

Aecon Group Inc. › First Quarter Report 2006

Three months ended March 31, 2006



## **Dear Fellow Shareholders,**

Aecon's first quarter financial results confirm that the improvement we saw in our operations in 2005 continues in 2006. Aecon delivered stronger sales, increased revenues, better margins, and improved operating results in the first quarter of 2006 than we saw in the first quarter last year.

These first quarter achievements, combined with the strength of the Canadian construction market and the operational improvements now in place, reinforce our positive outlook for each of Aecon's operating segments.

The seasonal aspects of our industry make Aecon's first quarter traditionally the slowest in terms of revenue and earnings. As the net loss of \$10.9 million for the period suggests, this year is no exception. But what is not as well understood is that the first quarter can be a key period in terms of booking new business. And that has certainly been the case this year.

During the first quarter we secured more than \$280 million in new contract awards – a 41 percent increase over the first quarter of 2005. This strong new business trend drove our backlog of work to \$657 million at the end of the quarter – the highest it has been in almost four years. And this is prior to the \$250 million contribution to backlog expected from the Quito airport project when the project financing closes, likely next month.

Perhaps more important is the fact that the healthy and growing construction market in Canada and a disciplined focus in our bidding activities have allowed us to grow, not just the size of our backlog, but also the margin percentages it holds. This theme of driving margins rather than volume is at the core of management's focus as we bid and negotiate the work that will appear in our operating results in future quarters.

In addition to building backlog and backlog margin, we were successful in strengthening Aecon's balance sheet through an equity financing that raised net proceeds of approximately \$28 million. Overall, the steps taken to reinforce the balance sheet are also expected to enable Aecon to expand its surety capacity for new projects.

## **Segment Outlook**

Within the Infrastructure segment, we continue to expect another strong year from Aecon's roadbuilding operations as the continued need for expansion and improvement of Ontario's highway system, supported by continued high levels of government spending in the sector, are allowing margins to solidify.

Our other Canadian civil operations in 2006 will include expansion into the Alberta civil construction market. We see significant potential in this market going forward but expect only modest, if any, profit from this venture during our first year.

In our utilities business, the strong base provided by Aecon's alliance with Union Gas and its expanded relationship with Expertech are allowing for a more selective pursuit of work and a greater focus on ensuring healthy margins in the additional work we do bid.

In Quebec, no material change is expected with respect to the outstanding issues on the Eastmain project and we continue to believe that the Aecon/Hochtief joint venture will be successful in recovering the value of unpriced change orders associated with the project.

Internationally, the extension of the Cross Israel Highway and construction of the new Quito International Airport continue to be Aecon's focus. Construction will begin on the Quito project this year and will probably begin on the Cross Israel Highway extension as well. Although no construction profit will be recognized in 2006, these projects will make significant contributions in 2007 and beyond.

The Cross Israel Highway, our most significant infrastructure investment to date, is functioning well and traffic is ramping up as anticipated, with average weekday traffic in the first quarter of 2006 growing by approximately 14 percent compared to the first quarter last year.

With over two years of solid, steady traffic growth now proven, and the highway's reputation as a financial success growing, it may be time over the next 18 months to monetize a portion of our investment in the project – and we will be looking during this period for the right opportunities to do just that.

In Quito, the airport concession took full effect on January 27, 2006, meaning that the airport, which Aecon and its partners have been operating on behalf of the City of Quito for over three years, is now being operated to the financial benefit of the concessionaire. The airport has been performing well, with traffic growth of over 12 percent in 2005 and an average of nearly 11 percent per year over the past five years.

The next step for the Quito project, once all parties are satisfied with the status of the many conditions precedent to the financing, is the submission of a formal request to the project lenders to begin the drawdown process on the first tranche of project financing for construction of the new airport. This will be submitted shortly, with flow of funds – or financial close – expected in June 2006.

In the Buildings segment, despite the small loss reported in the first quarter, the recovery that began in 2005 is expected to continue through 2006, with further improvement in margins and profit contributions expected this year.

Aecon's Industrial segment is also expected to show increased profit contributions this year as we continue to focus on Canada's growing energy sector.

Western Canadian operations, which provided much of the segment's growth last year, are now expected to produce even higher profit contributions in 2006 as the combined effect of solid margin growth and the renegotiation of contracts for two large projects in northern Alberta is now expected to more than offset a decline in volumes following completion of the Suncor fire rebuild project.

The industrial construction market in Ontario is expected to remain strong with the recently commenced Bruce Power nuclear restart project providing a stable contribution to construction profits in 2006 and beyond. And IST is again expected to generate positive profit contributions in 2006 despite the continuing slow sales environment.

### **Conclusion**

Overall, I continue to believe that the ongoing strengthening of Aecon's core markets, along with the benefit of operational improvements we now have in place, will continue to drive improved performance. Each segment is on track to achieve its targets and we continue to expect improved margins and a positive net income for Aecon in 2006.

Thank you for your continued support of Aecon.

(signed) John M. Beck  
Chairman and Chief Executive Officer  
May 12, 2006

**Aecon Group Inc.**

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

**March 31, 2006**

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

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. ("Aecon") should be read in conjunction with the Company's 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 2005. This interim MD&A has been prepared as of May 12, 2006. Additional information on Aecon is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) and includes the Company's Annual Information Form and other security filings.

### **Introduction**

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

The Infrastructure segment includes all aspects of the construction and development of both public and private infrastructure, including roads and highways, principally within the Province of Ontario, as well as toll highways, dams, tunnels, bridges, airports, marine facilities, transit systems and hydro-electric power projects, domestically and internationally. This segment includes the mining, manufacture, and supply of asphalt and aggregate products, and the construction and/or installation of utility distribution systems for natural gas, telecommunications and electrical networks, as well as water and sewer mains, traffic signals and highway lighting, also principally within the Province of Ontario. Services provided in the Infrastructure segment include conventional construction of civil infrastructure works as well as development initiatives including the development, design, construction, operation and financing of infrastructure projects in Canada and, on a selective basis, internationally. Aecon also provides a full range of infrastructure services through build-operate-transfer, build-own-operate-transfer and other alternative finance and procurement contract structures, as well as providing conventional construction services on a more traditional fee for service, construction management or lump sum contract basis.

The Buildings segment specializes in the construction and renovation of commercial, institutional and multi-family residential buildings, including retail complexes, office buildings, airport terminals, entertainment facilities, schools, embassies and high rise condominium buildings among others. Work in this segment is concentrated primarily in Canada and the northwestern United States. Services include general contracting and fee for service construction management, as well as building renovation and facilities management.

The Industrial segment encompasses all of Aecon's industrial construction and industrial manufacturing activities. Activities include in-plant construction and module assembly in the manufacturing, energy, petrochemical, steel and automotive sectors, including the construction of alternative, fossil fuel, cogeneration power plants and in-plant construction of nuclear power plants as well as the fabrication of small and large diameter specialty pipe and the design and manufacture of once-through heat recovery steam generators for industrial and power plant applications. Although activity in this segment is concentrated primarily in Canada, with selected projects in the United States and Europe, Aecon sells and installs once-through steam generators throughout the world through its Innovative Steam Technologies division.

The construction industry in Canada is seasonal in nature for companies like Aecon, who do a significant portion of their work outdoors (principally road construction and utilities work) and, as a result, less work is performed in the winter and early spring months than in the summer and fall months. Accordingly, Aecon 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. Therefore, results in any one quarter are not necessarily indicative of results in any other quarter or for the year as a whole.

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

### CONSOLIDATED FINANCIAL HIGHLIGHTS

\$ millions	<b>Three months ended March 31</b>		
	2006	2005	% Change
<b>Revenues</b>	<b>\$ 200.6</b>	<b>\$ 172.9</b>	16.0%
<b>Operating profit (loss)*</b>	<b>(8.4)</b>	<b>(9.3)</b>	9.0%
<b>Interest expense</b>	2.4	1.7	36.8%
<b>Loss before income taxes and extraordinary item</b>	<b>(10.8)</b>	<b>(11.0)</b>	<b>1.8%</b>
<b>Income taxes</b>	0.1	0.8	83.1%
<b>Extraordinary gain, net of income taxes</b>	-	3.4	(100.0%)
<b>Net loss for the period</b>	<b>\$ (10.9)</b>	<b>(8.4)</b>	<b>(30.5%)</b>
Return on revenue**	(4.2%)	(5.4%)	21.6%
Backlog - March 31	\$ 656.9	\$ 590.0	11.3%

\* Operating profit (loss) represents the profit (loss) from operations, before interest, income taxes and extraordinary items.

\*\* Return on revenue is calculated as operating profit (loss) divided by revenues.

Revenues in the first quarter of 2006 were \$200.6 million, representing an increase of \$27.7 million or 16.0% over last year. Revenues increased in all segments with the Infrastructure, Buildings and Industrial segments up by \$3.8 million, \$10.2 million and \$14.0 million, respectively. Results for each of the three principal operating segments are discussed separately under Reporting Segments.



