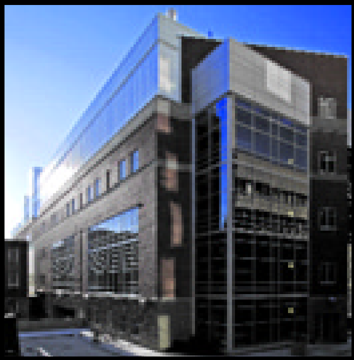
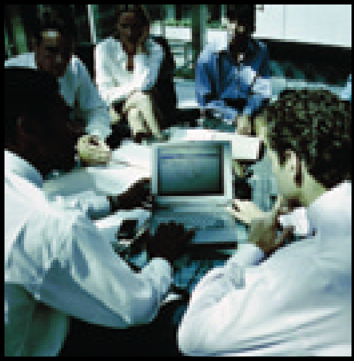
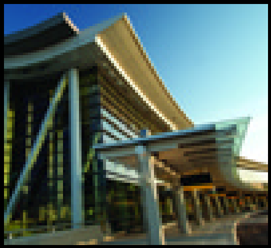
AECON GROUP INC.
ANNUAL REPORT 2004

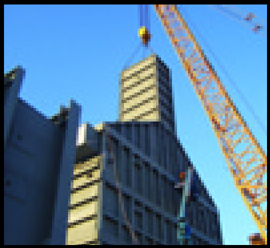




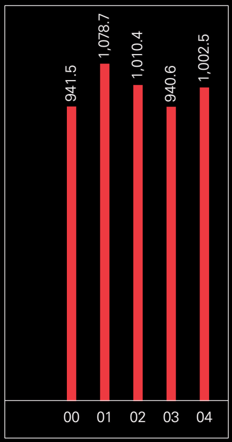
As Canada's largest publicly traded construction and infrastructure development company, Aecon Group Inc. serves private and public sector clients across Canada and internationally. Aecon's capabilities cover the infrastructure, civil, utilities, buildings, industrial and nuclear sectors. Services range from financing, design, construction and operation to procurement, materials engineering and fabrication.

Cover photos Second photo: University of Guelph New Science Complex Phase 1 in Guelph, Ontario, an Aecon Buildings project (photo courtesy of Philip Castleton Photography) Fourth photo: Concrete work on Toulnustouc River Dam in Northern Quebec carried out by Groupe Aecon Ltée **Photos below** **1** New Terminal 1 at Pearson International Airport in Toronto, Ontario, an Aecon Buildings joint venture project **2** Work on Highway 407 at the Credit River near Toronto, Ontario, carried out by Aecon Civil and Utilities **3** The 30MW Kirkland Lake Peaker plant in Ontario, an Aecon Industrial project **4** A Once Through Steam Generator manufactured by Innovative Steam Technologies being erected at the new 117MW cogeneration plant at Pearson International Airport in Toronto, Ontario

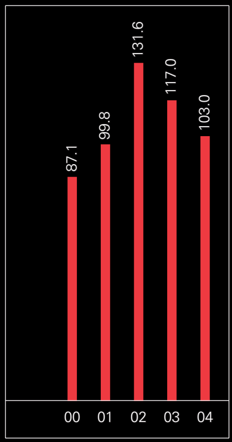




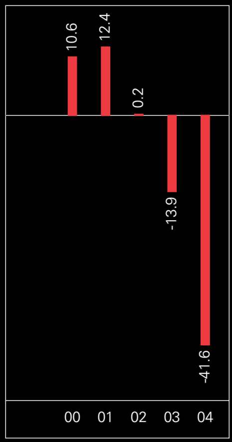
Revenues
($ millions)



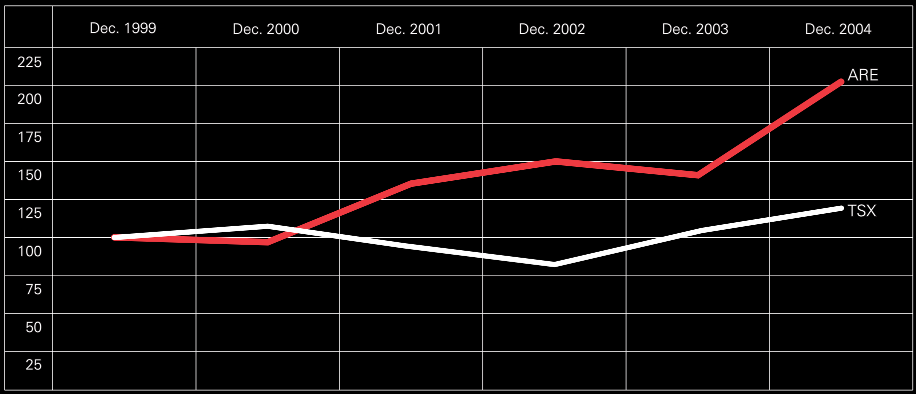
Shareholders' Equity
($ millions)



Net (Loss) Income
($ millions)



Five-Year Cumulative Return



$100 Invested in Aecon Common Shares* (ARE) vs S&P/TSX Composite Total Return Index* (TSX)

**Includes dividend payments*

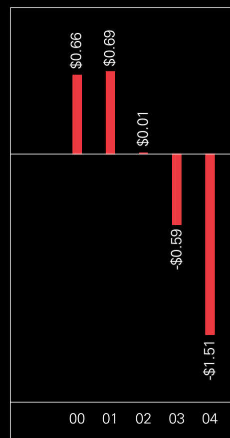
Financial Summary

The following financial data has been derived from Aecon's audited consolidated financial statements, and should be read in conjunction with the Management Discussion and Analysis and Consolidated Financial Statements and Notes, as well as the notes highlighted below. Comparative figures have been reclassified to conform to the presentation adopted in the current year.

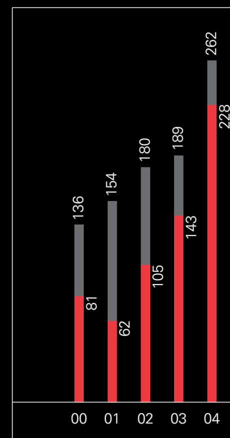
Notes:

1. Enterprise Value: EV1 = Market Capitalization + Total Debt - Cash and Marketable Securities; EV2 = Market Capitalization + Total Debt - Cash and Marketable Securities not held within joint ventures.
2. Return on capital employed is calculated as EBIT divided by the average of shareholders' equity, convertible debentures, redeemable preferred shares of subsidiary and long term debt at the beginning and end of the fiscal year.
3. EBITDA represents earnings before interest, income taxes, depreciation and amortization.
4. Return on average shareholders' equity is calculated as net income divided by the average of shareholders' equity at the beginning and end of the fiscal year.
5. EBIT represents earnings before interest and income taxes.
6. Cash flow from operating activities is before changes in other balances relating to operations.
7. Debt to equity ratio is calculated in two ways:
   (i) Where debt is defined as bank indebtedness, current portion of long term debt, long term debt, and debt component of convertible debentures; and
   (ii) Where debt is defined as debt per (i) less the debt component of convertible debentures, and where equity includes shareholders' equity plus the debt component of convertible debentures. Since the 2004 issue of convertible debentures gives Aecon the right to repay principal and interest through the issuance of common shares, and since the remaining convertible debentures, because of the low price at which they can be converted, will very likely be converted to common shares, management believes that including convertible debentures as equity, for purposes of calculating a debt to equity ratio for Aecon, is more meaningful than calculating it on the basis described in (i) above.
8. Long term debt to equity ratio is calculated in two ways:
   (i) Where long-term debt is defined as debt less the current portion of long term debt; and
   (ii) Where long term debt is defined as debt per (i) less the current portion of long term debt and less the debt component of convertible debentures, and where equity includes shareholders' equity plus the debt component of convertible debentures. Since the 2004 issue of convertible debentures gives Aecon the right to repay principal and interest through the issuance of common shares, and since the remaining convertible debentures, because of the low price at which they can be converted, will very likely be converted to common shares, management believes that including convertible debentures as equity, for purposes of calculating a long term debt to equity ratio for Aecon, is more meaningful than calculating it on the basis described in (i) above.

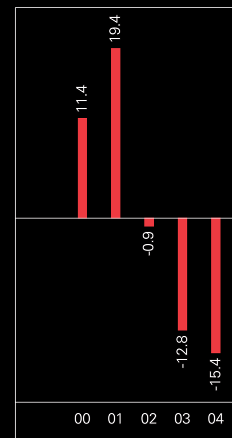
Earnings (Loss) Per Share
(Basic)



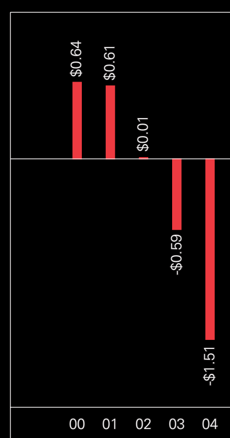
Enterprise Value[1]
($ millions) ■ EV 1 ■ EV 2



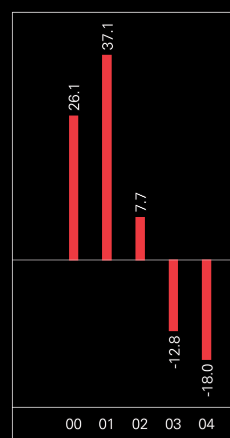
Return on Capital Employed
(%)[2]



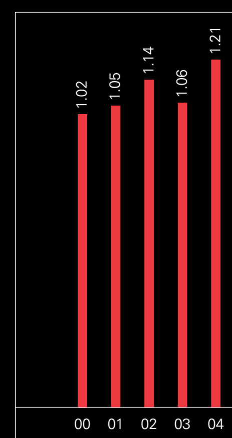
Earnings (Loss) Per Share
(Diluted)



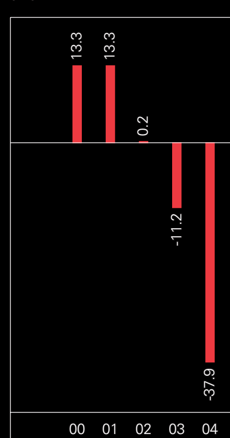
EBITDA[3]
($ millions)



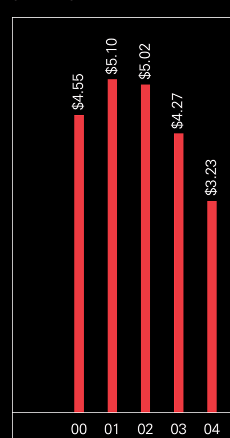
Current Ratio



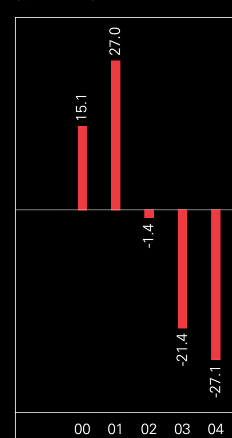
Return on Equity[4]
(%)



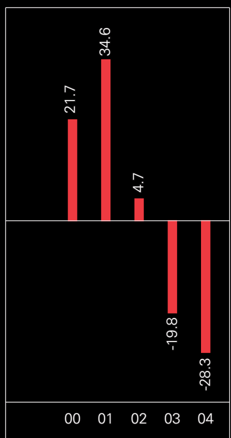
Book Value Per Share
(Diluted)



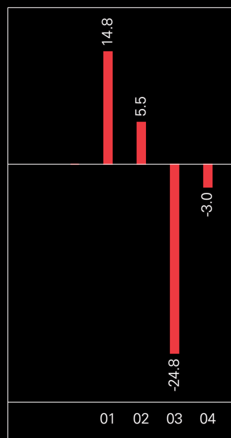
EBIT[5]
($ millions)



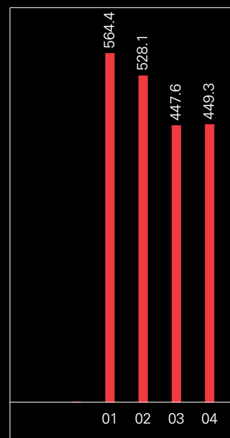
Cash Flow from Operating Activities ($ millions)[6]



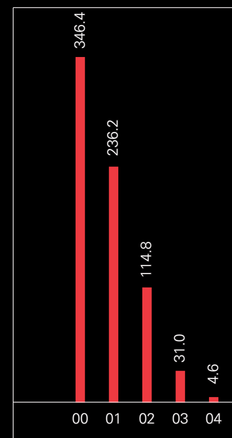
Infrastructure EBIT[5]
($ millions)



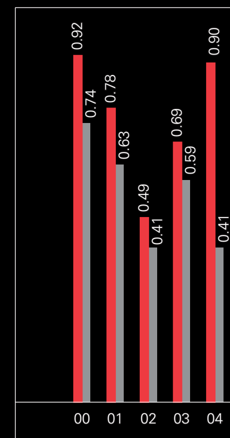
Infrastructure Revenue
($ millions)



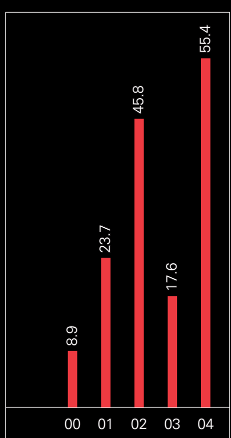
Major Projects Backlog
($ millions)



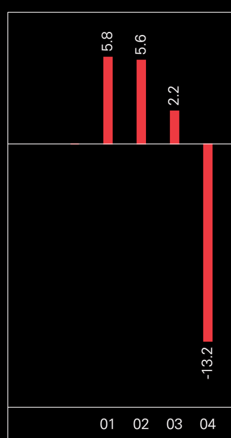
Debt to Equity[7]
DE(i) DE(ii)



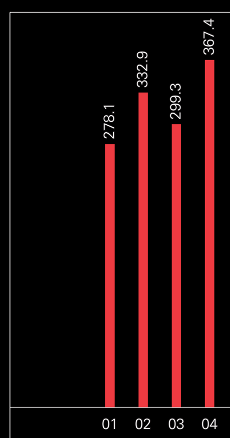
Working Capital
($ millions)



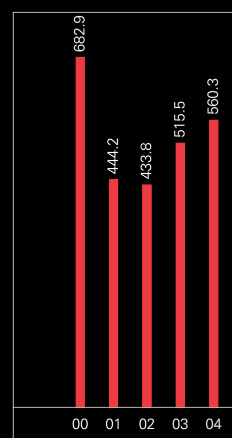
Buildings EBIT[5]
($ millions)



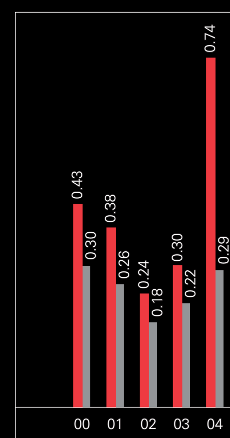
Buildings Revenue
($ millions)



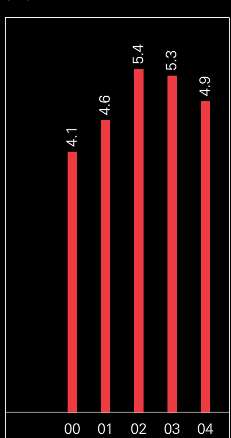
Core Backlog
($ millions)



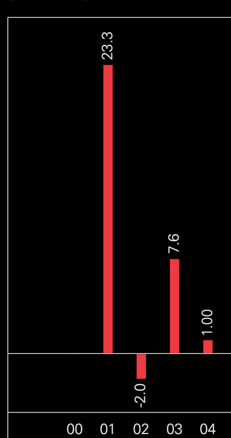
Long-Term Debt to Equity[8]
LTDE(i) LTDE(ii)



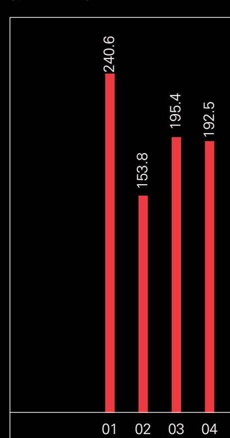
MG&A as % of Revenue
(%)



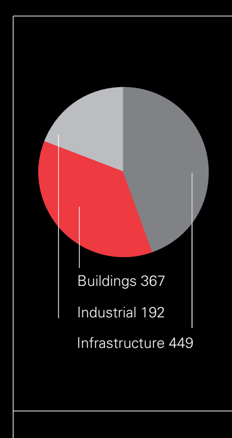
Industrial EBIT[5]
($ millions)



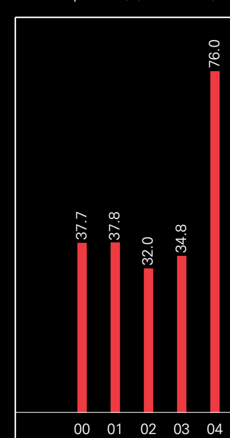
Industrial Revenue
($ millions)



Revenue by Segment
($ millions)



Long-Term Debt (excluding current portion) ($ millions)



Financial Highlights

For the years ended December 31 (in millions of dollars, except per share amounts)	**2004**	2003
Total revenues	**1,002.5**	940.6
EBITDA*	**(19.2)**	(12.8)
Loss from continuing operations before income taxes	**(31.4)**	(24.7)
Income taxes	**23.3**	(6.0)
Loss from continuing operations	**(54.7)**	(18.7)
Income from discontinued operations	**13.1**	4.9
Net loss	**(41.6)**	(13.9)
Net loss per share		
– Basic	**(1.51)**	(0.59)
– Diluted	**(1.51)**	(0.59)
Book value per share		
– Basic	**3.37**	4.62
– Diluted	**3.23**	4.27
Shares outstanding		
– Basic	**30,524,609**	25,308,542
– Diluted	**34,488,068**	29,013,789

* EBITDA represents earnings before interest, income taxes, depreciation and amortization.

