlord of the premises, which payment, in accordance with Canadian generally accepted accounting principles, has been charged to operations in the three months ended March 31, 2004 and included in Corporate and Other. The lease is being terminated to facilitate the consolidation of the Company's Midland Avenue, Victoria Park (Toronto) and Indell Lane (Brampton) offices into one jointly used leased facility located near Toronto's Pearson Airport. Other costs associated with the consolidation of premises, which are estimated to be $1,000, will, also in accordance with Canadian generally accepted accounting principles, be expensed when incurred.

(in thousands of dollars, except per share amounts) (unaudited)

9. Subsequent events

In addition to the items described in note 7, on April 30, 2004 the Company acquired the assets and operations of Cegerco CCI Inc., a general contracting company in the Montreal region, specializing in the construction and management of institutional, commercial and pharmaceutical building projects. The purchase price on closing was approximately $800, with potential maximum earn-out payments of $1,200 over the next four years. The acquisition will be accounted for using the purchase method and the results of operations will be included from the date of acquisition.

10. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the three months ended March 31, 2004.

AECON

Aecon Group Inc.
3660 Midland Avenue
Toronto, Ontario
Canada, M1V 4V3
Telephone 416·754·8735
Facsimile 416·293·0271
aecon@aecon.com
www.aecon.com