Gross margins (revenues less costs and expenses) as a percentage of revenues increased from 3.0% in the first quarter of 2005 to 3.2% in the current quarter, reflecting increased margins from the Industrial segment partially offset by declines in the Infrastructure and Buildings segments. Marketing, general and administrative expenses (“MG&A”) amounted to \$13.0 million in the first quarter of 2006, which is \$0.3 million higher than the same period last year. The increase results primarily from higher stock compensation expense of \$0.4 million as a result of the issuance of stock options in the current quarter. However, MG&A costs as a percentage of revenues dropped from 7.4% in 2005 to 6.5% in 2006. This improvement combined with the increase in gross margin percentage contributed to the better overall return on revenue of the Company.

Net interest expense in the current quarter of \$2.4 million is \$0.6 million higher than the same quarter last year. The principal contributor to the increase was the March 2005 issuance of \$32.5 million of convertible debentures, which resulted in \$0.7 million of additional interest costs in the first quarter of 2006.

In 2005 and 2004, the Company provided a valuation allowance against the net future tax assets that had been previously recorded and against future tax assets that would otherwise have been recorded in respect to its Canadian controlled operations. Consistent with this accounting treatment, future tax assets in respect of further tax losses incurred in 2006 from Canadian controlled operations will be offset by a valuation allowance, whereas tax on income from Canadian controlled operations will be offset by a reduction in previously recorded valuation allowances.

Set out below, in tabular form, is a reconciliation between the expected tax recoveries in 2006 and 2005 at statutory income tax rates and the actual reported tax expense in 2006 and 2005 (dollars in thousands).

	<b>Three months ended March 31</b>	
	<b>2006</b>	<b>2005</b>
Loss before income taxes and extraordinary item	\$ 10,807	\$ 11,004
Statutory income tax rate	36.1%	36.1%
Expected income tax recovery	<u>(3,901)</u>	<u>(3,972)</u>
Effect on income tax of:		
Valuation allowance against current period's future tax assets	3,838	4,533
Provincial and foreign rate differentials	47	45
Non-deductible expenses	108	108
Large corporations tax	81	113
Foreign exchange translation gains	(33)	(4)
Other	-	7
	<u>4,041</u>	<u>4,802</u>
Income tax expense	<u>\$ 140</u>	<u>\$ 830</u>

Income tax expense for the first quarter of 2006 amounted to \$0.1 million (2005 - \$0.8 million) on a pre-tax loss of \$10.8 million (2005 - pre-tax loss of \$11.0 million) before extraordinary item. Although normally the Company would have recorded an income tax recovery of \$3.9 million (2005 - \$4.0 million) on losses reported in both quarters, since most of the losses came from its Canadian operations on which no tax recovery can be recorded, income tax expense and the net loss for the quarter were \$3.8 million higher (2005 - \$4.5 million) than otherwise would have been. Should Aecon report income from its Canadian operations during the remainder of 2006, any provision for tax on this income will be reduced by unrecognized tax losses.

Net loss for the quarter ended March 31, 2006 was \$10.9 million compared to a net loss of \$8.4 million in 2005.

Backlog at March 31, 2006, was \$656.9 million or \$66.9 million higher than the same time last year. On a segment basis, there were increases in the Infrastructure and Industrial segments of \$103.1 million and \$102.5 million respectively, and a decline in the Buildings segment of \$138.7 million. New contract awards of \$280.2 million were booked in the current quarter, which compares with \$197.9 million in 2005. The increase in awards in the current quarter was due to higher awards in the Infrastructure and Industrial segments, which exceeded the decline in awards in the Buildings segment. Further details for each of the segments are included in the discussion below under Reporting Segments.

At March 31, 2006, major projects backlog was \$1.1 million which is \$5.8 million lower than last year as Aecon's two large international projects in India and Israel have reached substantial completion. The financial close of the Quito Airport project in Ecuador is projected to add approximately \$250 million to major projects backlog in the second quarter. Similarly, a project to construct an extension of the Cross Israel Highway by Derech Eretz Highways Ltd., the company owning concession rights to the Cross Israel Highway, will add an additional US\$60 million of backlog, possibly later this year, once all conditions precedent to an agreement signed earlier this year are achieved.

It is notable that significant and increasing commitments made to Aecon based on general contracts, supplier of choice and alliance agreements do not necessarily show up as firm backlog for external reporting purposes primarily due to the degree of uncertainty regarding the exact amount of work than can be expected. For example, Aecon has contractual arrangements with its two largest clients in the utilities sector that include geographic mandates for Aecon in certain parts of Ontario. Under these agreements, any work awarded by the client that is within the specified geographic area, and that meets the specifications and conditions in the contract, is awarded to Aecon as supplier of choice through the simple issuance of a purchase order. While it is possible to estimate with some confidence the minimum value of work likely to be awarded under these contracts, Aecon does not include work awarded under these contracts in backlog until the purchase orders have been issued. The effective backlog at any given time is therefore greater than what is reported to the extent that the expected volume of committed work under these general contracts and partnering agreements, for which purchase orders have not been issued, is significant. Because it is one of Aecon's strategic directives to focus on general contract, supplier of choice and partnering arrangements with clients, the amount of effective backlog that is excluded from reported backlog will continue to increase.

## REPORTING SEGMENTS

### INFRASTRUCTURE

Financial Highlights	Three months ended March 31		
	2006	2005	% Change
\$ millions			
Revenues	\$ 61.5	\$ 57.6	6.7%
Segment operating loss	(5.2)	(4.6)	(13.2%)
Return on revenue	(8.5%)	(8.0%)	(6.1%)
Backlog - March 31	\$ 249.6	\$ 146.6	70.3%

Revenues from the Infrastructure segment increased from \$57.6 million in the first quarter of 2005 to \$61.5 million in the same period of 2006, as revenue gains of \$8.3 million from roadbuilding operations, \$4.4 million from utilities operations and \$3.1 million from other heavy civil operations offset revenue declines of \$12.0 million from the segment's Quebec operations.

The significant increase in revenues from roadbuilding operations was driven in part by higher backlog levels to start the year which, when combined with exceptional weather conditions experienced in the current quarter compared to 2005, allowed for accelerated work schedules on many projects to produce the higher work volumes.

Contributing to the improvement in utilities revenues were increases in gas pipeline installation projects in 2006 as well as increases in communications work, primarily in the cable, telecom and fiber optic businesses.

Revenues from the segment's Quebec operations dropped by \$12.0 million, mostly as a result of the Eastmain project winding down as it nears completion in 2006.

The increase in revenues from other heavy civil operations reflects higher tolling revenues earned by the entity that manages the operations of the Cross Israel Highway. This revenue increase was partially offset by declines in revenues related to the construction of the Cross Israel Highway and Nathpa Jhakri projects, which are now substantially complete.

Despite the increase in revenues, operating results from the Infrastructure segment were \$0.6 million behind the same quarter last year, principally as a result of a decision to reduce new project pursuits in the Quebec market where, in first quarter of 2005, profit was bolstered by \$1.2 million from a claim settlement and margin enhancement on the close out of a project, whereas no similar profit was recorded in the first quarter of 2006. Also, as anticipated, other heavy civil operations reported a decline in profit as high margin construction profit from the Cross Israel Highway project was replaced with a low margin contribution from the entity that manages the operation of the Highway.

Not included in the Financial Highlights table above is a 2005 extraordinary gain of \$4.1 million before income taxes resulting from the acquisition by Aecon of its partner's share in a joint venture whose interests include a one-third share in the joint venture that constructed the Cross Israel Highway.

The Company's MD&A covering the results for the year ended December 31, 2005 (the "2005 MD&A") included a detailed discussion on the Company's participation in the Eastmain project in Quebec, in which Aecon has a 50% joint venture interest, and the Nathpa Jhakri project in India, in which Aecon has a 45% interest. No material developments with respect to these projects has occurred since then and management believes that its accounting for these projects, which was described in the 2005 MD&A, is still appropriate.

On January 27, 2006, the Quito Airport concession, in which Aecon holds a 42.3% economic interest, took full effect and the airport is now being run to the financial benefit of the concessionaire. In 2002, a concession was awarded by the City of Quito, Ecuador to design, build, finance and operate a new airport to replace the existing smaller airport currently serving the city. In August 2005, project financing documents were signed among Aecon, its concession partners and the project lenders. Final documents were signed in 2006 indicating that the City and the concessionaire, with approval of the project lenders, have now signed-off on the contractual conditions precedent to the concession taking effect. Achieving effective date represented an important step toward achieving financial close of the project, which will occur when all of the conditions precedent to drawdown of the project loans have been met and the lenders have disbursed the first tranche of the senior loan funding for construction of the new airport. Although the existing airport has since effective date been operated for the financial benefit of the Quito concessionaire, this benefit will only be recognized from financial close (expected to occur in the next quarter) onwards over the life of the project.

Backlog of \$249.6 million at the end of March 2006 increased by \$103.1 million from the same time last year. Consistent with the higher backlog, new contract awards of \$194.2 million were booked in 2006, a \$141.6 million increase over 2005. The increase in backlog and awards year-over-year relates principally to roadbuilding operations where four major contract awards totaling \$140 million accounted for the majority of the increase.