* EBITDA and EBIT are not recognized measures under Canadian generally accepted accounting principles (GAAP). Readers should be cautioned that EBITDA and EBIT should not be construed as alternatives to net income (loss) determined in accordance with GAAP as indicators of Aecon's performance or as alternatives to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. Aecon's methods of calculating EBITDA and EBIT may differ from other companies and, accordingly, EBITDA and EBIT may not be comparable to measures used by other companies.

Table of Contents

Report to shareholders

Dear Fellow Shareholders,

Clearly, 2004 was not the turnaround year we had planned and forecast. Despite increased revenue, growing new business awards and improved results in most of our divisions, Aecon recorded its second consecutive net loss - a loss that was made even larger by a $32.7 million tax valuation allowance.

Before discussing our operating results and the continuing improvements we are making to ensure a return to profitability in 2005, I would like to comment on this valuation allowance and what it means. The valuation allowance is in accordance with the provisions set out in generally accepted accounting principles used in Canada. It is a non-cash accounting adjustment against future tax assets and does not impact Aecon's underlying economic value. Nor does it impact our right or expectation to realize the benefit of these tax assets in future years. Fundamentally, it reflects the removal of the Canadian tax loss carry-forwards that Aecon has accumulated over the years - and that are still recognized by the Canadian government for tax calculation purposes - from our balance sheet for accounting purposes.

Including the impact of this valuation allowance, Aecon's net loss for 2004 was $41.6 million. Had this valuation allowance not been taken, Aecon's net loss in 2004 would have been $9.0 million as compared with the net loss of $13.9 million in the previous year. These results remain unacceptable. However, I believe that the steps necessary to return Aecon to sustainable profitability have been taken and will be more fully reflected in the current fiscal year and beyond.

In 2004, we saw improvement in five of our seven divisions - an important signal that many of the initiatives we launched over the past 18 months have begun to take hold. And, over the past few months we have made further

"I believe that the steps necessary to return Aecon to sustainable profitability have been taken and will be more fully reflected in the current fiscal year and beyond."
John M. Beck, Chairman and Chief Executive Officer

changes at Aecon - becoming a more focussed, more disciplined and more competitive company in the process.

In our Infrastructure segment, for example, we have scaled back our business development of large civil projects and expanded our focus to include projects of less than $100 million. We have reduced our bidding activity in the Quebec civil market and become more selective in our infrastructure development work. We also adopted a more strategic approach in our Industrial segment by reducing our reliance on the automotive sector to certain key clients and by capturing an increasing share of the extremely active oil sands market in northern Alberta. We further streamlined our operations in the Industrial segment by selling our minority interest in the nuclear engineering company Canatom NPM Inc.

In our Buildings segment, we grew top line revenue by more than 22 percent in 2004. However, a number of factors, including extra costs from construction start delays, margin deterioration from increasing competition and the challenges of integrating two acquisitions, combined to seriously erode the operating results of this segment. In recent months, changes have been made in both the management and the cost control practices - changes that I believe have addressed the fundamental problems and will lead to a positive operating contribution from the Buildings segment in the current fiscal year.

Overall, we ended 2004 with a greater volume of new business awards and a larger backlog of work compared to a year earlier. The increase in backlog included an eight percent rise in core backlog over the year, continuing a general upward trend that has seen core backlog increase by over 30 percent since the beginning of 2002.

Due in part to a series of recent financing initiatives, Aecon's balance sheet is stronger than ever - with our liquidity position, capital structure and debt situation all substantially improved. Aecon's capital base of equity and 'near equity' convertible debentures is almost $170 million, providing a very strong financial platform as we make the changes necessary to return our company to profitability.

Also during 2004, Aecon's involvement in the Cross Israel Highway reached a new phase with completion of construction work on the highway. I can report that tolling and operations are functioning well. Average traffic has reached over 65,000 cars per day - more than one third of the traffic recorded on Toronto's Gardiner Expressway and in line with our forecast. And, while not contributing to cash and accounting profits for the time being, Aecon's expected return on its equity investment in this highway, excluding construction related profits that have already been earned, is expected to be in excess of 14% per year after tax. We expand on this further in this report.

In 2005 we look forward to the financial close of the Quito Airport project in Ecuador. This will add approximately $250 million to our major projects backlog and represents a significant step forward for our infrastructure development portfolio. The signing of required financial documents is expected in the second quarter, with satisfaction of the final conditions precedent, flow of funds and construction start projected to follow within approximately 90 days thereafter.

Taken together, all of these developments give me confidence to report to you that I expect Aecon to return to profitability in 2005.

I would like to thank Dr. Busso Peus and Mr. Tom Leppert, who left Aecon’s Board of Directors in 2004, for their strong contribution and guidance throughout their tenure with us. And I would like to welcome new Board members, Mr. Austin Beutel, Mr. John DiCiurcio, Dr. Martin Rohr and the Hon. Brian Tobin, all of whom have already begun to make positive contributions.

In conclusion, I thank all of our employees - our best asset - for their continued hard work and dedication. It is through their efforts that Aecon will achieve the turnaround we expect in 2005.

John M. Beck
Chairman and Chief Executive Officer

Cross Israel Highway

In January of 2004, less than four and a half years after first breaking ground, construction on the Cross Israel Highway was successfully completed - on schedule and under budget. During construction, Aecon earned in excess of $30 million from its share of work in building this US$1.2 billion infrastructure project. While the completion of the highway's construction marked an end to Aecon's involvement as a builder, it was but another milestone in our role as investor and operator.

The outline on the following pages is intended to give Aecon's shareholders, and others interested in this important infrastructure development project, an overview of the project from the investor's perspective.

Known locally as the Yitzhak Rabin Highway or Highway 6, the Cross Israel Highway is the world's most advanced and sophisticated all-electronic toll road, running for 86 kilometres in the centre of the country from south-east of Tel Aviv northward to Hadera. Aecon's involvement in the project began in January 1998 when the State of Israel signed a concession agreement awarding the right to finance, design, build and operate the highway for a 30-year concession period to the Derech Eretz Consortium ("DEC") following a two-year competition among many of the world's leading infrastructure development companies. Financial close was completed in October 1999 and construction began immediately thereafter.

Aecon's Investment

Aecon has invested a total of US$30.24 million for a 25% interest in DEC. As with Aecon's two partners in DEC (Housing and Construction Holding Company Ltd. and Africa Israel Investments Ltd.), Aecon's investment is held 98% as subordinated debt (sub-debt) and 2% as equity. Pursuant to certain agreements with the State of Israel and the project lenders, Aecon's interest in DEC would be diluted to approximately 11% if certain options granted to the parties are exercised (see below).

Based on the traffic volumes forecast for the highway and supported by the first year of operation, the financial model indicates that the partners in DEC will be entitled to receive dividends on their investment commencing in 2009 and escalating through to 2029 when ownership of the highway will revert to the State of Israel (see details below).

Aecon accounts for its investment in DEC according to the cost basis of accounting. As such, Aecon carries its investment in DEC at cost and will include in income all dividends and interest on its sub-debt as they are received (i.e. forecast to begin in 2009).

Traffic Forecasts

In 1997, Wilbur Smith Associates ("WSA"), a firm specializing in traffic studies for toll road projects around the world, was appointed by DEC (with the agreement of project lenders) to provide an independent traffic forecast.

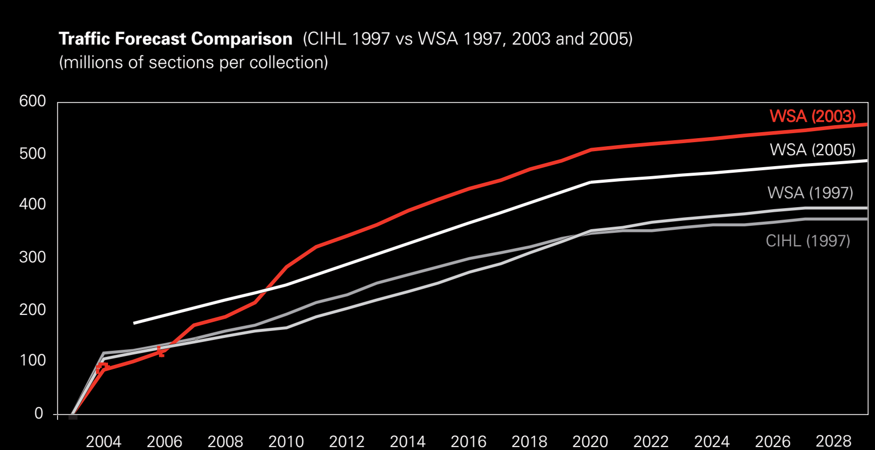
In addition, for its purposes relating to the State revenue guarantee (see below), the State entity authorized to implement the project, Cross Israel Highway Limited ("CIHL"), produced its own traffic forecast for journeys and sections in a given year. On average, it forecast traffic volumes very similar to those forecast by the WSA study.

In 2003 and again in 2005, WSA prepared an updated estimate of traffic and toll revenue taking into consideration changes since the original study as well as the impact on the traffic and toll revenue of the opening of additional sections of the highway.

Actual Traffic

Since August 1, 2002 when the first section of the highway was opened and tolled, average daily trips have increased steadily - from 4,100 per day in its first month to 42,003 per day in January 2004 and to 62,316 per day in December 2004. Sections

The chart below compares the various forecasts prepared by WSA and CIHL in 1997, 2003 and 2005.



for Collections, the basis upon which customers are invoiced, have increased from 4.9 million in January 2004 to 7.9 million in December 2004.

This traffic 'ramp-up' is generally in line with the most recent WSA study and serves to validate many of the assumptions upon which the project's financial model is based.

Based largely on the traffic volumes recorded on the highway since its opening, Ma'alot Israel Securities Rating Company Ltd. (“Ma'alot”), a strategic partner of Standard & Poor's, announced in August 2004 that it was raising its rating on DEC's obligations to “AA” from ”AA-”.

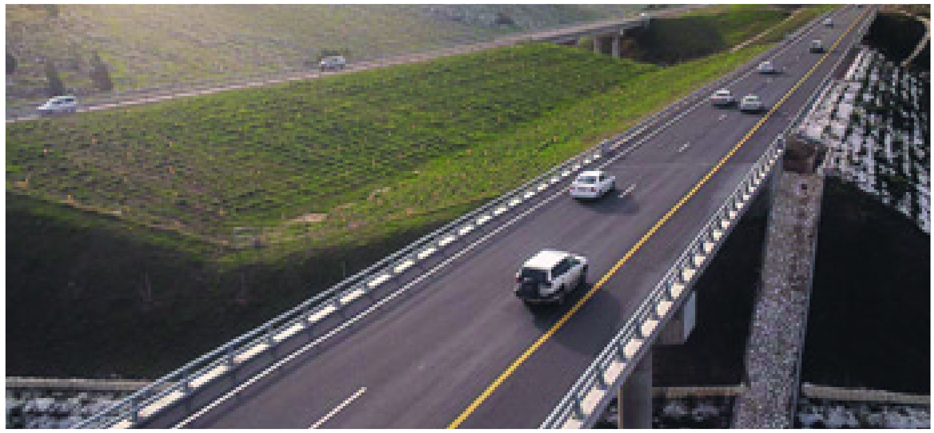
In its release, Ma'alot stated that the improved rating reflects a number of developments including “traffic volumes on the highway in the initial period of operation which are significantly higher than the assumptions of Ma'alot's base case and are similar to the traffic volumes forecast by WSA in the sections which were opened at the beginning and in the middle of 2003”.

State Guarantee

In order to provide downside protection for investors and Senior Lenders in the event that actual traffic volumes are below the State's traffic forecast, the State of Israel has provided a partial revenue guarantee (the “State Guarantee”).

The State Guarantee also provides for the sharing (between DEC and the State) of revenue in excess of the State forecast.

The State Guarantee mechanism is broadly structured as follows. If in a given year the actual annual revenue that DEC was entitled to collect is lower than 90% of the revenue amount forecast to be collected on the basis of the State forecast, the State will pay 80% of the difference to DEC. Under this formula, the

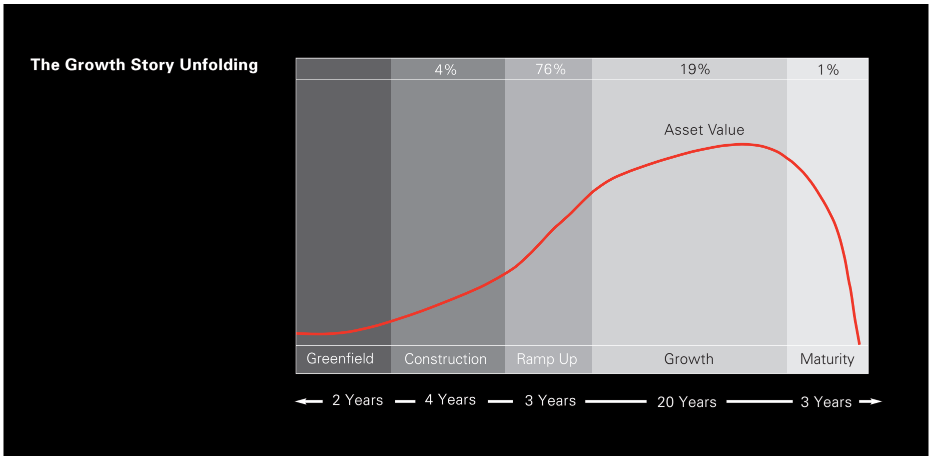


Aecon has been building highways since the early days of the automobile ...
Aecon's history of roadbuilding dates back to the early 1900s. Working on local roadways and highways, Aecon developed the expertise to participate in building the Trans-Canada Highway, a system of roads across Canada from coast to coast. These roads ensured Canada was connected and unified not only through confederation but through the ability to travel and transport goods and services. **Photos** from left to right: Highway 7, Toronto, Ontario (1929); Trans-Canada Highway, Montreal, Quebec (1966); Highway 27, Toronto, Ontario (1968).

State is effectively guaranteeing 72% of the traffic in its traffic forecast. In the event that the revenue DEC was entitled to collect exceeds the revenue forecast to be collected on the basis of the State forecast, 57% of the excess is paid to the State and 43% remains with DEC.

Tolls

Under the terms of the Concession Contract, the highway user is charged for the usage of the highway based on the number of sections traveled and the toll applicable to the category of vehicle. The highway is divided into nine sections. Vehicles traveling between one and three sections of the highway are charged for three sections. Highway users traveling four or five sections are charged for the actual number of sections traveled. Journeys in excess of five sections are charged as five sections. Trucks and other large



The graph above, originally conceived by Macquarie Infrastructure Group, illustrates the value growth of a typical fixed-term infrastructure concession. Note that the Cross Israel Highway is now in the 'ramp-up' stage where the growth curve is steepest.

vehicles are charged a multiple of three times the amounts chargeable to private cars, whereas the multiple for motorcycles is 0.5 times the private car charge.

The Concession Contract sets out a maximum rate for the initial toll and an adjustment mechanism that will adjust tolls during the concession period based on a pre-set formula. The basic toll charge is approximately US$0.37 per section (meaning a minimum three-section charge of approximately US$1.11 and a maximum five-section charge of approximately US$1.85 would apply to cars using the highway).

Cash distribution to shareholders

The project agreements established a 'waterfall' of cash distribution for

Tackling some of the most ambitious highway projects Canada has ever seen ...
In the 1980s Aecon was commissioned to build the 8.3 km eastern portion of the Mount MacDonald Tunnel at Rogers Pass, a difficult and avalanche-prone stretch of highway and railway in the British Columbian Rocky Mountains. In the 1990s Aecon was part of a consortium that built Highway 407 ETR near Toronto - the first open-access all electronic toll highway in the world and one of the first major Canadian infrastructure projects to be developed by a public-private partnership. **Photos** from left to right: Rogers Pass, British Columbia (1985); Highway 407 ETR, Toronto, Ontario (1997).

the project. The order in which cash is distributed is as follows:

1. Operating expenses, taxes and servicing of the senior debt facilities
2. Transfer to Debt Service Reserve Account
3. Transfer to Maintenance Reserve Account
4. Transfer to Capital Expansion Reserve Account
5. Transfer to Operating and Maintenance Reserve Account
6. Payment to subordinated debt current interest
7. Payment to subordinated debt deferred interest
8. Payment of subordinated debt principal outstanding
9. Distribution of dividends

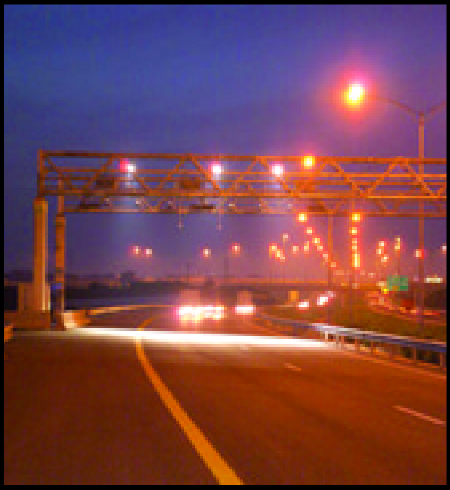
The senior debt facilities referenced in item 1 above consist primarily of two tranches: a US$250 million tranche at 9.852% annual interest and a New Israeli Shekel ("NIS") tranche equal to approximately US$850 million which carries 6.19% annual interest. Both tranches mature in 2027.