As discussed in the Consolidated Financial Highlights section, significant commitments made to Aecon based on general contracts, supplier of choice and alliance agreements do not necessarily show up as firm backlog. The effective backlog is therefore greater than what is reported to the extent that the expected volume of committed work is significant.

## BUILDINGS

	<u>Three months ended March 31</u>		
Financial Highlights			
\$ millions	2006	2005	% Change
Revenues	\$ 87.3	\$ 77.2	13.2%
Segment operating profit (loss)	(0.5)	0.2	n/a
Return on revenue	(0.6)%	0.3%	n/a
Backlog - March 31	\$ 234.0	\$ 372.7	(37.2)%

Revenues in the Buildings segment increased to \$87.3 million in the current quarter, a \$10.1 million increase over the same period in 2005. Revenues of \$50.3 million from the segment's Toronto operations continue to represent the largest component of this segment's revenues and are up \$1.7 million over last year. Toronto operations benefited in the quarter from high volumes of work performed on several large projects, including the Pearson Airport Terminal project where an expansion and renovation of Terminal 3 is taking place, a large design-build manufacturing facility for Ferrero, and a new science complex at the University of Guelph. Other revenue increases totalling \$9 million were recorded by the segment's Seattle and western Canada operations. Partially offsetting these increases were small declines in revenues from the division's Ottawa operations and Montreal operations.

Operating results for the first quarter of 2006 were down \$0.7 million compared to last year. Included in the segment's 2006 results is a \$0.8 million unfavourable adjustment on the write down of an investment in a joint venture. Operating profit from Toronto operations declined \$0.3 million from last year as a result of reduced profit margins on some current projects with pending claim settlements. However, operating results are expected to improve through the balance of the year, as the impact of strategic efforts to improve the financial performance of these operations takes hold. Consistent with the increases in revenues, operating profits from the segment's Seattle and western Canada operations increased, while, despite lower revenues from the segment's Montreal and Ottawa operations, operating profit increased slightly.

Backlog of \$234.0 million at the end of the first quarter 2006 is \$138.7 million lower than last year. New contract awards of \$32.6 million were booked in the current year, which compares with \$104.4 million in 2005. The decline in awards occurred primarily in Toronto, Montreal and Ottawa (\$84.5 million combined) and resulted from a combination of competitive pressures in these markets, a lack of suitable lump sum opportunities, and a strategy to pursue more negotiated contract management and design build work rather than higher risk lump sum work. As a result, Toronto and Ottawa backlog at the end of the current quarter is down \$155.8 million and \$19.4 million, respectively, compared to last year. Offsetting these declines are increases in backlog in Montreal of \$15.5 million and \$7.5 million in Seattle.

As discussed in the Consolidated Financial Highlights section, significant commitments made to Aecon based on general contracts, supplier of choice and alliance agreements do not necessarily show

up as firm backlog. The effective backlog is therefore greater than what is reported to the extent that the expected volume of committed work is significant.

## INDUSTRIAL

Financial Highlights	Three months ended March 31		
	2006	2005	% Change
\$ millions			
Revenues	\$ 53.0	\$ 39.0	35.8%
Segment operating profit (loss)	0.5	(2.4)	n/a
Return on revenue	0.9%	(6.1)%	n/a
Backlog – March 31	\$ 173.2	\$ 70.7	145.0%

Revenues in the Industrial segment of \$53.0 million were \$14.0 million or 35.8% higher than the same quarter in 2005. Revenues from the segment's western Canada operations of \$25.0 million were up by \$16.7 million or approximately 200% over 2005, primarily because of fabrication and module assembly work for OPTI Canada's Long Lake oilsands project and Conoco Philip's Surmont oilsands project. Revenues of \$19.2 million from Construction operations in Ontario were up \$2.4 million or 14.3% from the prior year mostly due to higher revenues from customers such as OPG and Bruce Power. Fabrication revenues in Ontario and eastern Canada of \$6.6 million are \$0.1 million lower than 2005. Revenues of \$2.8 million from Innovative Steam Technologies ("IST"), which sells and licenses the technology for once through steam generators ("OTSG"), were down \$4.6 million from the prior year. Production was limited to work on four OTSG boiler units and six gas turbine injection OTSG units ("GTI OTSG" formerly STIG units), compared to eight OTSG boiler units during the same period in 2005.

Quarterly operating results of \$0.5 million from the Industrial segment were \$2.9 million higher than in 2005. Consistent with the increase in revenues noted above, operating profits from western Canada operations at \$2.8 million were \$3.5 million higher than last year. Results in the quarter also benefited significantly from the successful renegotiation of the commercial terms of two large projects that commenced in 2005. Despite the increase in revenues, Construction operations in Ontario generated an operating loss of \$0.4 million compared to a breakeven result in 2005, a decrease of \$0.4 million. The decreased operating profit reflects a combination of timing of anticipated awards in 2006 and customer delays on existing projects. Fabrication operations in Ontario and eastern Canada incurred a loss of \$0.7 million in 2006 compared to a loss of \$0.6 million in 2005. A detailed analysis of Aecon's fabrication operations was recently completed and, as a result, strategies are being implemented that are expected to improve the level and the consistency of profits from this operation. IST operating losses were \$1.2 million or \$0.2 million worse than the same quarter last year. The decline in revenue levels in the first quarter of 2006 combined with higher MG&A costs associated with the re-opening of a European sales office contributed to the higher loss.

Backlog at March 31, 2006 of \$173.2 million is \$102.5 million higher than last year. Construction backlog is up \$110.1 million, principally as a result of a \$204.0 million award in late 2005 to a joint venture (in which Aecon has a 50% interest) for a nuclear project in Ontario. In western Canada

operations, backlog of \$23.7 million at March 31, 2006 is down \$13.3 million from last year, fabrication backlog is up \$8.5 million, and IST backlog of \$9.5 million at the end of the current quarter is down \$2.6 million from last year. New contract awards of \$54.7 million in the current quarter are \$12.8 million higher than in 2005. The increase in current quarter awards occurred primarily in IST and western Canada operations. The IST awards include a new contract booking for two OTSG units totaling \$7.1 million in the quarter.

As discussed in the Consolidated Financial Highlights section, significant commitments made to Aecon based on general contracts, supplier of choice and alliance agreements do not necessarily show up as firm backlog. In western Canada operations in particular, the pipe Fabrication shop, module yard and the field construction activities are operating at historical highs despite the decline in reported backlog amounts. The effective backlog is therefore greater than what is reported to the extent that the expected volume of committed work is significant.

## CORPORATE AND OTHER

Net Corporate expenses for the current quarter are \$3.2 million compared to \$2.5 million in 2005. The increase results primarily from higher compensation expense of \$0.4 million related to the issuance of stock options in the current quarter.

## Quarterly Financial Data

The reader is referred to the Company's 2005 Management Discussion and Analysis for an analysis of the results of the eight quarters that ended December 31, 2005.

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

	2006		2005				2004		
	Quarter 1	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 2	Quarter 3	Quarter 4	
Revenues	\$ 200.6	\$ 172.9	\$ 283.0	\$ 340.8	\$ 323.5	\$ 264.7	\$ 290.0	\$ 258.7	
Net income (loss)	(10.9)	(8.4)	1.7	2.1	3.5	2.4	(0.9)	(40.7)	
Earnings (loss) per share:									
Basic	(0.36)	(0.29)	0.06	0.07	0.12	0.08	(0.03)	(1.42)	
Diluted	(0.36)	(0.29)	0.05	0.07	0.11	0.08	(0.03)	(1.42)	

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents at March 31, 2006 total \$28.7 million, which compares with \$27.0 million at the end of last year. Of these amounts, \$9.7 million and \$18.6 million, respectively, were on deposit in joint venture bank accounts, which Aecon cannot access directly.

Restricted cash of \$7.5 million at March 31, 2006 (December 31, 2005 - \$7.5 million) represents cash that was deposited as collateral for borrowings and letters of credit issued by Aecon. As such, this cash was not available for general operating purposes.

Restricted marketable securities and term deposits of \$15.4 million (December 31, 2005 - \$15.3 million) were held within joint ventures and these securities cannot be accessed directly by Aecon.

Cash used by operating activities amounted to \$7.7 million in the quarter, which compares to cash used last year of \$9.2 million. Changes in other balances related to operations, which represents funds used or provided on account of changes in working capital balances, resulted in cash provided of \$9.4 million in the quarter versus cash used of \$1.4 million in 2005. Decreased investments in accounts receivable and deferred contract costs represented the highest sources of cash, while a decrease in accounts payable represented the highest use of cash. The quarter-over-quarter increased investments in both holdbacks receivable and holdbacks payable occurred primarily in the Buildings segment and results from the higher volumes of large lump sum contracts, which were carried over from 2005, and were still in progress at March 31, 2006. Deferred revenues, which represent advance billings for work not yet performed, increased by \$1.0 million compared to an increase of \$16.9 million in 2005. The \$17.9 million favourable swing arose principally within the Buildings segment where deferred revenues increased by \$0.2 million in 2006 compared to a decrease of \$10.3 million last year.

Investing activities resulted in a use of cash of \$2.6 million, which compares with cash used of \$3.0 million in 2005. The largest use of cash was the increase in other assets of \$3.8 million and this relates primarily to additional start-up costs on the Quito airport project, and a higher goodwill amount recorded as a result of an earnout payment related to a previous acquisition. The major use of cash in 2005 was a \$4.3 million increase in Aecon's investment in Derech Eretz from 22% to 25%. All other year-over-year changes in investing activities, as outlined in the Company's consolidated statements of cash flows for the quarters ended March 31, 2006 and 2005, are self-evident.

Investing activities not requiring an immediate use of cash in the current quarter included an increase in Aecon's investment in Derech Eretz Highways (1997) Ltd, ("Derech Eretz") the concessionaire of the Cross Israel Highway. The additional Derech Eretz investment made in the current quarter occurred as a result of an agreement reached with the project lenders whereby the shareholders of Derech Eretz purchased certain options held by the lenders. The lender options would have allowed the lenders to purchase directly from the existing shareholders a portion of their equity and subordinated debt of the concessionaire. Aecon's pro rata share of the purchase price was \$1.5 million and was financed by a loan from the other shareholders in Derech Eretz at an interest rate of 6% per annum. The loan is repayable from future distributions made to Aecon from Derech Eretz or the construction joint venture which will be working on a planned extension of the Cross Israel Highway. This investment is shown as Long-Term Investment on the consolidated balance sheet.



Cash generated from financing activities amounted to \$2.6 million, compared to \$6.2 million in 2005. The primary sources of financing in the current quarter were an equity share issue and a debenture conversion into common shares. During March 2006, the Company issued 4,500,000 common shares on a bought deal basis to a syndicate of underwriters at a price of \$6.25 per share, providing net proceeds of \$26.6 million. The underwriters were also granted an Over-Allotment Option and in April 2006 an additional 180,000 shares were purchased at a price of \$6.25 per share for additional net proceeds of approximately \$1.1 million. Also in the first quarter of 2006, \$22.5 million of long term debt, including \$21.9 million outstanding on the Company's revolving term facility, was repaid. In the first quarter of 2005, issuances of long-term debt amounted to \$23.0 million while repayments totalled \$45.6 million. Gross long-term debt issuances and repayments were affected by a series of drawdowns and repayments under the Company's revolving term facility. Also in 2005, a \$32.5 million convertible debenture financing was completed, which yielded net proceeds of \$31.0 million, details of which can be found in note 6 to the Company's consolidated financial statements.

At March 31, 2006, long-term debt and convertible debentures, including the current portion, totaled \$81.0 million, compared to \$108.7 million at the end of 2005. The \$27.7 million decrease is mostly due to the debt repayments noted above and a March 2006 conversion of \$7.7 million of convertible debentures by the Company's largest shareholder into common shares at a conversion price of \$3.60 per share.

Bank indebtedness of \$8.3 million at the end of March 2006 includes \$8.2 million for Aecon's 45% share of funds borrowed within the Nathpa Jhakri hydroelectric project joint venture in India.

Interest bearing debt amounted to \$89.3 million at March 31 2006, compared to \$119.6 million at December 31, 2005, the composition of which is as follows (\$ millions):

	<u>March 31, 2006</u>	<u>Dec. 31, 2005</u>
Bank indebtedness	\$ 8.3	\$ 8.3
Loan from a related party	-	2.5
Current portion of long-term debt	5.0	6.2
Convertible debentures – current	-	7.7
Long-term debt	16.6	35.7
Convertible debentures	59.4	59.2
Total	<u>\$ 89.3</u>	<u>\$ 119.6</u>

Aecon has a reducing revolving term loan to fund working capital and operating requirements (with a current limit of \$21.9 million). This facility, which is reported as long-term debt, was repaid during the quarter with the benefit of Aecon's improved liquidity position, and as such the entire \$21.9 million facility is available for drawdown to supplement Aecon's liquidity and working capital position as and when necessary. In addition, \$7.7 million of convertible debt was eliminated with the debenture conversion noted above.

As a result of the recent equity issue, Aecon's liquidity position is strong and is expected to be sufficient to finance its operations and working capital requirements for the foreseeable future.

Nonetheless, the Company continues to pursue various financing alternatives to augment its credit and liquidity base. 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 expected to be sufficient to meet Aecon's remaining anticipated requirements for 2006.

Aecon's surety capacity remains sufficient to meet its needs. However, surety capacity and pricing has become a constraining issue broadly within the industry and Aecon is not immune to these impacts. It is expected that the above-noted initiatives to further improve Aecon's liquidity position will also have a positive impact on Aecon's surety capacity. As at March 31, 2006, Aecon's surety capacity was more than double its utilization.

## **NEW ACCOUNTING STANDARDS**

New Canadian accounting standards adopted in 2006 and 2005 are described in note 2 to the consolidated financial statements.

## **SUPPLEMENTAL DISCLOSURES**

### **Responsibility of Management**

The Company's management maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, reliable and timely. The Chief Executive Officer and the Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) for the period ended March 31, 2006, and have concluded that such disclosure controls and procedures are operating effectively.

### **Contractual Obligations**

At December 31, 2005, the Company had commitments totalling \$172.8 million for equipment and premises under operating leases requiring minimum payments and principal repayment obligations under long-term debt (including the convertible debentures described in note 11 to the 2005 annual consolidated financial statements). The only material changes since then have been the repayment of approximately \$22 million of debt under a revolving credit facility, and the conversion of certain convertible debentures into equity, details of which are included in notes 6 to the first quarter 2006 Interim Consolidated Financial Statements.

At March 31, 2006, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts, which represents backlog, was \$656.9 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 consolidated financial statements.

There was no material change in the funded status of Aecon's pension plans during the first three months of 2006. Details relating to Aecon's defined benefit plans are set out in note 19 to the Company's 2005 Consolidated Financial Statements.

From time to time Aecon enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. At March 31, 2006, the Company had net outstanding contracts to sell US\$1.7 million (December 31, 2005 - sell US\$3.6 million) on which there was a net unrealized exchange gain of \$0.1 million (2005 - net gain of \$0.2 million). The net unrealized exchange gain represent the estimated amount the Company would have received if it terminated the contracts at the end of the respective periods. Financial instruments are discussed in note 21 to the 2005 consolidated financial statements.

In accordance with the terms of prior acquisitions agreements, the Company is liable to make earn out incentive payments totalling an additional \$0.5 million if certain financial performance targets are achieved.

## **Related Party Transactions**

From time to time Aecon receives financial support from Hochtief AG and its subsidiary companies ("Hochtief"), Aecon's largest shareholder. In March 2006, the previously outstanding \$7.7 million of a convertible subordinated debenture was converted to equity as described in note 6 to the consolidated financial statements, and a \$2.5 million short-term unsecured loan was repaid on January 13, 2006 as described in note 11(c) to the consolidated financial statements. Hochtief AG has issued guarantees totalling \$25.8 million 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 and Hochtief are also joint venture partners in a hydro-electric project in Quebec. Note 11 to the consolidated financial statements details various other related party transactions and balances.

## **Critical Accounting Estimates**

The reader is referred to the detailed discussion on Critical Accounting estimates as outlined in the notes to the Company's 2005 Consolidated Financial Statements.

## Outstanding Share Data

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

(in thousands of dollars, except share amounts)

	<u>March 31, 2006</u>	<u>May 12, 2006</u>
Number of common shares outstanding	38,103,175	38,283,175
Paid-up capital of common shares outstanding (1)	\$ 132,167	\$ 133,267
Outstanding securities exchangeable or convertible into common shares:		
Number of stock options outstanding	1,350,000	1,350,000
Number of common shares issuable on exercise of stock options	1,350,000	1,350,000
Increase in paid-up capital on exercise of stock options	\$ 8,216	\$ 8,216
Principal amount of convertible debentures outstanding (see note 6 to the Company's consolidated financial statements)	\$ 59,366	\$ 59,366
Number of common shares issuable on conversion of convertible debentures	8,276,316	8,276,316
Increase in paid-up capital on conversion of convertible debentures	\$ 59,366	\$ 59,366

- (1) As described in note 7 to the Company's consolidated financial statements, in accordance with the recommendations of The Canadian Institute of Chartered Accountants, share capital has been reduced by \$1,585 thousand on account of share purchase loans receivable from employees.

## OUTLOOK

The first quarter of the year is traditionally the slowest period for Canadian construction companies like Aecon, who do a significant portion of their work outdoors, and is not normally indicative of performance over the balance of the year. The historical trend of losses early in the year followed by profits in the second half is expected to be repeated in 2006 and Aecon continues to expect improved bottom line results in each of its segments this year.