Under this waterfall arrangement, it is expected that Aecon and the other DEC partners will begin receiving cash distributions in 2009 assuming that a number of agreed tests are met. Based on the financial model prepared for the project, Aecon's share of the cash disbursements (assuming full exercise of the State and Lender Options outlined in the section below) would be as follows:

· In the fall of 2005, approximately US$5 million resulting from the exercise of the Lender Options;
· In 2008, approximately US$6 million resulting from the government's exercised options;
· In 2009, the first year of cash distribution by the Concessionaire, approximately US$15 million;
· Between 2010 and 2019, approximately US$30 million (near the middle of this period there are three years when no disbursements are forecast due to substantial reinvestment in expansion of the highway to meet projected demand);
· Between 2020 and 2026, approximately US$80 million;
· After 2026, when the senior debt is fully repaid, to the end of the concession in 2029, approximately US$100 million.

The distribution figures provided above are based on forecasts and assumptions contained in the current financial model for the project. These forecasts and assumptions have been prepared in good faith based on facts and circumstances known to the investors and the advice of experienced professionals but remain assumptions and projections subject to change. As such, the financial

Cross Israel Highway - the most technologically advanced toll highway in the world ...
Building on the success and best practices of Toronto's Highway 407 ETR, Aecon and its partners developed, financed, designed, built and are now operating the Cross Israel Toll Highway. This project marks a new era of integrated infrastructure development, construction and operation for Aecon. **Photos** from left to right: Gantry on Cross Israel Highway, Israel; Exterior of the Cross Israel Highway Operation Maintenance Centre (HOMC) at the Nachshonim Interchange; Control Room of the HOMC.



model is a 'living' document that will be amended and updated from time to time as appropriate.

Based on the disbursements outlined above, Aecon's projected IRR on its investment in DEC is approximately 19.5% after tax (not including the impact of options - outlined below). It should be noted that, in addition to the usual project risk associated with an investment of this kind, Aecon is exposed to a certain amount of foreign exchange risk as its investment in the concession is in NIS. This risk is partly mitigated by the fact that the formula established for calculation of the toll rate is based partly on a 'basket of currencies'.

Aecon has stated that its strategy with respect to this investment may result in the monetization of some or all of the investment before the time when cash disbursements are paid. In this respect, the project agreements contain certain restrictions regarding sale or transfer of Aecon's equity and sub-debt. These restrictions are primarily related to prior approval rights of various stakeholders (some of which weaken or expire over the course of the concession period) and to the linkage of sub-debt and equity transfers.

State and Lender Options

The Concession Contract contains provisions under which DEC is to allot certain Option Deeds to the State, which will grant their holder the right to share in DEC's profits up to 49% (for this purpose, profit includes subordinated debt principal, interest on the subordinated debt and dividend payments). The options may be exercised at any time from April 2005 until the end of the concession period, subject to paying a price calculated in accordance with a formula set out in the Concession Contract. While the option price, as set out in the formula, varies according to a number of factors including when the options are exercised, the formula essentially provides for the State options to be purchased at book value adjusted for inflation. The exercise of the State's option would reduce Aecon's projected after tax IRR from 19.5% to 14.5%.

The project agreements also grant the project's local Lenders options to purchase in total US$20 million nominal of the Concessionaire's equity and subordinated debt. The exercise price of US$20 million in total is increased by 7% per year. The options are transferable with the consent of the Concessionaire and the Ministry of Finance. The local Lenders' options are exercisable until October 28, 2005 and the exercise price would be paid directly to the shareholders of DEC. Full exercise of the lender options will result in approximately 16% dilution of the existing shareholders (depending on the time of exercise) and will reduce Aecon's expected IRR by less than 0.5%.

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 2004 Consolidated Financial Statements and Notes. This MD&A has been prepared as of March 17, 2005. Additional information on Aecon is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and includes the Company's Annual Information Form and other security filings.

Results of Continuing Operations

The following commentary, unless otherwise indicated, discusses the operating results and financial condition of continuing operations. Certain comparative figures have been reclassified, to be consistent with the presentation of discontinued operations.

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 power projects domestically and internationally. This segment includes the 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 also internationally. Aecon also provides a full range of infrastructure services through build-operate-transfer, build-own-operate-transfer and public-private partnership contract structures, as well as providing conventional construction services on a more traditional fee for service 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, 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, as well as selected international venues. 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 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, Aecon sells and installs once-through steam generators throughout the world through Innovative Steam Technologies.

Consolidated

Financial Highlights

$ millions	**2004**	2003	% Change
Revenues*	**$1,002.5**	$ 940.6	6.6%
Operating loss*	**(27.1)**	(21.4)	(26.8)%
Return on revenue	**(2.7)%**	(2.3)%	(19.0)%
Backlog – December 31	**565.0**	546.5	3.4%

* Revenues are from continuing operations and operating loss represents loss from continuing operations, before interest and income taxes.

Revenues from continuing operations amounted to slightly over $1 billion in 2004, an increase of $61.9 million or 6.6% over the prior year. This growth in revenues was generated from the Buildings segment where revenues were up by $68.1 million, largely due to the impact of acquisitions in 2004 and 2003. Infrastructure and Industrial revenues were each about the same as last year.

Operating margins (revenues less costs and expenses) as a percentage of revenues declined from 3.6% in 2003 to 3.1% in 2004, due to a decline in profitability in the Buildings and Industrial segments. Foreign exchange gains amounted to $2.0 million in 2004, compared to a loss of $6.6 million in 2003. Foreign exchange gains and losses are included in operating costs, thus affecting operating margins, and also in marketing, general and administrative ("MG&A") expenses. The year-over-year impact of foreign exchange on operating margins was $4.4 million (a loss of $1.7 million in 2004 and a loss of $6.1 million in 2003) and MG&A was positively impacted by $4.2 million (a gain of $3.7 million in 2004 and a loss of $0.5 million in 2003). Exclusive of foreign exchange, operating margins were 3.2% of revenue in 2004, compared to 4.2% in 2003. Results for each of the three principal operating segments are discussed separately under Reporting Segments.

Marketing, general and administrative expenses were $0.4 million less than 2003 and amounted to $49.1 million in the year. Foreign exchange, as previously noted, had a positive year-over-year impact of $4.2 million, although this was largely negated by relocation costs of $3.9 million related to the consolidation of Aecon's offices in the Toronto area. Exclusive of these two items, MG&A was slightly less than 2003. MG&A had been running well below 2003 for most of the year as all divisions and the corporate office had been focusing on reducing their MG&A burden. In the fourth quarter however, Aecon incurred $1.8 million in bid costs (compared to a total of $1.7 million for the first nine months of the year). The largest expense are related to the Company's unsuccessful joint venture bid for the Sea To Sky Highway project from Vancouver to Whistler – which is being undertaken as part of the 2010 winter Olympics. In addition, one-time restructuring charges of $0.8 million were incurred in the Buildings segment and $0.7 million in the Infrastructure segment in the fourth quarter.

Depreciation and amortization of $7.9 million in the year was $0.6 million less than 2003, principally reflecting reductions in the equipment fleet size at the utilities and roadbuilding divisions. A charge for impairment of goodwill and other intangible assets amounting to $1.1 million was recorded in the year. This related to the write off of goodwill and other intangible assets arising from the 2003 acquisition of Westeinde Construction Ltd. in Ottawa. As a result of the losses suffered in that operation in 2004 and other changes in the nature of its operations, it was concluded that the goodwill and other intangible assets had been permanently impaired.

Disposals of assets, other than those related to discontinued operations, resulted in a gain of $0.2 million in 2004, compared to a profit from dispositions of $3.0 million in 2003. Last year's profit included $2.3 million from the sales of the Company's investment in Tanknology Canada Inc. and real estate in Barrie, Ontario.

Net interest expense of $4.3 million in the current year increased by $1.0 million over 2003. This increase was due to a reduction in interest income generated by Aecon's joint venture in Israel, as construction of the Cross Israel Highway is now complete and most of the excess cash and marketable securities have been distributed to the joint venture partners or applied to reduce debts. A breakdown of the components of net interest expense is included in note 15 to the consolidated financial statements.

The loss from continuing operations, before provision for income taxes, amounted to $31.4 million in 2004, compared to a loss of $24.7 million in 2003. Infrastructure operations, although substantially improved from 2003, were still unprofitable due to significant losses incurred within the Quebec civil operations. The Industrial segment's operating profit was significantly below prior year and the Buildings segment had a loss of $13.2 million in 2004, compared to a profit of $2.2 million in 2003. Corporate expenses were also higher than last year due to one-time costs. Pre-tax income from discontinued operations amounted to $17.6 million (after-tax of $13.1 million). The combined loss before income taxes from continuing and discontinued operations amounted to $13.8 million.

Income tax expense related to continuing operations for 2004 amounted to $23.3 million. In accounting for income taxes, a future income tax asset is recognized with respect to unused tax losses and deductions when it is "more likely than not" that the benefit will be realized in the future. Realization of this benefit requires the generation of future taxable income sufficient to utilize the losses. As with all assets, the recoverability of future income tax assets must be regularly assessed, using in the case of taxes what the accounting literature terms both "favourable" and "unfavourable" evidence. Factors such as current and previous operating losses are given a greater weight than the outlook for future profitability. Under Canadian generally accepted accounting principles, a valuation allowance must be provided against future tax assets where there is a history of losses, regardless of whether or not there is an expectation of future profits to utilize such losses. Aecon incurred losses in its domestic Canadian operations in each of 2002, 2003 and 2004. Consequently, the Company is required to provide a valuation allowance against the net future tax assets that had been recorded at December 31, 2003 and against future tax assets that would otherwise be recorded in 2004 with respect to the Canadian operations. The result of this was a charge to income tax expense of $19.3 million with respect to net future tax assets of the Canadian operations that had been recorded at December 31, 2003 and a valuation allowance of $13.3 million with respect to future tax assets that otherwise would have been recorded in 2004. Aecon does not expect that its Canadian tax losses will expire unused. Although future years are projected to be profitable, these future projections are assigned a lesser weight than current and prior losses in evaluating whether a valuation allowance is required. The Company also has the ability, through refiling prior years tax returns, to reduce discretionary deductions and thus reduce tax losses in the event they were about to expire.

Had the valuation allowances referred to above not been required, income tax expense would have been $32.7 million less in the year.

The after-tax loss for the year from continuing operations, amounted to $54.7 million or $1.98 per share, compared to a loss of $18.7 million or $0.79 per share in 2003.

Backlog at December 31, 2004 was $565.0 million or $18.5 million higher than at the beginning of the year. Infrastructure backlog declined by $67.3 million, of which $26.4 million is on account of Aecon's two major international projects in Israel and India. These projects are now complete, except for a small amount of residual work, and Aecon no longer has any significant amount of what has historically been referred to as major projects backlog. The financial close of the Quito Airport project in Ecuador is projected to add approximately $250 million to major projects backlog. New contract awards of $1.02 billion were booked in the year, which compares with $938.4 million in 2003, with the majority of the increase being generated by the Buildings segment.

Discontinued Operations

In the fourth quarter, Aecon sold its 38.75% interest in Canatom NPM Inc., which had been a part of the Industrial segment. Also in the fourth quarter Aecon sold its Footage Tools division, and in the second quarter sold its one-third interest in a small joint venture, both of which were part of the Infrastructure segment. Income from discontinued operations amounted to $17.6 million before income taxes. This was composed of $9.9 million of operating income generated within these operations prior to disposition, and $7.7 million profit on disposition. Income from discontinued operations after taxes amounted to $13.1 million. Income from discontinued operations in 2003 was $7.7 million before taxes and $4.9 million after taxes.

Reporting segments

Infrastructure

Financial Highlights

$ millions	**2004**	2003	% Change
Revenues	**$ 449.3**	$ 447.6	0.4%
Segment operating loss	**(3.0)**	(24.8)	87.9%
Return on revenue	**(0.7)%**	(5.5)%	88.0%
Backlog – December 31	**151.6**	218.9	(30.8)%

Revenues in the Infrastructure segment amounted to $449.3 million in 2004, a slight increase from last year. The completion of the Cross Israel Highway in Israel and the Nathpa Jhakri hydro-electric project in India accounted for a significant reduction in revenues compared to 2003. Combined, these two projects, which generated revenues of $43.3 million in 2004, were $51.0 million lower in revenues than last year. Offsetting this reduction were Aecon's two large hydro projects in Quebec – a hydro-electric dam project in Toulnustouc and a hydro-electric powerhouse project in Eastmain. Together they generated revenues of $101.4 million, representing an increase of $57.9 million over 2003.

Roadbuilding operations, which benefited from favourable weather conditions in the fourth quarter, ended the year with revenues up $10.0 million or 6.3%. Utilities operations were up $5.4 million or 5.0%, largely on the strength of communications work, which primarily involves cable installations and communication line maintenance. Other civil projects, principally in Quebec, generated $20.6 million less revenue than 2003.

The Infrastructure segment incurred an operating loss of $3.0 million in the year, which was significantly less than the loss of $24.8 million incurred in 2003. The impact of foreign exchange accounted for $7.4 million of the improvement. The segment had a foreign exchange gain of $1.0 million in 2004, compared to a loss of $6.4 million in 2003. Aecon's investment in the concessionaire operating the Cross Israel Highway is accounted for on a cost basis, whereas up until the second quarter of 2004, U.S. dollar deposits held in trust to fund this investment were translated at current exchange rates. This has resulted in a reduction in Aecon's accounting exposure to currency exchange fluctuations for financial reporting purposes.

Excluding the impact of foreign exchange, operating losses in the Infrastructure segment were $14.4 million lower than 2003. An increase in profits from the construction joint venture, which built the Cross Israel Highway accounted for $6.8 million of the improvement, despite revenues from this project being down $39.2 million from last year. This improved profitability largely reflects the settlement throughout the year of outstanding contract change orders and claims.

Utilities operations produced a $5.0 million improvement in operating results, generating a profit of $1.1 million in 2004 compared to a loss of $3.9 million last year. The improvement reflects a combination of stronger revenues, better pricing and mix, and cost reductions. Cost reductions in the Utilities operations have been realized in both MG&A and equipment costs. Results would have been even better but for the $2.1 million negative impact of severance accruals and further losses incurred in the year on a major pipeline job, which is now fully complete.

Roadbuilding operations generated an operating profit of $1.1 million in 2004, compared to a slight loss in 2003. Several factors hurt operating results in 2003, which were not recurring.

These included implementation costs of a new enterprise accounting system and the write-off of software and hardware costs of the prior system, abnormally high equipment repair expenses, reduced profits from aggregate and asphalt material operations due to a combination of high production costs in aggregates and reduced volumes in asphalt as well as several large contract losses. The improved operating results in 2004 are still well below historical averages for this business. Changes in the Ontario provincial government as well as municipal elections in late 2003, caused delays in the awarding of road contracts, which had a carryover effect for much of 2004. Poor weather conditions in the spring and summer, a three week labour disruption in June and the cancellation of the $22 million project to construct a fixed-link bridge to the Toronto Island Airport also depressed earnings in this division. Bid costs were also abnormally high in 2004 as $0.5 million was expended on Aecon's unsuccessful bid on a highway project in New Brunswick.

The segment's operations in Quebec incurred an operating loss of $11.5 million in 2004, which was similar in size to the loss incurred in 2003. Several of Aecon's major projects in the province have suffered from significant cost overruns, largely because of customer changes to the original contract scope, with the largest loss being $6.7 million on a now substantially complete hydro-electric dam project. A further loss of $2.3 million was also incurred on a now completed highway construction project, which is in addition to $7.1 million that was recognized in 2002 and 2003. Partial recovery of these losses is expected in the future through claims. Furthermore, a hydro-electric powerhouse project generated revenues of $45.5 million in the year on which no profit has been recognized. Although the cost overruns are in certain circumstances the result of an underestimation of costs at the time of bidding or other issues with the contractor's performance, the majority are the result of customer delays or changes, which are supported by contractual change orders. Nonetheless, the amount of compensation received for unpriced change orders is a matter of negotiation, which is often difficult and protracted. Aecon's success in negotiating fair compensation, particularly with respect to large government hydro-electric projects in Quebec, has been disappointing and we are reassessing whether we will continue to bid on these projects.

Earnings contributions from the Nathpa Jhakri hydro-electric project in India declined by $1.7 million due to the year-over-year impact of changes to the profit forecast and also due to lower work volumes as the contract is finished. Other operations within the Infrastructure segment improved by a net $2.5 million in the year, with the largest year-over-year impact being $3.8 million because of losses incurred in 2003 on a bridge contract in western Canada.