Within the infrastructure segment, Aecon continues to expect another strong year from its roadbuilding operations. The ongoing need for expansion and improvement of Ontario's highway system and continued high levels of government spending in the sector are allowing margins to solidify. As well, Aecon's increased roadbuilding backlog (bolstered by some key contract awards early in the year) has provided the company with added flexibility in its bidding strategy for the remainder of the year. Early indications would suggest that the Company's expectations (as outlined in its year end reporting) of a slightly smaller profit contribution this year from the roadbuilding sector may have been overly cautious.

In the utilities sector, the strong base provided by Aecon's alliance with Union Gas and its expanded relationship with Expertech are allowing for a more selective pursuit of additional work to round-out the Company's order book. As such, expectations continue for an improved profit contribution from Aecon's utilities business in 2006.

Aecon continues to expect that its Quebec civil operations will generate significantly less revenue this year than it did in 2005 as the Eastmain hydroelectric project in northern Quebec winds down. No material developments are expected with respect to the outstanding issues on the Eastmain project and management continues to believe that the Aecon/Hochtief joint venture will be successful in recovering the value of unpriced change orders associated with the project.

Other Canadian civil operations in 2006 include work on two large sewer projects north of Toronto as well as Aecon's entry into the Alberta civil construction market. While Aecon sees significant potential in the Alberta civil market going forward, it continues to expect only modest profit contributions during its first year in this market.

Internationally, the expansion of the Cross Israel Highway and construction of the new Quito International Airport continue to be Aecon's focus. While construction is expected to begin on the Quito project this year, and may begin on the Cross Israel Highway extension as well, no construction profit is expected to be recognised in 2006 as Aecon's accounting policy for large multi-year contracts provides for construction profit to be recognized only when progress reaches a stage of completion sufficient to reasonably determine the probable results (generally when the contract is 20% complete).

In the Buildings segment, despite the small loss earned in the quarter, the recovery that began in 2005 is expected to continue in 2006, with further improvement in margins and profit contribution expected this year.

Profit contributions from work in the Greater Toronto Area (the largest region in the segment) are expected to increase in 2006 due in part to the anticipated settlement of outstanding project change order requests.

Overall profit contributions from the Buildings segment's other business units are expected to approximate those reported in 2005, with some business units recording a modest increase in profit contributions and others posting a modest decline.

Aecon's Industrial segment is expected to show increased profit contributions this year, with the Fabrication business unit providing the most significant year-over-year gains in 2006.

Western Canadian operations, which provided much of the segment's growth last year, are now expected to produce even higher profit contributions in 2006 as the combined effect of solid margin growth and the renegotiation of contracts for two large projects in northern Alberta is now expected to more than offset a decline in volumes.

The industrial construction market in Ontario is expected to remain strong in 2006, with the recently commenced Bruce Power nuclear restart project providing a stable contribution to construction

profits in 2006 and beyond. As such, Aecon's industrial construction operations in Ontario are expected to have another solid year with profit contributions just shy of the strong results recorded in 2005.

IST is again expected to generate positive profit contributions in 2006 despite a challenging sales environment, with key contracts in Puerto Rico late last year and New York early this year providing much of the volume in the first quarter.

Aecon's backlog of \$657 million at March 31, 2006 was \$67 million higher than at the same time last year and \$80 million higher than at year end, with year-over-year increases of over \$100 million in each of the Infrastructure and Industrial segments offsetting a decline in the Buildings segment. Backlog is expected to increase by about a further \$250 million when the Quito Airport project financing closes, likely in the second quarter of this year. Not included in backlog, but important to Aecon's prospects, are the expected revenues from Aecon's growing alliance and supplier-of-choice arrangements, largely in the industrial and utilities sectors. As outlined earlier in this MD&A, Aecon's effective backlog is therefore greater than what is reported here.

Overall, management continues to believe that the continued strengthening of Aecon's core markets, along with the ongoing benefit of operational improvements now in place, will result in increased margins and a positive net income for Aecon in 2006.

## **FORWARD-LOOKING INFORMATION**

In various places in Management's Discussion and Analysis and in other sections of this document, management's expectations regarding future performance of Aecon was discussed. These "forward-looking" statements are based on currently available competitive, financial and economic data and operating plans, but are subject to risks and uncertainties. Many factors could cause Aecon's actual results, performance or achievements to vary from those expressed or inferred herein, including without limitation, the ability of the Eastmain Joint Venture to recover the full value of unpriced change orders, the uncertain intentions of Hochtief, failure to achieve the targets associated with the Quito Airport, the achievement of lower than expected volumes of work in western Canada and the failure of IST to secure anticipated contract levels. Risk factors are discussed in greater detail in the section on "Risk Factors" in the Annual Information Form filed on March 31, 2006 and available at [www.sedar.com](http://www.sedar.com). Forward-looking statements include information concerning possible or assumed future results of operations or financial position of Aecon, as well as statements preceded by, followed by, or that include the words "believes," "expects," "anticipates," "estimates", "projects," "intends," "should" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of Aecon and could cause those results to differ materially from those expressed in any forward-looking statements.

# **Aecon Group Inc.**

## **Consolidated Financial Statements March 31, 2006 and 2005**

### **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 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.

(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, 2006	December 31, 2005
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 28,744	\$ 27,002
Restricted cash	7,500	7,500
Restricted marketable securities and term deposits	15,360	15,318
Accounts receivable	98,783	135,005
Holdbacks receivable	65,226	66,583
Deferred contract costs and unbilled revenue	75,700	82,058
Inventories	7,923	7,186
Prepaid expenses	4,466	1,763
	<u>303,702</u>	<u>342,415</u>
<b>Property, plant and equipment</b>	<b>55,421</b>	<b>56,116</b>
<b>Future income tax assets</b>	<b>20,100</b>	<b>20,100</b>
<b>Long-term investment</b> (note 4)	<b>42,733</b>	<b>41,273</b>
<b>Other assets</b>	<b>46,773</b>	<b>44,518</b>
	<u>\$ 468,729</u>	<u>\$ 504,422</u>



# Aecon Group Inc.

## Consolidated Balance Sheets ...continued

(in thousands of dollars) (unaudited)

	March 31, 2006	December 31, 2005
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ 8,337	\$ 8,312
Accounts payable and accrued liabilities	132,978	166,594
Holdbacks payable	40,317	38,021
Deferred revenue	30,287	29,274
Income taxes payable	1,715	1,779
Future income tax liabilities	26,275	26,275
Current portion of long-term debt	4,977	6,228
Loan from a related party (note 11(c))	-	2,500
Convertible debenture (note 6)	-	7,676
	<u>244,886</u>	<u>286,659</u>
<b>Long-term debt</b>	<b>16,638</b>	<b>35,671</b>
<b>Other liabilities</b>	<b>2,967</b>	<b>2,971</b>
<b>Other income tax liabilities</b>	<b>13,724</b>	<b>13,634</b>
<b>Convertible debentures (note 6)</b>	<b>59,366</b>	<b>59,159</b>
	<u>337,581</u>	<u>398,094</u>
<b>Commitments and contingencies</b>		
<b>Shareholders' Equity</b>		
<b>Capital stock (note 7)</b>	<b>132,167</b>	<b>95,985</b>
<b>Contributed surplus (note 7)</b>	<b>774</b>	<b>361</b>
<b>Convertible debentures (note 6)</b>	<b>4,146</b>	<b>4,982</b>
<b>(Deficit) retained earnings</b>	<b>(5,939)</b>	<b>5,000</b>
	<u>131,148</u>	<u>106,328</u>
	<u>\$ 468,729</u>	<u>\$ 504,422</u>

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, 2006 and 2005

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

	<b>2006</b>		<b>2005</b>
<b>Revenues</b>	\$ <b>200,575</b>	\$	172,872
<b>Costs and expenses</b>	<b>194,198</b>		167,770
<b>Marketing, general and administrative expenses</b>	<b>13,009</b>		12,714
<b>Depreciation and amortization</b>	<b>1,840</b>		1,766
<b>Foreign exchange gains</b>	<b>(43)</b>		(87)
<b>Loss (gain) on sale of assets</b>	<b>3</b>		(23)
<b>Interest expense, net</b>	<b>2,375</b>		1,736
	<b>211,382</b>		183,876
<b>Loss before income taxes and extraordinary item</b>	<b>(10,807)</b>		(11,004)
<b>Income taxes</b> (note 3)			
Current	<b>140</b>		830
Loss before extraordinary item	<b>(10,947)</b>		(11,834)
Extraordinary gain, net of income taxes (note 9)	<b>-</b>		3,444
<b>Net loss for the period</b>	<b>\$ (10,947)</b>	\$	<b>(8,390)</b>
<b>Loss per share before extraordinary item</b> (note 7)			
Basic	\$ <b>(0.36)</b>	\$	(0.40)
Diluted	\$ <b>(0.36)</b>	\$	(0.40)
<b>Net loss per share</b> (note 7)			
Basic	\$ <b>(0.36)</b>	\$	(0.29)
Diluted	\$ <b>(0.36)</b>	\$	(0.29)
<b>Average number of shares outstanding</b> (note 7)			
Basic	<b>30,813,153</b>		29,271,962
Diluted	<b>34,058,469</b>		33,141,231