Backlog of $151.6 million declined by $67.3 million due to the reduction in backlog of $26.4 million on the projects in Israel and India and over $50 million of work completed on the two hydro-electric power projects in Quebec. New contract awards of $381.9 million were booked in the year, which compares with $367.8 million in 2003.

Buildings

Financial Highlights

$ millions	**2004**	2003	% Change
Revenues	**$ 367.4**	$ 299.3	22.8%
Segment operating profit (loss)	**(13.2)**	2.2	n/a
Return on revenue	**(3.6)%**	0.7%	n/a
Backlog – December 31	**345.4**	242.8	42.3%

Revenues in the Buildings segment increased by $68.1 million or 22.8% over 2003. Two recent acquisitions, Westeinde Construction Ltd. ("Westeinde"), which was acquired in the fourth quarter of 2003 and Cegerco CCI Inc. ("Cegerco"), which was acquired in the second quarter of 2004, accounted for an additional $53.6 million of revenues in the year.

The first phase of the new $1.4 billion terminal building at Toronto's Pearson International Airport was completed during the year, and as a result revenue from the joint venture managing this project was down approximately $11.6 million or 43% from 2003. Revenues from the balance of the Buildings' operations were up $24.5 million. Both the Toronto and Montreal markets were stronger and together had an increase in revenues of $17.3 million or 11.0%, led by institutional and high rise residential work. Western markets, operated through Aecon's subsidiary in Seattle and its joint venture interest in Vancouver, were up a combined $5.4 million or 7.9%.

Despite higher revenues, the year 2004 proved to be very difficult for the Buildings segment. Margin erosion from increasing competition, the effect of the loss of several key personnel in 2003, extra costs from production delays and the integration of Westeinde in Ottawa and Cegerco with the Buildings group in Montreal combined to have an adverse impact on operating results. An operating loss of $13.2 million was incurred in the year, compared to a profit of $2.2 million in 2003. The impact of the Westeinde acquisition and integration costs in Montreal depressed results by $7.1 million. This included $1.1 million related to the write-off of all goodwill and other intangible assets associated with Westeinde in Ottawa. Revenues in Ottawa fell well short of projections due to the delayed tender of many of the large projects planned for the eastern Ontario marketplace and the unanticipated problems with jobs that were acquired as part of the acquisition. Write-downs were required on several large jobs acquired and additional overhead was absorbed due to a sharp reduction in proposal work, particularly in the design-build area.

The Buildings segment was also hurt by losses on several major contracts in Toronto. Since 2002 there has been a significant reduction in the portion of construction management and negotiated contracts compared to the lower margin fixed price and lump sum work. This shift was largely driven by market dynamics, as the commercial building market remained soft while the government driven institutional market was tremendously strong – the latter providing very few opportunities for negotiated or construction management contracts. Fixed price contracts, characterized by intense competitive pressures particularly in the Ottawa and Toronto markets, exhibit very low margins due to an extremely competitive environment and create additional exposure to Aecon in the event of cost overruns. The changes in management and progressive losses incurred during the year demonstrated severe weaknesses in project management and cost control practices. Substantial management improvements have now been effected and an intensive focus on improving project management and cost control systems and practices is well underway. With these improvements, with a strategic focus on increasing our negotiated and construction management work volumes by building on and further developing strong and sustainable client relationships, coupled with a uniquely national presence, the year 2005 is expected to be once again profitable for the Buildings segment.

As with certain of the major Infrastructure segment projects, it is expected that some of the losses recorded in 2004 will be recovered in future periods from the resolution of certain claims against our clients for some of these projects.

Backlog of $345.4 million at the end of 2004 was $102.6 million or 42.3% higher than the start of the year, with the metro Toronto, Seattle and Montreal markets showing the most increase. New contract awards of $470.1 million were recorded in the year, which compares with $355.3 million in 2003.

Industrial

Financial Highlights

$ millions	**2004**	2003	% Change
Revenues	**$ 192.5**	$ 195.4	(1.5)%
Segment operating profit	**1.0**	7.6	(87.0)%
Return on revenue	**0.5%**	3.9%	(86.8)%
Backlog – December 31	**67.9**	84.8	19.9%

Revenues in the Industrial segment of $192.5 million were 1.5% less than 2003. Revenues at Innovative Steam Technologies ("IST"), which sells and licenses the technology for once-through steam generators ("OSTG") were more than double 2003, increasing approximately $18 million to $33 million from the year before. IST has been successful in 2004 in significantly improving its market share for steam generators in North America and worldwide. A total of seven orders were received for OSTG units in 2004, for a combined value of $42 million, including service contracts. This compares with three orders in 2003 for a value of $18.4 million. IST is entering 2005 with a backlog of $19 million, compared to $10 million in 2004.

Other sectors within the Industrial segment, however, had lower revenues than 2003. Automotive revenues were down $9.7 million or 26.9% from the prior year, which was largely expected as it was decided to be much more selective in the type of automotive work that would be bid. The automotive sector is more competitive and has lower margins compared to other areas within the Industrial segment. Fabrication work was $8.5 million or 13.4% less than 2003, due to a very large pipe fabrication contract in 2003, which was not replaced with similar volume in 2004. Revenues from project work, which is primarily for the power and steel industries, were $4.9 million or 5.7% less than 2003 due to reduced volumes with Ontario Power Generation Inc.

Operating profit of the Industrial segment fell by $6.6 million or 87.0% from 2003. The most significant drop was in fabrication and module assembly work, which went from a profit of $5.0 million in 2003 to a loss of $4.1 million in 2004. This work was only partially replaced in 2004, and at lower margins. In addition, a loss of $1.8 million was incurred in a new joint venture in Atlantic Canada due to a large contract loss within its operations, and higher than anticipated overhead costs. Operating results at the automotive unit were down $0.6 million from 2003 and project work generated $1.4 million less profits than last year, both sectors being negatively affected by lower volumes.

Significant volumes of fabrication and module assembly work had been expected in 2004 in western Canada for oil sands projects but this work was deferred into 2005, thus negatively impacting 2004 but boding well for strong performance in 2005.

IST returned to profitability in 2004 after two consecutive years of losses, generating operating profit of $1.0 million in 2004 versus a loss of $3.2 million in 2003. Due to cost overruns on one large project, contract margins as a percentage of revenue were lower than 2003, but this was more than compensated for by a significant increase in volume. Overall, contract margins are holding firm, as process and engineering improvements have offset the impact of rising costs. Plant labour and overheads as well as MG&A expenses were well controlled.

Backlog at December 31 of $67.9 million was $16.9 million less than the beginning of the year, as project unit backlog was worked off. New contract awards of $175.6 million were booked in 2004, which compares with $217.2 million in 2003. However, significant pending and expected work volumes cast a more positive light than these reduced backlog levels would otherwise suggest.

Corporate and Other

This category includes the elimination of inter-segment revenues, which totalled $6.7 million in 2004 and $1.8 million in 2003, as well as corporate expenses. Net corporate expenses amounted to $11.8 million in the year, which compares to $6.4 million last year. Several unusual items affected the year-over-year results. Included in corporate expenses in 2004 is $3.9 million related to relocation and consolidation of Aecon's offices in the Toronto area, of which $2.6 million was for a lease termination payment at one of the former locations. Also impacting costs in 2004 was $0.5 million of expenses, net of a partial recovery from Hochtief Canada Inc., for legal, valuation and related costs in connection with the unsuccessful bid by Hochtief to take Aecon private. Reducing net expense in 2003 was a gain of $1.5 million recorded on the sale of Aecon's interest in Tanknology Canada Inc. Other unusual items in the two years resulted in a net increase in corporate expenses of $0.5 million. Exclusive of the above-noted items, general corporate overheads were down $1.0 million from 2003, with reduced salary and benefit costs accounting for approximately 60% of the reduction.

Quarterly Financial Data

Set out below are revenues, net income (loss) and earnings or loss per share, for each quarter in 2004 and 2003 (in millions of dollars, except per share amounts).

	2004				2003			
	Quarter 1	**Quarter 2**	**Quarter 3**	**Quarter 4**	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Revenues	**$ 189.0**	**$ 264.7**	**$ 290.1**	**$ 258.7**	$ 178.5	$ 234.3	$ 259.5	$ 268.3
Net income (loss)	**(2.4)**	**2.4**	**(0.9)**	**(40.7)**	(9.9)	(2.0)	0.7	(2.7)
Earnings (loss) per share:								
Basic	**(0.10)**	**0.08**	**(0.03)**	**(1.42)**	(0.42)	(0.08)	0.03	(0.11)
Diluted	**(0.10)**	**0.08**	**(0.03)**	**(1.42)**	(0.42)	(0.08)	0.03	(0.11)

As described in note 2 to the consolidated financial statements, in accordance with recommendations of The Canadian Institute of Chartered Accountants on accounting for share purchase loans receivable from employees, loans totalling $857 thousand have been deducted from capital stock and the number of shares issued for purposes of calculating basic earnings (loss) per share is reduced by 1,522,063. For purposes of calculating diluted earnings (loss) per share, these shares are treated as options.

Due to the impact of share issuances throughout the periods, the sum of the quarterly earnings (losses) per share will not equal the total for the year. The total of the quarterly earnings (losses) per share, compared with the amounts for the full year are as follows:

	2004		2003	
	Quarterly Total	**Annual Amount**	Quarterly Total	Annual Amount
Loss per share:				
Basic	**$ (1.47)**	**$ (1.51)**	$ (0.58)	$ (0.59)
Diluted	**(1.47)**	**(1.51)**	(0.58)	(0.59)

Analysis of operating results for each of the first three quarters of 2004 was included in the Management Discussion and Analysis incorporated in the Interim Reports to Shareholders.

For the fourth quarter of 2004, revenues amounted to $258.7 million, which was $9.6 million or 3.6% less than the same period in 2003. The entire decline was in the Industrial segment. The final three months of 2003 had been exceptional in the Industrial operations due to an acceleration of work schedules needed to complete several large contracts. The Infrastructure and Buildings segments, however, both posted slightly improved revenues in the quarter.

Operating margins (revenues less costs and expenses) fell sharply in the final three months of the year, from $8.5 million in 2003 to a loss of $2.8 million in 2004 due to significantly reduced margins in the Buildings and Industrial segments. This decline was net of a $0.9 million period-over-period improvement from foreign exchange.

MG&A amounted to $13.6 million in the quarter, compared to $12.6 million in the same period last year. Restructuring charges within the Buildings and Infrastructure segments of $1.5 million, as well as a provision of $0.3 million within Corporate and Other for rent on premises vacated as part of the consolidation of offices in the Toronto area, resulted in increased MG&A expenses in the fourth quarter of 2004.

Revenues and operating profit (loss) by segment for the fourth quarters of 2004 and 2003 from continuing operations are set out in the table below ($ millions).

	2004		2003	
	Revenue	**Operating (loss)***	Revenue	Operating profit (loss)*
Infrastructure	**$ 128.2**	**$ (8.0)**	$ 123.1	$ (11.7)
Buildings	**87.9**	**(7.1)**	85.7	0.7
Industrial	**47.5**	**(2.6)**	60.6	7.6
Corporate	**(4.9)**	**(2.1)**	(1.1)	(2.6)
Consolidated	**$ 258.7**	**$ (19.8)**	$ 268.3	$ (6.0)

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

In the Infrastructure segment, revenues from roadbuilding and utilities operations were substantially higher in the fourth quarter than the corresponding three months of 2003, aided by favourable weather conditions. This was largely offset by reduced revenue from Aecon's international joint ventures in Israel and India, which were a combined $16.0 million lower than 2003, and reduced volumes in Quebec. Overall, segment revenues were 4.1% higher than last year.

The Infrastructure segment incurred a loss of $8.0 million in the fourth quarter, as a result of provisions for losses on two projects in Quebec and a downward revision of profitability on a third project in the province. In total, these three projects, which were noted in the discussion on Aecon's annual results, caused a $9.8 million decrease in earnings in the fourth quarter.

Revenues in the Buildings segment were slightly higher than last year in the quarter. A decline in interiors and renovations work and lower revenues from the joint venture building the Pearson International Airport terminal in Toronto largely offset the increase in revenues from the Ottawa and Montreal acquisitions.

Operating results in the Buildings segment were hurt by losses incurred on several large contracts, the $1.1 million write-off of goodwill and other intangible assets associated with the Westeinde acquisition and $0.8 million of charges taken for restructuring. As a result, the segment incurred an operating loss of $7.1 million in the fourth quarter, compared to a profit of $0.7 million last year.

Industrial segment revenues were $13.1 million or 21.6% less than 2003 in the quarter. As previously noted, the fourth quarter of 2003 had been exceptionally strong, with several large contracts being completed. The consequent decline in volume in the fabrication and projects operations amounted to $29.4 million, which more than offset the increase in revenue achieved by IST, which more than quadrupled its revenue in the fourth quarter.

The Industrial segment incurred a loss of $2.6 million in the last quarter, which compares with a profit of $7.6 million in the same period of 2003. A decline in the volume of work, as well as reduced margins because of the mix of work, affected year-over-year results and this was exacerbated by losses in the projects division on a large contract and in the fabrication unit by a joint venture in Atlantic Canada. The delay in fabrication and module assembly work, expected to be done in 2004 but deferred to 2005, also hurt results in the final quarter.

The loss for the quarter from continuing operations, after interest and income taxes, amounted to $47.1 million or $1.64 per share, which compares with a loss of $5.9 million or $0.25 per share in 2003. The size of the 2004 fourth quarter loss is distorted by the impact of $32.7 million of valuation allowances taken against future tax assets, which were recorded in this period.

Selected Annual Information

Set out is selected annual information for each of the last three years (in millions of dollars, except per share amounts).

	2004	2003	2002
Total revenues	**$ 1,002.5**	$ 940.6	$ 1,010.4
Loss before discontinued operations	**(54.7)**	(18.7)	(3.6)
Per share: Basic	**(1.98)**	(0.79)	(0.16)
Diluted	**(1.98)**	(0.79)	(0.16)
Net income (loss)	**(41.6)**	(13.9)	0.2
Per share: Basic	**(1.51)**	(0.59)	0.01
Diluted	**(1.51)**	(0.59)	0.01
Total assets	**455.3**	470.2	515.7
Total long-term financial liabilities	**78.4**	35.6	40.3
Cash dividends declared per common share*	**–**	–	0.03

* Paid in the following year.

Financial Condition, Liquidity and Capital Resources

Cash and cash equivalents at December 31, 2004 totalled $50.1 million, which compares with $29.5 million at the end of last year. Of these amounts, $19.1 million and $22.4 million, respectively, were on deposit in joint venture and affiliate bank accounts, which Aecon cannot access directly.

Cash used in operating activities, because of the operating losses, amounted to $28.3 million in the year, which compares with cash used last year of $19.8 million, before changes in non-cash balances relating to operations. Changes in other balances, which represent operating working capital items, resulted in an increase in cash of $14.9 million in 2004, of which $7.3 million was provided through a reduction in marketable securities and term deposits. In 2003, changes in working capital resulted in a use of $11.2 million. Increases or decreases in individual working capital components are set out in note 16 to the consolidated financial statements.

Investing activities resulted in a use of cash of $6.9 million (2003 - $7.9 million). Purchases of property, plant and equipment amounted to $4.0 million in the year and proceeds from the sale of property, plant and equipment amounted to $2.4 million. Cash proceeds from the sales of discontinued operations amounted to $13.6 million in the year. This included $11.0 million from the sale of the Company's 38.75% interest in Canatom NPM Inc., $1.4 million from the sale of the Footage Tools operation and $1.2 million from the sale of a small joint venture within the Infrastructure segment. Aecon also received $4.3 million during the year on the transfer to a new partner of a portion of the Company's interest in the Quito Airport project. The $4.3 million in proceeds were applied to reduce the carrying value of deferred bid costs on this project. Major uses of cash, in addition to purchases of property, plant and equipment, included $14.3 million for the balance of the Company's committed investment in Derech Eretz Highways (1997) Ltd., the concessionaire of the Cross Israel Highway. This investment which totals $36.9 million at December 31, 2004, is shown on the consolidated balance sheet as a long-term investment. Cash of $7.9 million was also used to finance a net increase in other assets. Included in this figure is $4.4 million of development costs related to the Quito Airport project which have been deferred. As at December 31, 2004 deferred development costs included in Other Assets amounted to $7.1 million. Also included in the change in other assets was an increase of $3.4 million in the year representing a long-term receivable due with respect to work completed on the Cross Israel Highway, less $1.0 million because of the partial repayment of a loan to Capital Projects Group Inc. (see note 8 to the consolidated financial statements).

Cash generated from financing activities amounted to $36.7 million in 2004, compared to $16.4 million last year. In 2003, cash was generated mainly through increases in long-term debt and bank loans. This year the principal sources of cash from financing activities were $25.6 million from the issuance of shares in the first quarter and $28.6 million net proceeds from the issuance of convertible debentures in the fourth quarter. The principal amount of the debenture was $30 million. For accounting purposes, the conversion rights were assigned a value of $2.0 million, which is included in shareholders' equity and $28.0 million has been assigned to the debt component of the debenture. Issuances of long-term debt amounted to $80.9 million in the year and repayments totalled $81.0 million, resulting in a net cash outflow of $0.1 million. Gross long-term debt issuances and repayments were affected by a series of draw-downs and repayments under the revolving term loan facility described in note 9(a) to the consolidated financial statements.