# **Aecon Group Inc.**

## **Consolidated Statements of Retained Earnings For the Three Months ended March 31, 2006 and 2005**

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(in thousands of dollars) (unaudited)

	<b>2006</b>		<b>2005</b>
<b>Retained earnings - beginning of period</b>	\$ <b>5,000</b>	\$	6,111
<b>Add (deduct):</b>			
<b>Net loss for the period</b>	<b>(10,947)</b>		(8,390)
<b>Interest received on share purchase loans (note 7)</b>	<b>8</b>		<b>7</b>
<b>Deficit - end of period</b>	<b>(5,939)</b>	\$	<b>(2,272)</b>

# Aecon Group Inc.

## Consolidated Statements of Cash Flows

### For the Three Months ended March 31, 2006 and 2005

(in thousands of dollars) (unaudited)

	2006		2005
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net loss for the period	\$ (10,947)	\$	(8,390)
Items not affecting cash:			
Depreciation and amortization	1,840		1,766
Loss (gain) on sale of assets	3		(23)
Deferred financing charges amortization	168		83
Extraordinary gain (note 9)	-		(4,122)
Loss on foreign exchange	40		52
Non-cash interest on other income tax liabilities	90		90
Notional interest representing accretion (note 6)	234		144
Defined benefit pension plan expense (note 10)	412		451
Future income taxes	-		678
Stock-based compensation	413		40
Others	32		-
	<b>(7,715)</b>		<b>(9,231)</b>
Change in other balances relating to operations (note 9)	<b>9,400</b>		<b>(1,422)</b>
	<b>1,685</b>		<b>(10,653)</b>
<b>Investing activities</b>			
Decrease in restricted marketable securities and term deposits	94		934
Purchase of property, plant and equipment	(529)		(817)
Proceeds on sale of property, plant and equipment	187		431
Increase in long-term investment (note 4)	-		(4,348)
Increase in other assets	(2,361)		(1,105)
Cash acquired on acquisition of a subsidiary, net of consideration paid (note 9)	-		1,896
	<b>(2,609)</b>		<b>(3,009)</b>
<b>Financing activities</b>			
Decrease in bank indebtedness	(10)		(3,247)
Repayment of short term loan from a related party (note 11(c))	(2,500)		-
Issuance of long-term debt	-		22,974
Repayments of long-term debt	(22,510)		(45,564)
Issuance of capital stock (note 7)	27,615		1,014
Interest received on share purchase loans (note 7)	8		7
Net proceeds from issuance of convertible debentures (note 6)	-		31,016
	<b>2,603</b>		<b>6,200</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,679</b>		<b>(7,462)</b>
<b>Effects of foreign exchange on cash balances</b>	<b>63</b>		<b>9</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>27,002</b>		<b>50,139</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 28,744</b>	<b>\$</b>	<b>42,686</b>
<b>Supplementary disclosures (note 8)</b>			

# **Aecon Group Inc.**

## Notes to Consolidated Financial Statements

**March 31, 2006 and 2005**

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(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 the Consolidated Financial Statements for the year ended December 31, 2005. 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-months ended March 31, 2006 are not necessarily indicative of results expected for the full fiscal year or any other future period.

### **2) Changes in accounting policies**

Effective October 1, 2005, the Company adopted Emerging Issues Committee Abstract EIC-155 ("The effect of contingently convertible instruments on the computation of diluted earnings per share"). This EIC impacts the calculation of diluted earnings per share when debt, which is contingently convertible, exists. Contingently convertible instruments are instruments that have embedded conversion features that are contingently convertible or exercisable based on a market price trigger. A market price trigger is a market condition that is based at least in part on the issuer's own share price. Under EIC 155, the effect of contingently convertible instruments should, if dilutive, be included in the computation of earnings per share regardless of whether the market price trigger has been met. Since the Company's debentures are not contingently convertible, adoption of this abstract had no impact on the Company's financial statements.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

March 31, 2006 and 2005

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

### 3) Income taxes

The provision for income taxes differs from the result that would be obtained by applying combined Canadian federal and provincial (Ontario) statutory income tax rates to income before income taxes. This difference results from the following:

	Three months ended March 31,	
	2006	2005
Loss before income taxes and extraordinary items	\$ 10,807	\$ 11,004
Statutory income tax rate	36.1%	36.1%
Expected income tax recovery	(3,901)	(3,972)
Effect on income tax of		
Valuation allowance provision against current year's future tax assets	3,838	4,533
Provincial and foreign rate differentials	47	45
Non-deductible expenses	108	108
Large corporations tax	81	113
Foreign exchange translation losses	(33)	(4)
Other	-	7
Income tax expense	\$ 140	\$ 830

### 4) Long-term investment

The long-term investment in the amount of \$42,733 at March 31, 2006 (2005 - \$41,273) represents the Company's 25.0% investment, which is carried at cost, in the Derech Eretz Highways (1997) Ltd. ("Derech Eretz"), the company owning the concessionaire rights to the Cross Israel Highway. Under the terms of the concession contract with the State of Israel and lender agreements, the Company is required to obtain approvals in order to sell all or a portion of this investment. In addition, existing shareholders have a right of first refusal to acquire this investment in the event of a sale and also are entitled to participate on a pro rata basis in the event of a sale to a third party. Pursuant to an agreement with the State of Israel, the Company's interest in Derech Eretz would be diluted to approximately 12% if options granted are exercised. On January 24, 2005, the Company increased its interest in Derech Eretz from 22.2% to 25%. The purchase price for the increased stake was \$4,348 (US\$3,500). On February 16, 2006, pursuant to an agreement reached with the project lenders, the shareholders of Derech Eretz purchased certain options held by lenders. The lenders options would have allowed the lenders to purchase directly from the existing shareholders a portion of their equity and subordinated debt of the concessionaire. The Company's pro rata share of the purchase price was \$1,460 (US\$ 1,250) and was financed by a loan from the other shareholders in Derech Eretz at an interest rate of 6% per annum repayable from future distributions available to the Company from Derech Eretz or the construction joint venture.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

March 31, 2006 and 2005

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

### 5) Guarantees

The Company has outstanding guarantees and letters of credit amounting to \$25,777 (December 31, 2005 - \$25,668) 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 ("Hochtief"), the parent of the Company's principal shareholder. The Company and Hochtief have signed an indemnity agreement whereby the Company has agreed to pay Hochtief any amounts Hochtief is required to pay pursuant to this guarantee.

In connection with the Cross Israel Highway project, the Company has provided two joint and several guarantees, a continuous guarantee, which guarantees the performance of the concessionaire in which the Company has a 25% interest and a leakage guarantee, which is a guarantee by the operator of the toll highway, in which the Company has a 30.60% interest, to the concessionaire and covers toll capture and collection rates generated from users of the highway during the operating period. These guarantees extend to the end of the concession period which ends in 2029. The continuous guarantee is in the amount of \$9,461 (December 31, 2005 - \$9,420) and is renewed annually to its full amount, irrespective of any drawings made thereunder. The leakage guarantee came into effect when construction was completed and is renewable annually for the lesser of \$11,370 (December 2005 - \$11,397) or 6% of annual toll revenue. In addition to the above, the Company has provided a letter of credit in the amount of \$600 to support a bid bond that was required by the concessionaire in connection with the construction of an extension to the Cross Israel Highway. The construction of this extension originates from an agreement reached to extend the highway and have concession rights to this extension. The Company will have a 25% interest in the construction. This letter of credit, which is secured by cash, will be in force until financing for the extension is complete and construction commences.

The Company has also issued performance guarantees of \$728 (December 31, 2005 - \$4,965) in respect of certain other international projects supported by guarantees issued to Aecon by Export Development Corporation.

In addition, the Company has also issued, in the normal conduct of operations, guarantees amounting to \$10,699 (December 31, 2005 - \$10,616) in support of financial and performance related obligations for certain domestic projects of which \$5,856 (December 31, 2005 - \$5,773) are secured by cash held in interest bearing accounts.

Under the terms of many of the Company's joint venture 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 March 31, 2006, the value of uncompleted work for which the Company's joint venture partners are responsible, and which the Company could be responsible for assuming, amounted to approximately \$187,616 (December 31, 2005 - \$142,276), 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

# Aecon Group Inc.

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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.