At December 31, 2004 long-term debt, including the current portion, totalled $44.8 million, compared to $43.3 million at the end of 2003. Borrowing under the revolving term loan increased by $14.8 million during the year; $9.7 million owing under a stand-by facility provided by Hochtief Canada Inc. was repaid; and capital lease obligations were reduced by $3.2 million. The weighted average interest rate on long-term debt at December 31, 2004 was 6.1% (2003 - 6.6%).

Cash used to reduce bank borrowings amounted to $17.4 million in the year. At December 31, 2004 there were no direct borrowings under the Company's bank credit facilities. Utilization, which amounted to $7.0 million, was in support of outstanding letters of credit. Bank indebtedness of $11.9 million at the end of 2004 includes $9.8 million from Aecon's 45% share of funds borrowed within the Nathpa Jhakri hydro-electric project joint venture in India, $1.9 million in a joint venture in Quebec and a small tender loan of $0.2 million.

Interest bearing debt amounted to $92.4 million at the end of 2004, compared to $80.9 million the year before, the composition of which is as follows ($ millions):

	2004	2003
Bank indebtedness	**$ 11.9**	$ 30.1
Current portion of long-term debt	**4.5**	16.0
Long-term debt	**40.4**	27.4
Convertible debenture	**35.6**	7.4
Total	**$ 92.4**	$ 80.9

Aecon has a revolving term loan to fund working capital and operating requirements. The revolving term facility has a remaining maturity of 13 years and an annuity style amortization schedule. The amount of the revolving term loan was established by reference to the appraised value of certain real estate and aggregate reserve assets, which serve as primary collateral for the loan. On the seventh anniversary, which is five years hence, the lender can request that a repayment be made to restore the agreed ratio between the then available loan amount and the then appraised value of the collateral assets. The revolving term loan provides Aecon with a very flexible and stable source of operating funding.

In June 2004, Aecon renegotiated and renewed its 364 day committed bank credit facility to June 2005, providing a committed $35 million facility and a further $15 million demand facility available during certain parts of the year. The bank credit facility requires compliance with a number of operational and financial covenants, which are highly complex and restrictive. Moreover, the value and contributions from Aecon's international projects are not recognized for bank purposes, nor are Aecon's numerous joint ventures, which is in direct conflict with Aecon's strategy of enhancing its competitive position and reducing its risk by joint venturing with experienced and financially capable partners on certain projects. Additionally, Aecon is subject to the annual refinancing risk of the bank facilities, as securing a longer term financing commitment is not possible. Finally, management of the bank financing consumes a disproportionate amount of management time. As such, the bank facility has not been well suited to Aecon's needs.

In late 2004, subsequent to and with the benefit of the issuance of $30 million of convertible debentures, Aecon's three bank syndicate was requested to consider providing a reduced level of credit support of approximately $30 million (compared to $50 million as previously available) but with more flexible and cost effective terms. However, in light of Aecon's expected financial results for 2004, as indicated within its profit warning issued in January 2005, Aecon's ability to secure this requested level of credit was put in doubt. Ultimately, two of Aecon's three banks indicated that they would not be in a position to support Aecon's credit requirements into 2005. An agreement with the banks was then negotiated to shorten the maturity date of the bank facility from June 4, 2005 to April 30, 2005, reduce the available limit under the facility from $35 million to $18.0 million and provide a waiver of compliance with certain financial covenants as at December 31, 2004.

Concurrent to these bank discussions, Aecon was exploring alternative sources of capital to finance its working capital requirements in 2005, ultimately leading to completion of a $32.5 million convertible debenture financing, which was completed on March 17, 2005. The convertible debentures mature on March 17, 2010, are unsecured and subordinated, have no financial covenants, and accrue 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 are not 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 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.

With benefit of the recent convertible debenture financings, Aecon has sufficient liquidity to finance its expected operations and working capital requirements for the foreseeable future – without the need for bank credit. While these convertible debenture financings are more expensive than the previous senior bank facilities, they provide a committed source of long-term capital that eliminates refinancing risk through their five-year term, are not restrictive from an operational perspective and will not consume management time with complex quarterly financial covenants and related matters. With benefit of these financings, Aecon intends to cancel its existing bank credit facility. Aecon will attempt to secure a modest bank credit line of $10 to $15 million to assist with very short-term changes in working capital balances and to support its ongoing letters of credit requirements.

Hochtief AG, the Company's largest shareholder, has agreed that it will not sell or otherwise monetize any securities of Aecon that it directly or indirectly owns for a minimum period of 60 days following closing, without the prior approval of the underwriters.

New Accounting Standards

Several new Canadian accounting standards were adopted in 2004 and 2003, which are described in note 2 to the consolidated financial statements.

New standards to be adopted in 2005 include Accounting Guideline 15 ("AcG 15") – Consolidation of Variable Interest Entities, and a change to Section 3860 of The Canadian Institute of Chartered Accountants ("CICA") Handbook related to Financial Instruments – Disclosure and Presentation.

AcG 15 is the Canadian equivalent of the United States' FIN 46R and modifies the principles used in determining when and by whom entities are consolidated. Existing consolidation rules are considered to be unsatisfactory as they do not properly address Special Purpose Entities or other structures where control is prearranged and voting control doesn't reflect the underlying economic risks and rewards. Broadly speaking, if a company is exposed to more than 50% of the economic risks of a variable interest entity, it is presumed to control the entity and must consolidate it, notwithstanding that its voting interest may be minimal. Two consolidation "models" are established under AcG 15 – a Voting Interest Model ("VOI") and a Variable Interest Model ("VIE"). The VOI model has been the standard for purposes of determining control and in order to continue to use the VOI model it must be demonstrated that equity holders as a group control the entity and that they are truly at risk. One of the tests is that there must be a minimum amount of equity, as it appears in the financial statements of the entity being assessed. If the VOI tests are not met, the VIE model would be used. Proportionate consolidation is not permitted under the VIE model. Application of this new standard is extremely complex. Aecon is currently assessing whether AcG 15 will result in any change to the manner in which it consolidates its operations.

The CICA Handbook section related to Financial Instruments now includes a new interpretation, which helps clarify the classification of a financial instrument as between debt or equity. None of Aecon's existing financial instruments will be classified differently as a result of this addition to the Handbook.

Supplemental Disclosures

Contractual Obligations

Aecon has commitments for equipment and premises under operating leases requiring minimum payments and principal repayment obligations under long-term debt (including $35.6 million convertible debentures described in note 11 to the consolidated financial statements) as follows (in thousands of dollars):

	Lease Payments	Long-term Debt Repayments
2005	$ 16,667	$ 4,477
2006	12,524	12,244
2007	8,818	8,502
2008	5,292	2,760
2009	4,000	30,493
Beyond	15,061	21,996
	$ 62,362	$ 80,472

At December 31, 2004, Aecon had contractual obligations to complete construction contracts that were in progress. The revenue value of these contracts, which represents backlog, was $565.2 million.

On January 24, 2005, the Company closed a series of transactions, first announced on September 27, 2004, to increase its stake in Derech Eretz Highways (1997) Ltd. ("Derech Eretz") from an effective 22.2% to 25%. The transactions involved the exit of AMEC Inc., effective owners of 11.1% of Derech Eretz, from the project. On AMEC's departure, the Company increased its stake in Derech Eretz by approximately 3% to 25% and the Company's two partners, Housing and Construction Holding Company Ltd. and Africa Israel Investment Ltd., each increased their stakes by approximately 4% to 37.5%. In addition, the Company purchased AMEC's share of the company holding an ownership interest in the construction joint venture, which constructed the Cross Israel Highway, and in related companies. Under the terms of the transactions, the Company paid a net $4,350 (US $3,500) for its increased stake. As the fair value of the assets being acquired exceeds the acquisition cost, the Company will record an after-tax gain of $3,400 on this transaction in the first quarter of 2005, which will be classified on the consolidated statements of operations as an extraordinary item.

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 10 to the consolidated financial statements.

Aecon's defined benefit pension plans had a combined deficit of $6.4 million at December 31, 2004 (2003 - $5.9 million). The deficit increased during the year, despite favourable investment experience and additional Company funding, due to the impact on benefit obligations of a change in mortality assumptions. These deficits include experience and other actuarial gains and losses which, in accordance with Canadian generally accepted accounting principles, are not immediately recognized in the accounts of the Company but are amortized over time. At December 31, 2004, unrecognized liabilities amounted to $7.4 million (2003 - $6.2 million). Details relating to Aecon's defined benefit plans are set out in note 18 to the consolidated financial statements.

Aecon from time to time enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. At December 31, 2004, the Company had net outstanding contracts to sell US$9.7 million (2003 - buy US$2.5 million) and sell euro0.6 million (2003 - sell euro3.4 million) on which there was an unrealized exchange gain of $0.6 million (2003 - loss of $22 thousand). Financial instruments are discussed in note 20 to the consolidated financial statements.

Related Party Transactions

Aecon from time to time receives financial support from Hochtief AG and its subsidiary companies ("Hochtief"), which is Aecon's largest shareholder. At December 31, 2004, Aecon was indebted to Hochtief for $7.7 million in the form of a convertible subordinated debenture as described in note 11 to the consolidated financial statements. As described in note 9(c) to the consolidated financial statements, on November 30, 2004, Aecon repaid borrowings, which amounted to $9.7 million at December 31, 2003, under a stand-by facility with Hochtief Canada Inc. Hochtief AG has issued guarantees in support of the financial and performance related obligations of the Nathpa Jhakri hydro-electric project in India in which Aecon has a joint venture interest. Aecon paid Hochtief AG $0.4 million in 2004 in connection with these guarantees. Aecon and Hochtief are also joint venture partners in a hydro-electric project in Quebec. Note 19 to the consolidated financial statements details various other related party transactions.

Critical Accounting Estimates

By its nature, accounting for construction contracts requires the use of estimates. Revenue and income from fixed price construction contracts, including contracts in which Aecon participates through joint ventures, are determined on the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs. Aecon has a process whereby progress on jobs is reviewed by management on a regular basis and estimated costs to complete are updated. However due to unforeseen changes in the nature or cost of the work to be completed or performance issues, contract profit can differ significantly from earlier estimates.

Change orders, which modify the nature or quantity of the work to be completed, are frequently issued by clients. Final pricing of these change orders is often negotiated after the changes have been started or completed. Aecon, in estimating job profitability, includes the estimated revenue to be derived from change orders where the scope of the work has been agreed with the client but the final price has still to be negotiated. As the amount of compensation ultimately negotiated with a client can be considerably different from that estimated by Aecon, contract profit can be significantly affected.

Claims are amounts in excess of the agreed contract price, or amounts not included in the original contract price, that Aecon seeks to collect from clients or others for client-caused delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. In accordance with Aecon's accounting policy, claims are recognized in revenue only when resolved. Therefore, it is not uncommon for Aecon to have substantial contract costs recognized in one accounting period with associated revenue recognized only in a later period.

In the preparation of the consolidated financial statements, various other estimates are required, which are either subjective, could be materially different under different conditions or using different assumptions, or which require complex judgments. The more significant estimates are related to the accounting for income taxes, employee benefit plans and the accounting for pension expense, and the allocation of the purchase price to the fair value of assets acquired and liabilities assumed on acquisitions. The Company's accounting for income taxes is described in note 5 to the consolidated financial statements and under Tax Accrual Risks in the following section of the MD&A entitled Risks and Uncertainties. The significant actuarial assumptions used in accounting for pension expense are set out in note 18 to the 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)	**December 31, 2004**	March 17, 2005
Number of common shares outstanding	**30,524,609**	30,800,609
Paid-up capital of common shares outstanding [1]	**$ 93,829**	$ 94,843
Outstanding securities exchangeable or convertible into common shares:		
Number of employee stock options outstanding	**1,181,000**	905,000
Number of common shares issuable on exercise of employee stock options	**1,181,000**	905,000
Increase in paid-up capital on exercise of employee stock options	**$ 4,787**	$ 3,773
Principal amount of convertible debentures outstanding (see note 11 to consolidated financial statements)	**$ 37,731**	$ 37,731
Number of common shares issuable on conversion of convertible debenture	**6,147,568**	6,147,568
Increase in paid-up capital on conversion of convertible debenture	**$ 37,731**	$ 37,731

(1) As described in note 2 to the consolidated financial statements, in accordance with the recommendations of The Canadian Institute of Chartered Accountants, share capital has been reduced by $857 thousand on account of share purchase loans receivable from employees.

Risks and Uncertainties

Large Project Risk

A substantial portion of Aecon's revenues is derived from large projects, some of which are conducted through joint ventures. These large projects provide opportunities for large revenue and profit contributions but can occasionally result in significant contract losses.

Opportunities for Aecon to compete for these larger projects do not occur regularly. As a result, Aecon's ability to successfully compete for these opportunities and the length of time required to execute these projects are not predictable and therefore the Company may experience periods of irregular or reduced revenues.

The recording of the impact of large project contracts can distort revenues and incomes on both a quarterly and an annual basis and in some cases makes comparison of financial results difficult in particular reporting periods.

As described more fully in notes 10 and 12 to the consolidated financial statements, Aecon has a number of commitments and contingencies. If Aecon was called upon to honour these obligations, its financial results would be adversely affected.

The Nathpa Jhakri hydro-electric project in India has incurred significant delays in respect of which the joint venture, in which Aecon has a 45% interest, has submitted requests for extensions of contract time as well as claims for significant compensation arising from the costs of delays.

The owner of the project, Satluj Jal Vidyut Nigam Ltd. ("SJVN") (formerly Nathpa Jhakri Power Corporation Limited) has granted a number of provisional requests for extensions of contract time as a result of which the joint venture was entitled to escalation on quantities previously billed. Income derived from these escalations has been included in the joint venture profit estimate for this project.

At February 28, 2005, joint venture claims to cover delay related costs amounted to approximately $109.4 million of which $10.2 million, at current exchange rates, had been received by the joint venture based on an interim recommendation made by a claims review panel and is included in the joint venture's profit estimate for this project. A further payment of $9.3 million as full settlement was recommended by the Alternate Disputes Resolution Board ("ADRB"), which was appointed jointly by SJVN and the joint venture. Since ADRB recommendations are not binding and since the joint venture is not satisfied with the level of the final settlement recommended by the ADRB nor does SJVN support the recommendation, income from this award (nor from any further potential claim recoveries) has not been included in the joint venture's nor Aecon's profit estimate for this project.

In the event that SJVN denies the current request for extension of contract time and the joint venture is unsuccessful in its claims for additional compensation, the joint venture could be faced with potential liquidated damages claims by SJVN of up to a maximum amount equal to $27 million (10% of the original contract value) for which the Company is jointly and severally liable. If such possible claims were to materialize and were ultimately successful, the financial results and the financial position of Aecon would be adversely affected. As at February 28, 2005, the Company had outstanding guarantees and letters of credit in the amount of $30.3 million in support of financial and performance related obligations for the Nathpa Jhakri project. To December 31, 2004, the Company has earnings contributions of approximately $13.3 million (2003 - $11.6 million) after income taxes relating to this project which have not yet been distributed to the Company. If such guarantees were to be called upon and/or if Aecon were not able to collect its accrued cost recoveries and profits, Aecon's financial results and its financial position would be adversely affected. The Nathpa Jhakri project is now substantially complete and only some minor works remain, which do not affect the operational capacity of the powerhouse.

In connection with the Cross Israel Highway project, as at February 28, 2005, Aecon has provided a joint and several guarantee in the amount of $9.3 million (February 29, 2004 - $53.4 million) in support of performance related obligations. Aecon has also provided two other joint and several guarantees in support of the project, a Continuous Guarantee, which guarantees the performance of the Concessionaire under the Concession Agreement, and a Leakage Guarantee, which is a guarantee at the Operator level, in which the Company has a 31% interest, and covers toll capture and collection rates generated from users of the Cross Israel Highway during the operating period. These guarantees extend through the end of the concession period, which ends in 2029. The Continuous Guarantee is in the amount of $16.7 million and is renewed annually to its full amount, irrespective of any drawings made thereunder. The Leakage Guarantee came into effect when construction was completed and is renewable annually for the lesser of $12.5 million or 6% of annual toll revenue. The values of these two guarantees are indexed and the amounts used are as at February 28, 2005. If such guarantees were to be called upon the financial results and the financial position of Aecon would be adversely affected.

Substantial completion of the Cross Israel Highway was completed on April 28, 2004. Tolling commenced in December 2002. As of the date hereof, the full 86 km of highway is open to traffic and is being tolled. Traffic levels are approaching anticipated levels.

In addition, a significant portion of Aecon's capital (approximately $40 million) is invested, directly or indirectly, in the Cross Israel Highway. As a result, any material diminution in the value of the Cross Israel Highway would adversely affect the financial result and condition of the Company.