### 6) Convertible debentures

Convertible subordinated debentures consist of:

	March 31, 2006	December 31, 2005
Debt component:		
(a) Debenture maturing June 30, 2006	\$ -	\$ 7,676
(b) Debenture maturing November 2, 2009	28,574	28,474
(b) Debenture maturing March 17, 2010	30,792	30,685
	<u>\$ 59,366</u>	<u>\$ 66,835</u>
Reported as:		
Current liability	\$ -	\$ 7,676
Long-term liability	59,366	59,159
	<u>\$ 59,366</u>	<u>\$ 66,835</u>
Equity component:		
(a) Debenture maturing June 30, 2006	\$ -	\$ 836
(b) Debenture maturing November 2, 2009	1,990	1,990
(b) Debenture maturing March 17, 2010	2,156	2,156
	<u>\$ 4,146</u>	<u>\$ 4,982</u>

- (a) In March 2006, the Company's largest shareholder exercised its option to convert convertible debt with a face value of \$7,731 into 2,147,566 common shares at a conversion price of \$3.60 per share.
- (b) In November 2004, the Company issued \$30,000 in unsecured, subordinated convertible debentures maturing November 2, 2009. The debentures bear interest at the rate of 8.25% per annum payable on a semi-annual basis. At the holder's option, the convertible debenture may be converted into common shares at any time up to the maturity date at a conversion price of \$7.50 for each common share, subject to adjustment in certain circumstances. The convertible debenture will not be redeemable before November 2, 2007. From November 2, 2007 through to the maturity date the Company may, at its option, redeem the convertible debenture, in whole or in part, at par plus accrued and unpaid interest provided that the weighted average closing price of the common shares on the Toronto Stock Exchange during a specified period prior to redemption is not less than 125% of the conversion price.

In March 2005, the Company issued \$32,500 in unsecured, subordinated convertible debentures maturing March 17, 2010. The debentures bear interest at the rate of 8.25% per annum payable on a semi-annual basis. At the holder's option, the convertible debentures may be converted into common shares at any time up to the maturity date at a conversion price of \$7.60 for each common share, subject to adjustment in certain circumstances. The convertible debentures will not be redeemable before March 18, 2008. From March 18, 2008 through the maturity date the Company may, at its option, redeem the convertible debentures, in whole or in part, at par plus accrued and unpaid interest provided that the weighted average



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closing price of the common shares on the Toronto Stock Exchange during a specified period prior to redemption is not less than 125% of the conversion price.

Subject to specified conditions, the Company will have the right to repay the outstanding principal amount of the convertible debentures, on maturity or redemption, through the issuance of common shares of the Company. The Company also has the option to satisfy its obligation to pay interest through the issuance and sale of additional common shares of the Company on a private placement basis. Additionally, the Company will have the option, subject to prior agreement of the holders, to settle its obligations on conversion by way of a cash payment of equal value.

In determining the amount of the debt and equity components of the convertible debentures, the carrying amount of the financial liability is first determined by discounting the stream of future payments of interest and principal at the rate of interest prevailing at the date of issue for instruments of similar term and risk. The equity component equals the amount determined by deducting from the carrying amount of the compound instrument the amount of the debt component.

Interest expense on the debentures is composed of the interest calculated on the face value of the debentures, which amounted to \$62,500 at March 31, 2006 (December 31, 2005 - \$70,231), an annual notional interest representing the accretion of the carrying value of the debentures, and amortization of deferred financing costs. Interest recorded was as follows:

	<b>Three months ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
Interest expense on face value	\$ 1,376	\$ 827
Notional interest representing accretion	230	144
Amortization of deferred financing costs	147	83
	<hr/>	<hr/>
	\$ 1,753	\$ 1,054

The liability portion of the debentures is as follows:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
Financial liability component	\$ 58,254	\$ 65,249
Notional interest representing accretion	1,112	1,586
	<hr/>	<hr/>
	\$ 59,366	\$ 66,835

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### 7) Capital stock

	2006		2005	
	Number of shares issued	Amount	Number of shares issued	Amount
Balance - January 1	31,180,609	\$ 95,985	30,524,609	\$ 93,829
Common shares issued on exercise of options	275,000	990	276,000	1,014
Common shares issued, less expenses of \$1,500 (i)	4,500,000	26,625	-	-
Common shares issued on conversion of debentures (ii)	2,147,566	8,567	-	-
Balance – March 31 (iii)	38,103,175	\$ 132,167	30,800,609	\$ 94,843

- (i) On March 17, 2006, the Company issued 4,500,000 common shares at \$6.25 per share. Net proceeds, after deducting agents' fees and expenses of the issue, were approximately \$26,625.
- (ii) The Company's largest shareholder exercised its option to convert convertible debt with a face value of \$7,731 into 2,147,566 common shares at a conversion price of \$3.60 per share. In addition, share capital was increased by \$836 representing the equity portion of the convertible debenture that was previously classified as a separate component of shareholders' equity.
- (iii) In accordance with the recommendations of the CICA on accounting for share purchase loans receivable from employees, such loans except in certain circumstances are required to be presented as deductions from shareholders' equity. Accordingly, loans totalling \$1,084 (2005 - \$857) are presented as a deduction from capital stock. Interest received on such loans of \$8 after income taxes (2004 - \$7) is accounted for as a capital transaction in shareholders' equity.

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

Pursuant to an agreement in connection with the provision of bonds on the Quito Airport project, the Company is restricted from paying dividends, except for an aggregate of \$10,000 per fiscal year.

On June 21, 2005, the Company's shareholders approved a new stock option plan (the 2005 Stock Option Plan) to replace the previous 1998 Stock Option Plan. The aggregate number of common shares that can be issued under the 2005 Plan shall not exceed 2,500,000. As at March 31, 2006, 1,100,000 were issued under the 2005 Plan. Similar to the 1998 Plan, each option issuance under the 2005 Plan specifies 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. Details of common shares issued upon the exercise of options under the 2005 Plan, as well as details of changes in the balance of options outstanding are detailed below:

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

2005 Stock Option Plan	Three months ended March 31, 2006	
	Shares	Weighted average exercise price
Balance outstanding at beginning of period	100,000	\$ 5.51
Granted	1,000,000	6.25
Balance outstanding at end of period	1,100,000	\$ 6.18
Options exercisable at end of period	250,000	\$ 6.25

Options currently outstanding under the 2005 Stock Option Plan have the following exercise prices and expiry dates:

Options granted in	Number of shares	Exercise price	Expiry date
2005	100,000	\$5.51	November 7, 2010
2006	1,000,000	6.25	March 27, 2011

The options granted in 2005 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 options granted in the current quarter have a term of five years from the date of grant and vest one-quarter immediately and one quarter per annum thereafter on the anniversary date of the grant.

The Company has adopted fair value accounting for options granted after 2001 to employees and records compensation expense upon the issuance of stock options under its 1998 and 2005 Stock Option Plans. The fair value is estimated on the date of grant using the Black-Scholes fair value option-pricing model and compensation expense is amortized over the three-year vesting period of the options. During the three months ended March 31, 2006, compensation expense was increased by \$396 and contributed surplus was increased by the same amount, on account of options granted under the 2005 Stock Option Plan.

The fair value was estimated on the date of grant using the Black-Scholes fair value option-pricing model using the following assumptions:

	<u>2006</u>
Dividend yield	0%
Expected volatility	32%
Risk free interest rate	4%
Weighted average expected life (years)	3.25

# Aecon Group Inc.

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The granting of options under the 1998 Stock Option Plan ceased effective June 21, 2005. However, this does not affect the rights granted under this plan to the holders of 250,000 options that were previously issued and remain outstanding under this plan. Details of common shares issued upon the exercise of options under the 1998 Stock Option Plan, as well as details of changes in the balance of options outstanding are detailed below:

1998 Stock Option Plan	Three months ended March 31			
	2006		2005	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Balance outstanding at beginning of period	525,000	\$ 4.58	1,181,000	\$ 4.05
Exercised	(275,000)	3.60	(276,000)	3.67
Balance outstanding at end of period	250,000	\$ 5.66	905,000	\$ 4.19
Options exercisable at end of period	150,000	\$ 5.26	688,333	\$ 3.66

Options were exercised under the 1998 Stock Option Plan during the three months ended March 31, 2006 for 275,000 shares (2005 - 276,000) for which share capital was increased by \$990 (2005 - \$1,014). Options currently outstanding under the 1998 Stock Option Plan have the following exercise prices and expiry dates:

Options granted in	Number of shares	Exercise price	Expiry date
2003	100,000	4.75	April 1, 2008
2004	100,000	6.30	August 3, 2009
2004	50,000	6.20	November 30, 2009

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.

During the period compensation expense was increased by \$17 (2005 - \$40), and contributed surplus was increased by the same amount, on account of options granted under the 1998 Stock Option Plan.

Details of the calculations of income and loss per share are set out below. For purposes of calculating basic income or loss per share the number of common shares has been reduced by 1,584,963 (March 31, 2005 - 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.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

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

### Three months ended March 31

	<b>2006</b>		
	<b>Loss (numerator)</b>	<b>Shares (denominator)</b>	<b>Per share</b>
Net loss per share			
Net loss for the period	\$ (10,947)	30,813,153	\$ (0.36)
Effect of dilutive securities (i):			
Options	-	1,455,677	-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	77	1,789,639	-
	<u>\$ (10,870)</u>	<u>34,058,469</u>	<u>\$ (0.36)</u>
			<b>2005</b>
	<b>Loss (numerator)</b>	<b>Shares (denominator)</b>	<b>Per share</b>
Net loss per share			
Net loss for the period	\$ (8,390)	29,271,962	\$ (0.29)
Effect of dilutive securities (i):			
Options	-	1,721,701	-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	82	2,147,568	-
	<u>\$ (8,308)</u>	<u>33,141,231</u>	<u>\$ (0.29)</u>
			<b>2005</b>
Loss per share before extraordinary item			
Loss before extraordinary item	\$ (11,834)	29,271,962	\$ (0.40)
Effect of dilutive securities (i):			
Options	-	1,721,701	-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	82	2,147,568	-
	<u>\$ (11,752)</u>	<u>33,141,231</u>	<u>\$ (0.40)</u>

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

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- (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.