The Company is currently engaged in the construction in northern Quebec of a hydro-electric facility for Hydro Quebec. To date, the Eastmain project has incurred cost overruns, primarily because of customer changes to the original contract scope. The Company is currently negotiating with Hydro Quebec for a full recovery of these cost overruns and expects that it will be successful in doing so. Should the Company not be successful in recovering any of these cost overruns, its financial results and position would be adversely impacted.

The Quito Airport financial close has taken longer than originally anticipated due to the complicated nature of the transaction and the multitude of international public lending agencies involved, and although Aecon expects that financial close will be achieved in 2005, there is a risk that closing may not occur, which would result in costs that were previously deferred being written off. As previously noted, as at December 31, 2004, $7.1 million of costs incurred on the Quito project had been deferred with further costs expected to be incurred and deferred in 2005 until financial close is achieved.

Ongoing Financing Availability

Aecon's business strategy involves the selective growth of its operations through internal growth and acquisitions. Aecon's ability to successfully bid on contracts for major projects is fundamental to its internal growth. Certain of Aecon's operating segments, including its infrastructure development and heavy civil business, require substantial working capital in order to bid on and execute large contracts. Aecon is continually seeking to enhance its access to funding in support of its growth. However, from time to time, Aecon is constrained in its ability to capitalize on new infrastructure development and other growth opportunities to the extent that financing is insufficient or unavailable. Aecon's capital base includes a revolving term loan that provides a stable and flexible financing source. Aecon has further supplemented its liquidity and financial capability with a $30 million convertible debenture financing secured in the fourth quarter, and subsequent to year-end secured a similar $32.5 million convertible debenture – both with the flexibility to pay interest and repay principal in either cash or shares. These new financings will substantially replace the traditional $50 million bank working capital lines that Aecon has maintained, which have never been suitably structured to address Aecon's seasonal and cyclical business profile, and which have been highly restrictive and challenging to maintain on reasonable and practical terms.

Access to Bonding and Pre-qualification Rating

Most of Aecon's construction contracts require either sufficient bonding or pre-qualification rating. As a result of the worldwide reduction in surety capacity and price increases, the Company continually monitors the surety market through its broker and surety firm. The surety industry has undergone significant consolidation in recent years, which has constrained overall industry capacity. While Aecon's improving balance sheet and liquidity have allowed for continued strong support by its surety provider, Aecon's lack of profitability has challenged its ability to secure increased surety capacity to provide Aecon a competitive advantage within the industry. Although the Company believes it will be able to secure and maintain surety capacity adequate to satisfy its current requirements, should those requirements be materially greater than anticipated, or should sufficient surety capacity not be available, this would have a material adverse effect on the ability of Aecon to operate its business.

International/Foreign Jurisdiction Factors

Aecon is from time to time engaged in large international projects in foreign jurisdictions. Currently Aecon is involved in projects in India, Israel, Ecuador and the United States. International projects such as the Nathpa Jhakri hydro-electric project in northern India, the Cross Israel Highway in Israel and the Quito Airport in Ecuador can expose Aecon to risks beyond those typical for its activities in its home market, including geopolitical and military risks and currency and foreign exchange risks.

The anticipated contribution of various foreign projects to the financial results of Aecon may be adversely affected by local political, military, economic and other events beyond the Company's control including several current projects that are located in regions that are, at the present time, facing heightened geopolitical tensions. Aecon continually evaluates its exposure to unusual risks inherent in international projects and, where deemed appropriate in the circumstances, mitigates these risks through specific contract provisions, insurance coverage and forward exchange agreements. However, there are no assurances that such measures would offset or materially reduce the effects of such risks.

Foreign exchange risks are actively managed and hedged where possible and considered cost effective, when directly tied to quantifiable contractual cash flows accruing directly to Aecon within periods of one or two years. Major projects executed through joint ventures generally have a longer term and result in foreign exchange translation exposures that Aecon has not hedged. Such translation exposure will have an impact on Aecon's consolidated financial results. Practical and cost effective hedging options to fully hedge this longer term translational exposure are not generally available to Aecon.

Contractual Factors

A substantial portion of Aecon's revenue is derived from lump-sum contracts pursuant to which a commitment is provided to the owner of the project to complete the project at a guaranteed maximum price ("GMP"). In GMP projects, in addition to the risk factors of a unit price contract (as described below), any errors in quantity estimates must be absorbed within the GMP, thereby adding a further risk component to the contract.

Aecon is also involved in fixed unit price construction contracts under which the Company is committed to provide services and materials at a fixed unit price (e.g., dollars per tonne of asphalt or aggregate). While this shifts the risk of estimating the quantity of units to the contract owner, any increase in Aecon's cost over the unit price bid, whether due to estimating error, inefficiency in project execution, inclement weather, inflation or other factors, will negatively affect Aecon's profitability.

In certain instances, Aecon guarantees to a customer that it will complete a project by a scheduled date or that the facility will achieve certain performance standards. If the project or facility subsequently fails to meet the schedule or performance standards, Aecon could incur additional costs or penalties commonly referred to as liquidated damages.

Aecon is also involved in design-build contracts where, in addition to the responsibilities and risks of a unit price or lumpsum construction contract, Aecon is responsible for certain aspects of the design of the facility being constructed. This form of contract adds the risk of Aecon's liability for design errors as well as additional construction costs that might result from such design errors.

Certain of Aecon's contractual requirements may also involve financing elements, where Aecon is required to provide one or more letters of credit, performance bonds, financial guarantees or equity investments. There can be no assurance that Aecon will be able to obtain the necessary financing on favourable or commercially reasonable terms and conditions for such equity investments, nor that its available working capital and bonding facilities will be adequate in order to issue the required letters of credit and performance bonds.

Revenues from change orders are recorded when recovery is likely to occur. However, disputes with clients resulting in claims for additional payments owing as a result of changes in contract specifications, delays, additional work or changed conditions are an unfortunate but sometimes unavoidable part of the construction process. Aecon's accounting policy is to record all costs for these changes when known and not to record the revenue anticipated from claims until they are resolved. The timing of the resolution of such events can thereby have a material impact on income and liquidity and thus can cause fluctuations in the revenue and income of Aecon in any one reporting period.

Economic Factors

Aecon's profitability is closely tied to the general state of the economy in those geographic areas in which it operates. More specifically, the demand for infrastructure, which is the principal component of Aecon's operations, is perhaps the largest single driver of the Company's growth and profitability.

In North America, which tends to have relatively sophisticated infrastructure, Aecon's profitability is dependent both on the development of basic infrastructure (highways, airports, dams, hydro-electric plants, etc.) and on the type of infrastructure that flows from commercial and population growth. Commercial growth demands incremental facilities for the movement of goods within and outside of the community, along with water and sewer systems and heat, light and power supplies. Population growth creates a need to move people to and from work, schools and other public facilities, and demands similar services to new homes. Since growth in both these areas, with the possible exception of road maintenance and construction, is directly affected by the general state of the local economy, the general strength or weakness of the economy can have a significant impact on Aecon's operations.

Internationally, Aecon is much more involved with the development of basic infrastructure, particularly in developing countries. As such, the Company's growth and profitability from this work depends largely on the pace of growth in these foreign jurisdictions and the ability of these countries to allow for the arrangement of long-term financing.

Environmental and Safety Factors

Unfavourable weather conditions represent one of the most significant uncontrollable risks for Aecon. Construction projects are susceptible to delays as a result of extended periods of poor weather, which can have an adverse effect on profitability from either late completion penalties imposed by the contract owner or from the incremental costs arising from loss of productivity, compressed schedules, or from overtime work utilized to offset the time lost due to adverse weather.

During its history, Aecon has experienced a number of incidents, emissions or spills of a non-material nature in the course of its construction activities. Although none of these environmental incidents to date have resulted in a material liability to the Company, there can be no guarantee that any future incidents will also be of a non-material nature.

Aecon is subject to and complies with federal, provincial and municipal environmental legislation in all of its manufacturing and construction operations. Aecon recognizes that it must conduct all of its business in such a manner as to both protect and preserve the environment in accordance with this legislation. At each place where work is performed, Aecon develops and implements a detailed quality control plan as the primary tool to demonstrate and maintain compliance with all environmental regulations and conditions of permits and approvals. Management is not aware of any pending environmental legislation that would be likely to have a material impact on any of its operations, capital expenditure requirements or competitive position, although there can be no guarantee that future legislation will not be proposed, and if implemented, it may have a material impact on the Company and its financial results.

Aecon is also subject to and complies with health and safety legislation in all of its operations in the jurisdictions in which it operates. The Company recognizes that it must conduct all of its business in such a manner as to ensure the protection of both its workforce and the general public. Aecon has developed a comprehensive health and safety plan and is proud of its record in this regard. Nevertheless, given the nature of the industry accidents will inevitably occur from time to time. Management is not aware of any pending health and safety legislation or prior incidents which would be likely to have a material impact on any of its operations, capital expenditure requirements or competitive position. Nevertheless, there can be no guarantee with respect to the impact of future legislation or accidents.

Litigation Risk

In the normal course of business, the Company is involved in various legal actions and proceedings, which arise from time to time, some of which may be substantial. In view of the quantum of the amounts claimed and the insurance coverage maintained by the Company in respect of these matters, management of the Company does not believe that any of the legal actions or proceedings that are presently known or anticipated by the Company is likely to have a material adverse effect on the Company's financial position. However, there is no assurance that the Company's insurance arrangements will be sufficient to cover any particular claim or claims that may arise in the future. Furthermore, the Company is subject to the risk of claims and legal actions for various commercial and contractual matters, primarily arising from construction disputes, in respect of which insurance is not available. The Company is aware of one such claim or dispute involving potential claims for liquidated damages and outstanding guarantees and letters of credit in respect of the Nathpa Jhakri Project.

Labour Factors

A significant portion of Aecon's labour force is unionized and accordingly, Aecon is subject to the detrimental effects of a strike or other labour action, in addition to competitive cost factors.

Dependence on the Public Sector

A significant portion of Aecon's revenues is derived from contracts with various governments or their agencies. Consequently, any reduction in demand for Aecon's services by the public sector whether from funding constraints, changing political priorities, or delays in projects caused by elections would likely have an adverse effect on the Company if that business could not be replaced from within the private sector.

Large government sponsored projects typically have long and often unpredictable lead times associated with the government review and political assessment process. The time delays and pursuit costs incurred as a result of this lengthy process, as well as the often unknown political considerations that can be part of any final decision, constitute a significant risk to those pursuing such projects.

Potential Fluctuation in Financial Results

Aecon's quarterly and annual financial results may be impacted by a variety of factors including, without limitation: the recognition of revenue from existing large project contracts; the opportunity to compete for new large projects; costs or penalties associated with unanticipated delays in project completion; fluctuations in the general economic and business conditions in the markets in which Aecon operates, which may impact pricing levels of its services; actions by governmental authorities including government demand for the services provided by Aecon; government regulations and the associated expenditures required to comply with regulations; labour action involving Aecon's unionized workers; seasonal or materially adverse weather conditions; the risk associated with the use of guaranteed maximum price contracts; geopolitical risks in the foreign jurisdictions in which Aecon operates as well as risk associated with foreign currency and exchange rates; and other circumstances affecting revenue and expenses. Aecon's operating expenses are incurred throughout the year. As a result, if expected revenues are not realized as anticipated, there may be significant variations in Aecon's quarterly and annual financial results.

Protection of Intellectual Property and Proprietary Rights

The Company, particularly through its 100% interest in IST, depends, in part, on its ability to protect its intellectual property rights. Aecon relies primarily on patent, copyright, trademark and trade secret laws to protect its proprietary technologies. The failure of any patents or other intellectual property rights to provide protection to Aecon's technologies would make it easier for competitors to offer similar products, which could result in lower sales or gross margins.

The Company's trademarks and trade names are registered in Canada and the United States and the Company intends to keep these filings current and seek protection for new trademarks to the extent consistent with business needs. The Company relies on trade secrets and proprietary know-how and confidentiality agreements to protect certain of its technologies and processes.

In addition, IST holds a number of patents on its once-through heat recovery system. Nevertheless, there remains a threat of others attempting to copy IST's proprietary technology and processes. To mitigate this risk, the normal business practice of IST includes the signing of confidentiality agreements with all parties to which confidential information is supplied including all customers and licensees.

Acceptance of Innovation Steam Technologies

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

Hochtief AG and Certain Directors and Officers May be Able to Control Actions of the Company

Hochtief AG indirectly owns 14,429,330 of the outstanding common shares, holds a debenture, valued as of December 31, 2004 at $7.7 million, which is convertible into common shares, has provided significant financial guarantees and direct loans to the Company and has four nominees on the Company's board of directors. Two officers of the Company, who are also directors, beneficially own or control, directly or indirectly, approximately 5.1% of the common shares as of March 22, 2005. By virtue of their significant direct or indirect shareholdings, Hochtief AG and those officers may therefore be in a position to significantly influence the election of the directors of the Company, appointment of officers and other matters requiring the approval of the shareholders or directors of Aecon. This concentration of ownership may also have an impact on a change of control or other significant transaction involving the Company. As disclosed in the Management Information Circular dated June 21, 2004, in a conference call with analysts and investors on March 15, 2004 Hochtief AG indicated that its ownership position in Aecon will not remain at 48%. As of the date hereof, Hochtief AG has not indicated to Management whether it intends to increase or decrease its interest. A significant change in the indirect ownership stake of Hochtief AG may have a material impact on the share price of the Company.

Tax Accrual Risks

Aecon is subject to income taxes in both Canada and numerous foreign jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although Aecon believes its tax estimates are reasonable, there can be no assurance that the final determination of any tax audits and litigation will not be materially different from that reflected in historical income tax provisions and accruals. Although management believes it has adequately provided for any additional taxes that may be assessed as a result of an audit or litigation, the occurrence of either of these events could have a material adverse effect on the Company's current and future results and financial condition.

Aecon Operates in a Highly Competitive Industry

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

Loss of Key Management; Inability to Attract and Retain Management

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

Outlook

Aecon ended 2004 with a greater volume of new business awards and a larger backlog of work compared to a year earlier. New business awards increased to $1.02 billion, an 8.7% increase over 2003, and backlog increased 3.4% from a year earlier to $565 million despite a $26 million reduction in backlog from Aecon's major projects in Israel and India.

The increase in backlog included an 8.7% rise in core backlog over the year, continuing a general upward trend that has seen core backlog increase by over 30% since the beginning of 2002. Major projects backlog, consisting of Aecon's major projects in Israel and India, fell to virtually zero as both of these projects were substantially completed in 2004 and have only minimal levels of clean-up work remaining in backlog. Major projects backlog is expected to jump sharply in 2005 as the anticipated closing of the Quito International Airport project is expected to bring approximately $250 million into Aecon's major projects backlog.

In the Infrastructure segment, Aecon's Ontario roadbuilding business is expected to show improvement once again in 2005. Although it is anticipated that Ontario's Ministry of Transportation ("MTO") will continue its relatively slow rate of highway construction spending (as compared to traditional levels), a continued focus on non-MTO work is expected to result in increased revenues and profit contributions from this sector.

The ongoing recovery of Ontario's telecommunications sector as well as Aecon's continued strong relationship with Union Gas and a series of recent initiatives to reduce staff and improve fleet efficiency, should lead to stronger financial results from the utilities sector in 2005.

In Quebec, Aecon is currently working on two large projects for Hydro Quebec (the Toulnustouc and Eastmain projects), neither of which have met profit expectations – leading to a re-evaluation of Aecon's interest in bidding this type of work. It is expected that a continued focus on change order management and the settlement of a number of important issues with its key client Hydro Quebec will lead to an improvement in the financial results reported from this division in 2005.

In recent years, Aecon has benefited significantly from construction income generated from two large international projects: the Cross Israel Highway and the Nathpa Jhakri hydro-electric project in India. With construction on both of these projects being substantially completed in 2004 and significant construction on the new Quito International Airport project not likely to begin until the third quarter of 2005, Aecon does not expect to report material construction income from a major international project in 2005. Under Aecon's accounting policy for large multi-year contracts, profit is recognized only when progress reaches a stage of completion sufficient to reasonably determine the probable results (generally when the contract is 20% complete), which is not expected to occur on the Quito project until 2006.

Nonetheless, reaching financial close on the Quito project will be significantly cash positive, as following financial close Aecon will be reimbursed for all its previously expensed and capitalized bid costs as well as its development and internal costs, which will facilitate Aecon's ability to self-finance its planned equity investment in the project without any further expected contribution from treasury resources. The signing of all required documents is expected in early April, with satisfaction of the final conditions precedent expected approximately 90 days thereafter.

Tolling and operations on the Cross Israel Highway are functioning well. Average traffic has reached over 65,000 cars per day – more than one-third of the traffic recorded on Toronto's Gardiner Expressway and in line with our forecast. While this cost accounted investment will not contribute to accounting profits until interest and/or dividends are received, which is not expected before 2009, the investment is on track to provide an annualized 12% to 15% after tax return.

After a difficult year in 2004, Aecon's Buildings segment is expecting significant improvement and a return to profitability in 2005. The turnaround is expected to be driven by improved project margins (as new project processes and controls implemented late in 2004 take hold) and by increased revenues.

Although the increase in revenues in the Buildings segment is a positive indicator of continued growth in this segment, it may tend to mask the continued softness of commercial based construction. While institutional construction remains strong, this sector generally includes a greater portion of lower margin 'hard bid' work and less of the higher margin 'construction management' or 'negotiated' work. Nonetheless, the increase is a positive indicator of continued growth in the segment.

The largest improvement in the Buildings segment is expected in Aecon's Ottawa business unit (formerly Westeinde Construction, acquired by Aecon in 2003), where a number of changes, including significant staff reductions, an increase in new work, the completion of a number of troublesome projects that began in 2003 and the adoption of new project controls are all expected to have a positive impact. While it may be 2006 before this business unit returns to profitability, a significant turnaround is expected in 2005.

Also expected to show substantial improvement in 2005 are the Greater Toronto, Interiors & Renovations and Aecon/Cegerco businesses, all of which are expected to make profit contributions in 2005.

Aecon's Industrial segment is expected to show strong improvement in 2005, with increased revenue and profit contributions as compared to 2004. The segment's western operations and its fabrication business unit are expected to show the strongest gains.

While IST's backlog levels and sales prospects appear very encouraging, many of its near term sales prospects have been delayed due to overall project commencement delays by its clients, such that any further delays in these projects, and thus sales for IST, may jeopardize IST's profit growth in 2005.

Aecon's fabrication business in Ontario is expected to increase its profit contribution as volume growth (largely from new project awards) and increased productivity lead to improved margins. Significantly, the western operations business unit is expected to take advantage of the very strong market in northern Alberta's oil sands, with significant revenue and margin growth.

Overall, the expected turnaround in Aecon's Buildings segment, the continued improvement in the Infrastructure segment operations in Ontario, the stabilization and improvement in Quebec infrastructure operations and stronger profit contributions from the Industrial segment are expected to result in a significant improvement and a return to profitability in 2005.

Forward-Looking Information

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

Auditors' Report

To the Shareholders of Aecon Group Inc.

We have audited the consolidated balance sheets of Aecon Group Inc. as at December 31, 2004 and 2003 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
March 4, 2005 (except for note 23, which is as of March 17, 2005)
Mississauga, Ontario, Canada

Consolidated Balance Sheets

As at December 31 (in thousands of dollars)	2004	2003
Assets		
Current assets		
Cash and cash equivalents (note 3)	**$ 50,139**	$ 29,451
Marketable securities and term deposits (note 3)	**15,583**	23,203
Accounts receivable (note 4)	**140,878**	140,654
Holdbacks receivable	**43,255**	37,113
Deferred contract costs and unbilled revenue	**55,242**	46,125
Inventories	**8,754**	10,713
Prepaid expenses	**3,327**	2,686
Discontinued operations (note 14)	**–**	33,306
	317,178	323,251
Property, plant and equipment (note 6)	**58,983**	59,381
Future income tax assets (note 5)	**12,095**	34,140
Long-term investment (note 7)	**36,925**	22,629
Other assets (note 8)	**30,146**	28,736
Discontinued operations (note 14)	**–**	2,097
	$ 455,327	$ 470,234

As at December 31 (in thousands of dollars)	**2004**	2003
Liabilities		
Current liabilities		
Bank indebtedness (note 3)	**$ 11,905**	$ 30,090
Accounts payable and accrued liabilities (note 4)	**151,263**	146,511
Holdbacks payable	**29,719**	24,496
Deferred revenue	**45,891**	38,649
Income taxes payable	**4,752**	2,344
Future income tax liabilities (note 5)	**13,790**	18,072
Current portion of long-term debt (note 9)	**4,477**	15,944
Discontinued operations (note 14)	**–**	29,537
	261,797	305,643
Long-term debt (note 9)	**40,352**	27,367
Other liabilities (note 16)	**2,441**	364
Other income tax liabilities (note 5)	**12,138**	12,069
Convertible debentures (note 11)	**35,643**	7,457
Discontinued operations (note 14)	**–**	366
	352,371	353,266
Commitments and contingencies (note 12)		
Shareholders' Equity		
Capital stock (note 13)	**93,829**	68,216
Contributed surplus (note 13)	**190**	204
Convertible debentures (note 11)	**2,826**	836
Retained earnings	**6,111**	47,712
	102,956	116,968
	$ 455,327	$ 470,234

Approved by the Board of Directors

John M. Beck, Director

Scott C. Balfour, Director

Consolidated Statements of Operations

For the years ended December 31 (in thousands of dollars, except per share amounts)	2004	2003
Revenues	**$ 1,002,480**	$ 940,566
Costs and expenses	**971,642**	906,831
Marketing, general and administrative expenses	**49,089**	49,502
Depreciation and amortization	**7,933**	8,568
Impairment of goodwill and other intangible assets (note 17)	**1,130**	–
Gain on sale of assets	**(228)**	(2,973)
Interest expense, net (note 15)	**4,309**	3,321
	1,033,875	965,249
Loss from continuing operations before income taxes	**(31,395)**	(24,683)
Income taxes (recovery) (note 5)		
Current	**5,453**	7,682
Future	**17,832**	(13,634)
	23,285	(5,952)
Loss from continuing operations	**(54,680)**	(18,731)
Income from discontinued operations (note 14)	**13,054**	4,859
Net loss for the year	**$ (41,626)**	$ (13,872)
Loss per share from continuing operations (note 13)		
Basic	**$ (1.98)**	$ (0.79)
Diluted	**$ (1.98)**	$ (0.79)
Net loss per share (note 13)		
Basic	**$ (1.51)**	$ (0.59)
Diluted	**$ (1.51)**	$ (0.59)
Average number of shares outstanding (note 13)		
Basic	**27,567,476**	23,707,556
Diluted	**31,530,935**	27,412,803

Consolidated Statements of Retained Earnings

For the years ended December 31 (in thousands of dollars)	2004	2003
Retained earnings – beginning of year	**$ 47,712**	$ 62,314
Add (deduct):		
Net loss for the year	**(41,626)**	(13,872)
Dividends	**–**	(757)
Interest received on share purchase loans (note 2)	**25**	27
Retained earnings – end of year	**$ 6,111**	$ 47,712

Consolidated Statements of Cash Flows

For the years ended December 31 (in thousands of dollars)	**2004**	2003
Cash provided by (used in)		
Operating activities		
Loss from continuing operations	**$ (54,680)**	$ (18,731)
Items not affecting cash:		
Depreciation and amortization (note 17)	**7,933**	8,568
Impairment of goodwill and other intangible assets (note 17)	**1,130**	–
Gain on sale of assets	**(228)**	(2,973)
(Gain) loss on foreign exchange	**(507)**	6,830
Notional interest representing accretion (note 11)	**176**	109
Future income taxes (note 5)	**17,832**	(13,634)
	(28,344)	(19,831)
Change in other balances relating to operations (note 16)	**14,895**	(11,195)
Discontinued operations (note 14)	**5,423**	7,359
	(8,026)	(23,667)
Investing activities		
Purchase of property, plant and equipment	**(3,988)**	(1,645)
Proceeds on sale of property, plant and equipment	**2,430**	8,821
Acquisition (note 17)	**(1,175)**	–
Proceeds on sale of discontinued operations (notes 4 and 14)	**13,625**	–
Increase in long-term investment (note 7)	**(14,296)**	(8,469)
Increase in other assets	**(7,877)**	(6,267)
Proceeds from disposition of other assets (note 16)	**4,326**	–
Discontinued operations (note 14)	**12**	(365)
	(6,943)	(7,925)
Financing activities		
(Decrease) increase in bank indebtedness	**(17,415)**	3,489
Issuance of long-term debt	**80,873**	34,776
Repayments of long-term debt	**(80,966)**	(21,561)
Issuance of capital stock (note 13)	**25,613**	737
Dividends paid	**–**	(757)
Interest received on share purchase loans (note 2)	**25**	27
Net proceeds from issuance of convertible debentures (note 11)	**28,576**	–
Discontinued operations (note 14)	**28**	(335)
	36,734	16,376
Increase (decrease) in cash and cash equivalents	**21,765**	(15,216)
Effects of foreign exchange on cash balances	**(1,077)**	(5,631)
Cash and cash equivalents – beginning of year	**29,451**	50,298
Cash and cash equivalents – end of year	**$ 50,139**	$ 29,451

Supplementary disclosures (note 16)

Notes to Consolidated Financial Statements

December 31, 2004 and 2003 (in thousands of dollars)

1) Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries, as well as its pro rata share of assets, liabilities, revenues, expenses, net income and cash flows of its joint ventures. Note 4 summarizes the effect of the joint ventures on these consolidated financial statements.

Use of significant accounting estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. A certain amount of uncertainty is inherent in estimating the costs of completing construction projects and estimating amounts ultimately realizable on unpriced change orders. The impact on the consolidated financial statements of future changes in such estimates could be material.

Cash and cash equivalents

The Company considers investments purchased with original maturities of three months or less to be cash equivalents. Cash held by joint ventures is for the sole use of joint venture activities.

Accounting for contracts

Revenue and income from fixed price construction contracts, including contracts in which the Company participates through joint ventures, are determined on the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs. This method is used because management considers expended costs to be the best available measure of progress on these contracts. Contract costs include all direct material and labour costs and those indirect costs relating to contract performance such as indirect labour and supplies, tools and repairs. For large multi-year fixed price contracts, income is recognized when progress reaches a stage of completion sufficient to reasonably determine the probable results, which is generally when the contract is 20% complete. Consulting contracts to manage or supervise construction activity of others are recognized only to the extent of the fee revenue. Revenues from cost plus fee contracts are recognized on the basis of costs incurred. Provision is made for anticipated contract losses as soon as they are evident. Revenues from change orders are recorded when recovery is likely to occur. Claims for additional contract compensation are not recognized until resolved.

Deferred contract costs and unbilled revenues represent costs incurred and revenues earned in excess of amounts billed on uncompleted contracts. Deferred revenue represents the excess of amounts billed over costs incurred and revenue earned on uncompleted contracts. Contract advances are included in deferred revenue and represent advance payments received from clients for mobilization of project staff, equipment and services.

The operating cycle, or duration, of many of the Company's contracts exceeds one year. All contract related assets and liabilities of such contracts are classified as current as they are expected to be realized or satisfied within the operating cycle of the contract.

Inventories

Inventories are recorded at the lower of cost and net realizable value, with the cost of materials and supplies determined on a first-in, first-out basis and aggregate inventories determined at weighted average cost.

Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated amortization. Amortization of aggregate properties is calculated using the unit of extraction method. Depreciation of other property, plant and equipment is provided on a straight-line basis using annual rates that approximate the estimated useful lives of the assets as follows:

Buildings	20 to 40 years
Roadways and leaseholds	5 to 10 years
Construction equipment and vehicles	2 to 15 years
Computer hardware and software	3 to 5 years
Furniture and fixtures	5 to 8 years

When joint ventures are established to perform single contracts and equipment is acquired for use during the contract and disposed of upon completion of the contract, the cost of such equipment, net of estimated salvage value, is treated as a contract cost and is not included in property, plant and equipment.

Property, plant and equipment and intangible assets are reviewed for impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the projected undiscounted future net cash flows and is measured as the amount by which the carrying value exceeds fair value.

Investments

Investments in entities where the Company exercises significant influence are accounted for using the equity method.

These investments are recorded at cost plus the share of income or loss to date less dividends received.

Other investments, where the Company exercises neither significant influence nor control, are carried at cost. If there is other than a temporary decline in value, investments are written down to provide for the loss.

Goodwill

Goodwill represents the excess of the cost of acquisitions over the fair value of net identifiable assets acquired. Goodwill is not amortized but is subject to an annual impairment test, or earlier when circumstances indicate an impairment may exist. When the estimated fair value of goodwill is lower than its carrying amount, the difference is charged against income.

Income taxes

The Company follows the asset and liability method of tax accounting for future income taxes. Temporary differences between the tax basis of an asset or liability and its carrying amount on the consolidated balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates anticipated to apply in the periods when the temporary differences are expected to reverse. A valuation allowance is provided against future tax assets to the extent that recoverability cannot be considered to be more likely than not.

Employee benefit plans

The Company recognizes the cost of retirement benefits over the periods in which employees render services in return for the benefits. The Company sponsors defined contribution pension plans and defined benefit pension plans (which had their membership frozen as of January 1, 1998) for its salaried employees. The Company matches employee contributions to the defined contribution plans, which are based on a percentage of earnings for services rendered by the employees. For the defined benefit pension plans, current service costs are charged to operations as they accrue based on services rendered by employees during the year. Pension benefit obligations are determined by independent actuaries using management's best estimate assumptions with accrued benefits pro-rated on service. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses, and the difference between the actuarial present value of accrued benefits and the value of pension fund assets are amortized over the expected average remaining service life of the employee group if the adjustment is more than 10% of the greater of plan assets or benefit obligations. Amounts below the 10% threshold are not recognized in expense (note 18).

Stock-based compensation plan

The Company has a stock-based compensation plan, as described in note 13. Stock options are issued at an exercise price no less than the market value of the Company's shares at the date of issuance. The Company uses fair value accounting for stock-based compensation.

Translation of foreign currencies

The accounts of the Company, its foreign subsidiaries and joint ventures, stated in foreign currencies, have been translated into Canadian dollars using:

- the fiscal year-end exchange rates for monetary items, which include cash, amounts receivable, accounts payable, income taxes and long-term debt;
- exchange rates in effect at the time of the transaction for non-monetary assets and liabilities; and
- average exchange rates prevailing during the year for revenue and expenses, except for depreciation, which has been translated at rates pertaining to the related assets.

All other foreign exchange gains or losses are included in the consolidated statements of operations.

Earnings (loss) per share

Basic earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method to compute the dilutive effect of stock options and convertible debentures. Under this method, dilutive securities are assumed to be exercised only when the exercise price is below the average price of the Company's stock.

2) Change in accounting policies

Effective January 1, 2004, the Company adopted Accounting Guideline 13, "Hedging Relationships" issued by The Canadian Institute of Chartered Accountants ("CICA"). This guideline sets out the conditions that must be met in order to apply hedge accounting. Each hedging relationship is also subject to an effectiveness test on a regular basis to determine whether there is reasonable assurance that the hedge will continue to be effective. Any derivative financial instrument that does not qualify for hedge accounting will be accounted for on a mark-to-market basis. The impact of not applying hedge accounting is that gains or losses on a derivative financial instrument that is marked-to-market may not be recorded in the same accounting period as gains or losses on the hedged item. During the year ended December 31, 2004, the Company recorded net unrealized gains of $582 on foreign currency transactions, which did not qualify for hedge accounting. The Company did not enter into any transactions during the year that qualified for hedge accounting.

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

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

Also effective January 1, 2004, the Company adopted CICA Handbook Section 3063, "Impairment of Long-lived Assets." This guideline establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets.

Effective January 1, 2003, the Company adopted the new recommendations of the CICA on accounting for share purchase loans receivable from employees. Except in certain circumstances, such loans are now required to be presented as deductions from shareholders' equity. Accordingly, and notwithstanding that the Company considers the loans collectible, loans totalling $857 are no longer presented as loans receivable within other assets, but as a deduction from capital stock. Also, interest received on such loans is no longer considered as income, but accounted for as a capital transaction in shareholders' equity. Interest received on these loans, after provision for income taxes, amounted to $25 in the year ended December 31, 2004 (2003 - $27).

Effective January 1, 2003, the Company adopted two new recommendations of the CICA related to the disposal of long-lived assets and discontinued operations, and guarantees. Disclosure in accordance with these guidelines is included in note 14 with respect to discontinued operations and in note 10 for guarantees.

3) Cash and cash equivalents, marketable securities and bank indebtedness

(a) Cash and cash equivalents as at December 31, 2004 include $19,114 (2003 - $22,369), which is on deposit in joint venture and affiliate bank accounts that the Company cannot access directly. Issued but uncleared cheques of $12,512 at December 31, 2004 have been deducted from cash and cash equivalents. Issued but uncleared cheques at December 31, 2003 of $7,504 were included in bank indebtedness. Marketable securities and term deposits of $15,583 (2003 - $23,203) are held within a joint venture and these securities cannot be accessed directly by the Company.

(b) At December 31, 2004, the Company had operating lines of credit totalling $35,000 (2003 - $35,000), of which $28,044 was unused (2003 - $20,343). These operating lines of credit are secured by general security agreements that include assignments of accounts receivable, holdbacks receivable and pledges of inventory and equipment and were also secured by second position fixed and floating charge debentures over certain assets of the Company. Utilization amounted to $6,956 (2003 - $14,657) and included bank loans of $nil (2003 - $8,759) and letters of credit of $6,956 (2003 - $5,898). In addition, the Company has a revolving term loan facility in the amount of $22,974 (2003 - $24,022) of which $21,850 (2003 - $7,022) has been utilized (note 9(a)). In total, the Company had access to $29,168 (2003 - $37,343) in unused committed credit facilities as at December 31, 2004. Subsequent to December 31, 2004, the Company amended and reduced its operating lines of credit, as described in note 23.

(c) Bank loans outstanding during 2004 generally bore interest rates of Canadian and U.S. prime rate plus 1.25% (2003 - plus 1%).