Basic earnings per share from the extraordinary item amounted to \$nil (2005 - \$0.11), and diluted earnings per share from the extraordinary item amounted to \$nil (2005 - \$0.11).

### 8) Cash flow information

Change in other balances relating to operations:

	Three months ended March 31,	
	2006	2005
Decrease (increase) in:		
Accounts receivable	\$ 36,299	\$ 39,563
Holdbacks receivable	1,373	10,548
Deferred contract costs and unbilled revenue	6,429	6,940
Inventories	(737)	771
Prepaid expenses	(2,714)	(1,494)
Defined benefit pension plan contributions	(567)	(290)
(Decrease) increase in:		
Accounts payable and accrued liabilities	(33,874)	(33,938)
Holdbacks payable	2,287	(7,459)
Deferred revenue	1,011	(16,876)
Income taxes payable	(107)	813
	<u>\$ 9,400</u>	<u>\$ (1,422)</u>

Other supplementary information:

	2006	2005
Cash interest paid	\$ 2,334	\$ 713
Cash income taxes paid	812	2,366

During the three months ended March 31, 2006, property, plant and equipment acquired and financed by means of capital leases amounted to \$766 in the period (2005 - \$345).

In March 2006, the Company's largest shareholder exercised its option to convert convertible debt with a face value of \$7,731 into 2,147,566 common shares at a conversion price of \$3.60 per share. In addition, share capital was increased by \$836 representing the equity portion of the convertible debenture that was previously classified as a separate component of shareholders' equity. (see Notes 6 & 7).

As described in Note 4, the shareholders of Derech Eretz purchased certain options held by project lenders. The Company's pro rata share of the purchase price was \$1,460 (US\$ 1,250) and was financed by a loan from the other shareholders in Derech Eretz.

# Aecon Group Inc.

## Notes to Consolidated Financial Statements

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### 9) Acquisition and extraordinary gain

On January 24, 2005, the Company acquired its partner's share in a joint venture that holds 33.33% in a construction joint venture, of which one of its projects was the Cross Israel Highway.

The following is a summary of the acquisition:

Net assets acquired at fair value		
Cash	\$	3,416
Working capital		533
Long-term receivable		1,693
		<hr/>
	\$	5,642
		<hr/>
Consideration		
Cash	\$	1,520
		<hr/>
Extraordinary gain before income taxes	\$	4,122
Income taxes		678
		<hr/>
Extraordinary gain after income taxes	\$	3,444
		<hr/>

As the fair value of the financial and current net assets acquired exceeded the amount paid, the Company recorded an extraordinary gain of \$4,122 before income taxes, and \$3,444 net of income taxes on this transaction. Also, since the cash acquired of \$3,416 exceeded the consideration paid of \$1,520, the Company's overall cash position improved by \$1,896.

### 10) Employee future benefit expenses

Employee future benefit expenses for the three months ended March 31 are as follows:

	<u>2006</u>	<u>2005</u>
Defined benefit plan expense:		
Company sponsored pension plans	\$ 412	\$ 451
Defined contribution plan expense:		
Company sponsored pension plans	445	392
Multi-employer pension plans	3,290	3,450
		<hr/>
Total employee future benefit expenses	\$ 4,147	\$ 4,383
		<hr/>

# **Aecon Group Inc.**

## Notes to Consolidated Financial Statements

**March 31, 2006 and 2005**

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### **11) Related party transactions and balances**

In addition to related party transactions described elsewhere in the notes to these consolidated financial statements, the following summarizes additional transactions during the year. Related party transactions are recorded at their exchange amounts, which is the consideration agreed to by the parties.

- (a) Hochtief, the parent of Hochtief Canada Inc. (“HCI”), has issued guarantees in support of the financial and performance related obligations of the Nathpa Jhakri hydro-electric project in India in which the Company has a joint venture interest (note 5). During the three months ended March 31, 2006, the Company paid guarantee fees in the amount of \$65 (2005 - \$67) to HCI in connection with these guarantees.
- (b) The Company is a joint venture partner with Hochtief on the Eastmain hydro-electric powerhouse project in Quebec.
- (c) On January 13, 2006, the Company repaid a short-term unsecured loan from Hochtief. The loan was provided to support a portion of the Company’s working capital contribution requirements to the Eastmain joint venture, the hydroelectric powerhouse project in northern Quebec. Interest due was calculated on the amount outstanding at prime rate plus 1.5%. During the current quarter ended March 31, 2006, the Company paid interest of \$39 in relation to this loan.
- (d) During the three months ended March 31, 2006, the Company paid interest of \$97 (2005 - \$100) to HCI on the convertible subordinated debenture described in note 6.
- (e) During the three months ended March 31, 2006, the Company received \$21 from Hochtief PPP Solutions GmbH with respect to bid costs, pursuant to an arrangement in place for the sharing of such costs.
- (f) To the best of the Company’s knowledge from information available to it and from public records, \$800 of the Company’s \$32,500 convertible debenture financing completed March 17, 2005 is held by officers and directors of the Company or parties related thereto.
- (g) During the three months ended March 31, 2005, the Company paid professional fees in the amount of \$26 to a consulting company in which a director of the Company is a partner.



# **Aecon Group Inc.**

Notes to Consolidated Financial Statements

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## **12) 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.

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Information by reportable segments is as follows:

As at March 31 and the three months then ended

	<b>2006</b>				
	<b>Infrastructure</b>	<b>Buildings</b>	<b>Industrial</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenues	\$ 61,496	\$ 87,343	\$ 52,998	\$ (1,262)	\$ 200,575
EBITDA (i)	\$ (4,175)	\$ (406)	\$ 917	\$ (2,928)	\$ (6,592)
Depreciation and amortization	1,037	113	465	225	1,840
Segment operating profit (loss)	\$ (5,212)	\$ (519)	\$ 452	\$ (3,153)	(8,432)
Interest and income taxes					(2,515)
Net loss					\$ (10,947)
Total assets	\$ 235,449	\$ 87,015	\$ 82,925	\$ 63,340	\$ 468,729
Intangible assets and goodwill	\$ 2,922	\$ 2,544	\$ 3,750	\$ -	\$ 9,216
Capital expenditures	\$ 137	\$ 76	\$ 242	\$ 74	\$ 529
Cash flow from (used in) operations	\$ (4,266)	\$ (406)	\$ 917	\$ (3,960)	\$ (7,715)

# Aecon Group Inc.

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	<b>2005</b>				
	<b>Infrastructure</b>	<b>Buildings</b>	<b>Industrial</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenues	\$ 57,635	\$ 77,151	\$ 39,024	\$ (938)	\$ 172,872
EBITDA (i)	\$ (3,604)	\$ 345	\$ (1,921)	\$ (2,322)	\$ (7,502)
Depreciation and amortization	999	112	440	215	1,766
Segment operating profit (loss)	\$ (4,603)	\$ 233	\$ (2,361)	\$ (2,537)	(9,268)
Interest and income taxes					(2,566)
Loss before extraordinary item					\$ (11,834)
Extraordinary gain	\$ 4,122	\$ -	\$ -	\$ -	\$ 4,122
Income taxes on extraordinary gain	(678)	-	-	-	(678)
Extraordinary gain, net of income taxes	\$ 3,444	\$ -	\$ -	\$ -	\$ 3,444
Net loss					\$ (8,390)
Total assets	\$ 201,085	\$ 91,288	\$ 76,480	\$ 32,104	\$ 400,957
Intangible assets and goodwill	\$ 2,709	\$ 1,953	\$ 3,750	\$ -	\$ 8,412
Capital expenditures	\$ 452	\$ 73	\$ 163	\$ 129	\$ 817
Cash flow from (used in) operations	\$ (3,897)	\$ 345	\$ (1,869)	\$ (3,810)	\$ (9,231)

- i) 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 (used in) 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.

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### **13) Comparative figures**

Certain comparative figures have been reclassified to conform to the presentation adopted in the three months ended March 31, 2006.

### **14) Subsequent event**

Further to the March 17, 2006 share issuance whereby 4,500,000 common shares were issued at \$6.25 per share, on April 18, 2006, a syndicate of underwriters exercised an Over-Allotment Option available to them and purchased an additional 180,000 common shares. The exercise of the Over-Allotment Option at \$6.25 per share produced additional net proceeds of approximately \$1,100, raising the aggregate net proceeds under the offering to approximately \$27,725.







***AECON***

**Aecon Group Inc.**

20 Carlson Court, Suite 800

Toronto, Ontario

Canada M9W 7K6

Telephone 416-293-7004

Facsimile 416-293-0271

[aecon@aecon.com](mailto:aecon@aecon.com)

[www.aecon.com](http://www.aecon.com)