(d) Included in bank indebtedness is the Company's proportionate share of bank loans of the joint venture that is building the Nathpa Jhakri hydro-electric project in India amounting to $9,790 (2003 - $13,827), which bear interest at a weighted average rate of 5.9% (2003 - 4.5%). The full amount of the joint venture operating line and borrowings, amounting to $21,756 (2003 - $30,727), is secured by letters of credit that are jointly and severally guaranteed by the Company and by Hochtief AG ("Hochtief"), the parent of the Company's largest 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.

4) Joint ventures

The Company participates in several incorporated and unincorporated joint ventures and the consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues, expenses, net income and cash flows of these joint ventures.

(a) The following table sets out the Company's proportionate share of the assets, liabilities, venturers' equity, revenues, expenses, net income and cash flows of these joint ventures. This table excludes joint ventures reported as discontinued operations noted in note 14. Included in expenses in the determination of net income of joint ventures are income taxes for those entities that are separately liable for the payment of taxes. Income taxes are not included for joint ventures where income taxes are the responsibility of the joint venture partners. Income taxes included in joint venture expenses amounted to $8,026 (2003 - $7,634).

	2004	2003
Assets		
Current	**$ 90,655**	$ 81,579
Property, plant and equipment	**976**	229
Other	**47,529**	30,297
	$ 139,160	$ 112,105
Liabilities		
Current	**$ 58,201**	$ 60,660
Long-term	**397**	–
Venturers' equity	**80,562**	51,445
	$ 139,160	$ 112,105
Revenues	**$ 150,714**	$ 183,395
Expenses	**138,432**	174,392
Net income	**$ 12,282**	$ 9,003
Cash provided by (used in)		
Operating activities	**$ 788**	$ (3,634)
Investing activities	**(11,758)**	(5,593)
Financing activities	**4,310**	(16,253)
	$ (6,660)	$ (25,480)

(b) The Company is either contingently or directly liable for obligations of its unincorporated joint ventures (notes 10 and 12). The assets of the joint ventures are available for the purpose of satisfying such obligations.

(c) The Company enters into transactions in the normal course of operations with its joint ventures, which are measured at the exchange amount, being the amount of consideration established and agreed to by the parties involved. During the year, the Company recognized revenues of $2,183 (2003 - $5,345) from its joint venture partners. At December 31, 2004, the Company has included in accounts receivable $1,516 (2003 - $998) owing from its joint ventures and has included in accounts payable and accrued liabilities $114 (2003 - $2,420) owing to its joint ventures. A company related to the Company's largest shareholder is a partner in one of the joint ventures and $nil (2003 - $1,210) of the amount owing to joint ventures is beneficially due this company.

(d) During 2004, the Company received proceeds of $12,173 and realized a pre-tax gain of $7,309 from the sale of joint venture interests (note 14).

(e) The Company's proportionate share of revenues, expenses and net income of joint ventures, which are reported as discontinued operations, is set out in note 14.

5) 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:

	2004	2003
Loss before income taxes	**$ 31,395**	$ 24,683
Statutory income tax rate	**36.1%**	36.6%
Expected income tax recovery	**(11,340)**	(9,039)
Effect on income tax of		
Valuation allowance against prior years' future tax assets	**19,341**	–
Valuation allowance against current year's future tax assets	**13,314**	–
Provincial and foreign rate differentials	**300**	545
Non-deductible portion of foreign exchange losses	**420**	2,096
Large corporations tax	**448**	443
Other	**802**	3
Income tax expense (recovery)	**$ 23,285**	$ (5,952)

The Company and certain subsidiaries have accumulated non-capital income tax loss carry forwards, the benefit of which has been recognized in these consolidated financial statements, of approximately $126,841 (2003 - $96,329), which may be used to reduce future taxable income and expire in the following years:

2005	$ 4,438
2006	8,971
2007	22,615
2008	11,783
2009	12,796
2010	37,486
2014	28,752
	$ 126,841

The components of future income taxes are as follows:

	2004	2003
Net operating and capital losses carried forward	**$ 47,020**	$ 33,871
Reserves expensed for financial statement purposes and deducted for income tax purposes when paid	**2,158**	1,953
Property, plant and equipment:		
Net book value in excess of tax basis	**(4,429)**	(3,297)
Long-term contracts including joint ventures(1)	**(15,839)**	(23,651)
Other temporary differences	**(110)**	1,262
Other long-term difference	**2,160**	5,930
Total future income tax assets	**30,960**	16,068
Valuation allowance	**(32,655)**	–
Future income taxes, net	**$ (1,695)**	$ 16,068
Classified as:		
Long-term future income tax assets	**$ 12,095**	$ 34,140
Current future income tax liabilities	**(13,790)**	(18,072)
Total future income tax assets (liabilities)	**$ (1,695)**	$ 16,068

(1) Results from the difference between the use of percentage of completion method of reporting for financial statement purposes and use of uncompleted contracts and billings less costs, excluding contractual holdbacks, for tax purposes.

The operations of the Company are complex and related tax interpretations, regulations and legislation are subject to change. The Company believes that the amount reported as other income tax liabilities adequately provides for any other income tax liabilities that may arise.

6) Property, plant and equipment

	2004			2003		
	Cost	**Accumulated depreciation and amortization**	**Net**	Cost	Accumulated depreciation and amortization	Net
Land and improvements	**$ 6,486**	**$ –**	**$ 6,486**	$ 6,938	$ –	$ 6,938
Buildings	**14,983**	**1,846**	**13,137**	12,268	1,196	11,072
Aggregate properties	**13,637**	**2,477**	**11,160**	13,329	1,774	11,555
Machinery and equipment	**68,829**	**40,629**	**28,200**	67,236	37,420	29,816
	$ 103,935	**$ 44,952**	**$ 58,983**	$ 99,771	$ 40,390	$ 59,381

Included in property, plant and equipment is equipment of $10,610 (2003 - $10,371) held under capital leases, with accumulated depreciation of $2,908 (2003 - $2,665).

7) Long-term investment

The long-term investment, which is carried at cost in the amount of $36,925 at December 31, 2004, represents the Company's investment 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, under the terms of the shareholders' agreement, 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. At December 31, 2003, the Company held in trust $22,629 in short-term interest bearing deposits in a Canadian financial institution for the purpose of funding this investment. Subsequent to December 31, 2004, the Company increased its interest in Derech Eretz, as described in note 23.

8) Other assets

	2004	2003
Goodwill (a)	**$ 8,154**	$ 10,401
Loans receivable (b)	**3,767**	4,415
Income tax deposit (note 12(d))	**5,414**	5,414
Deferred costs (c)	**7,099**	7,219
Long-term receivable (d)	**3,385**	–
Pension assets (note 18)	**1,098**	299
Other (e)	**1,229**	988
	$ 30,146	$ 28,736

(a) During the year, Westeinde Construction Ltd. ("Westeinde") goodwill was reduced by $2,125 as a result of an impairment charge, the finalization of the purchase price allocation and a settlement agreement with the former owner as described in note 17.

(b) Loans receivable include $2,813 (2003 - $3,809) from Capital Projects Group Inc. ("CPGI"), which is due on December 31, 2008. This company has a 7.5% indirect interest in Strait Crossing Development Inc. ("SCDI"), which owns and operates the Confederation Bridge in eastern Canada. Security for the loan is 52 common shares of SCDI. Interest is at TD Canada Trust prime plus 1% up to October 1, 2004 and at prime rate thereafter. CPGI may upon the provision of 30 days prior written notice to the Company elect to fix the rate of interest at TD Canada Trust prime rate on the date notice is provided plus 0.75% per annum, and after the date of the notice interest shall be paid at the fixed rate. The terms of this loan, which had an original maturity of December 31, 2005, were renegotiated during 2004 and a payment of $1,000 was received from CPGI as a reduction of the balance outstanding.

Also included in loans receivable are loans to directors, senior officers and employees in the amount of $554 (2003 - $606). These loans are unsecured and bear interest, which is payable quarterly at Canada Revenue Agency's prescribed quarterly rates. Repayment terms for principal vary, with some loans requiring fixed quarterly repayments and others having flexible repayment terms.

(c) Deferred costs represent development costs net of recoveries related to the Quito airport project in Ecuador, which were incurred subsequent to the date of awarding of the construction contract and prior to the financial close.

(d) The long-term receivable of $3,385 represents the Company's share of an amount due from Derech Eretz, the concessionaire operating the Cross Israel Highway, in which the Company has a 22.2% interest, to the construction joint venture that built the highway, and in which the Company also has a 22.2% interest. The receivable is with respect to certain expansion work done on the highway at Derech Eretz's request. Derech Eretz will make payments over the period from 2007 to 2010. The receivable, which is denominated in New Israeli Shekels, has been discounted at a rate of 5.5%.

(e) Other includes definite life intangible assets of $322 (2003 - $415).

9) Long-term debt

	Notes	2004	2003
Revolving term loan	(a)	**$ 21,850**	$ 7,022
Capital leases and equipment loans	(b)	**17,520**	20,677
Subordinated debt	(c)	**–**	9,678
Real estate financing	(d)	**5,334**	5,490
Other		**125**	444
		44,829	43,311
Less: Amounts due within one year		**4,477**	15,944
		$ 40,352	$ 27,367

The following describes the components of long-term debt:

(a) The Company has a $22,974 (2003 - $24,022) revolving term loan facility, principally secured by first position collateral mortgages over certain of the Company's real estate assets and its aggregate reserves on such properties. The loan is available in either Canadian or U.S. dollars. The maximum availability under the facility reduces annually according to a mortgage-style amortization schedule based on an assumed 7% interest rate and a fifteen-year amortization period. Interest on borrowings under the facility is based on reference rates established and re-established by the Lender on a monthly basis by reference to U.S. LIBOR, Canadian prime or 30-day Canadian bankers' acceptances. At December 31, 2004, an amount of $21,850 had been borrowed under the facility, bearing interest at 5.4%. Five years after December 31, 2004, the lender may reduce the maximum facility amount to the extent that it exceeds 60% of the appraised value of the loan collateral. At that time, the applicable interest margins can also be re-established at the lender's discretion up to a maximum increase of 50 basis points.

(b) At December 31, 2004 capital leases and equipment loans bore interest at fixed and floating rates averaging 6.6% (2003 - 6.8%) per annum, with specific equipment provided as security.

(c) On September 29, 2003 the Company signed a stand-by facility agreement with its largest shareholder, Hochtief Canada Inc. ("HCI"). Under the facility, the Company could borrow United States ("US") dollars up to an amount equivalent to Canadian ("Cdn") $10,000 at an interest rate of U.S. prime plus 1.75%. A stand-by fee of .25% per annum on the undrawn amount and an arrangement fee of 1% on each draw were also payable. Borrowings under the facility were supported by security agreements already in place in support of existing financial arrangements between Aecon and HCI, including a General Security Agreement ("GSA") ranking behind the GSA granted to the Company's bankers, which includes security interests in accounts receivable, holdback receivables and pledges of inventory, equipment and property and other assets of the Company, except that HCI's security position for the subject facility was senior to the Company's bankers relative only to future profit distributions received from certain designated international joint ventures. Borrowings were repayable on December 31 2004, or upon receipt of future profit distributions of certain designated international joint ventures, whichever occured first. At December 31, 2003, the Company had borrowed $9,678 under this stand-by facility, which was fully repaid on November 30, 2004.

(d) Mortgages are secured by certain of the Company's real estate assets. The majority of these loans, amounting to $5,134 (2003 - $5,230), are for a term of ten years at a fixed rate of interest of 7.6% (2003 - 7.6%) and require monthly principal and interest payments amortized over 25 years.

The weighted average interest rate on long-term debt outstanding at the end of the year was 6.1% (2003 - 6.6%).

Repayments of long-term debt required within the next five years, including the $35,643 convertible debentures described in note 11, are as follows:

2005	$ 4,477
2006	12,244
2007	8,502
2008	2,760
2009	30,493
Thereafter	21,996
	$ 80,472

10) Guarantees

The Company has outstanding guarantees and letters of credit amounting to $29,644 (2003 - $38,801) in support of financial and performance related obligations for the Nathpa Jhakri Hydro-electric Project in India, which has also been guaranteed by Hochtief, the parent of the Company's largest 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 a joint and several guarantee in the amount of $9,015 (2003 - $19,000) in support of holdback related obligations. The Company has also provided two other joint and several guarantees in support of the project, a continuous guarantee, which guarantees the performance of the concessionaire in which the Company has a 22.2% interest and a leakage guarantee, which is a guarantee by the operator of the toll highway, in which the Company has a 34% interest, to the concessionaire and covers toll capture and collection rates generated from users of the highway during the operating period. These guarantees extend to the end of the concession period which ends in 2029. The continuous guarantee is in the amount of $16,227 (2003 - $17,500) 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 $12,276 (2003 - $13,000) or 6% of annual toll revenue.

In addition, the Company has also issued, in the normal conduct of operations, guarantees amounting to $7,186 (2003 - $5,898) in support of financial and performance related obligations. Furthermore, the Company has issued an advance payment guarantee in the amount of $3,000 (2003 - $3,000) for the Eastmain Powerhouse project (this guarantee is counter guaranteed by Hochtief), and performance guarantees of $669 (2003 - $720) for the Altek Alarco Elektrik project in Turkey and $5,572 (2003 - $nil) for DSD Wuppertal project in Germany, both counter guaranteed by Export Development Corporation.

Under the terms of many of the Company's joint venture contracts with project owners, each of the partners is jointly and severally liable for performance under the contracts. Circumstances that could lead to a loss include a partner's inability to contribute additional funds to the venture in the event that the project incurs a loss or additional costs that the Company could incur should the partner fail to provide the contractually committed services and resources. At December 31, 2004, the value of uncompleted work for which Aecon's joint venture partners were responsible, and which Aecon could have been responsible for assuming, amounted to approximately $115,000 (2003 - $186,000), a substantial portion of which was supported by performance bonds. In the event that Aecon assumed this additional work it would have the right to receive the partner's share of billings to the project owners pursuant to the joint venture contract.

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

11) Convertible debentures

Convertible secured subordinated debentures:

	2004	2003
Debt component:		
(a) Debenture maturing June 30, 2006	**$ 7,567**	$ 7,457
(b) Debenture maturing November 2, 2009	**28,076**	–
	$ 35,643	$ 7,457
Equity component:		
(a) Debenture maturing June 30, 2006	**$ 836**	$ 836
(b) Debenture maturing November 2, 2009	**1,990**	–
	$ 2,826	$ 836

(a) The convertible subordinated debenture maturing June 30, 2006 in the original principal amount of $9,940 was issued to the Company's largest shareholder and was taken out in connection with the acquisition of a subsidiary in 1999. The debenture bears interest at prime rate plus 1.0%, is convertible into common shares of the Company and matures on June 30, 2006. The debenture is payable on demand commencing January 1, 2006. The conversion price for $613 of debenture principal, representing 170,344 common shares, is equal to $3.60 per share. The remaining principal balance shall be eligible for conversion at such price, and at such times, as common shares are issued to employees pursuant to the exercise of stock options (other than pursuant to the exercise of stock options that were outstanding at December 31, 1999), subject to a minimum conversion price of $3.00 per common share. The debenture creates a security interest, behind the security granted to the Company's bankers, which includes assignment of accounts receivable, holdbacks receivable and pledges of inventory, equipment and property and other assets of the Company. The Company is not entitled to prepay or repay any principal amount until the earlier of January 1, 2006 or demand by the lender for payment following the occurrence of an event of default. The lender has the right, at its option until June 30, 2006, to convert a portion of the principal amount into common shares of the Company. In December 31, 2002, the lender exercised its option to convert $2,209 of convertible debentures into common shares.

(b) The unsecured, subordinated convertible debenture maturing November 2, 2009 was issued in 2004. The debenture bears 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. Subject to specified conditions, the Company will have the right to repay the outstanding principal amount of the convertible debenture, 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 has 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 $37,731 at December 31, 2004 (2003 - $7,731), 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:

	2004	2003
Interest expense on face value	**$ 800**	$ 440
Notional interest representing accretion	**176**	109
Amortization of deferred financing costs	**48**	–
	$ 1,024	$ 549

The liability portion of the debenture is as follows:

	2004	2003
Financial liability component	**$ 34,905**	$ 6,895
Notional interest representing accretion	**738**	562
	$ 35,643	$ 7,457

12) Commitments and contingencies

(a) The Company has commitments for equipment and premises under operating leases, which require the following future minimum payments:

2005	$ 16,667
2006	12,524
2007	8,818
2008	5,292
2009	4,000
Beyond	15,061
	$ 62,362

(b) The Company is involved in various claims and litigation both as plaintiff and defendant. In the opinion of management, the resolution of claims against the Company will not result in a material effect on the financial position of the Company. Any settlements or awards will be reflected in the consolidated statements of operations, as the matters are resolved.

(c) The Company is contingently liable for the usual contractor's obligations relating to performance and completion of construction contracts and for the obligations of its venturers in unincorporated joint ventures, the assets of which are available to settle any claims that may arise in the joint ventures.

(d) During 2001, the Company received federal income tax reassessments relating to deductions claimed by predecessor companies between 1993 and 1999. The reassessments, which disallow previously claimed Canadian development expense ("CDE") deductions, amounted to $10,581 at December 31, 2004. Provincial income tax reassessments related to the disallowed CDE and received to date amount to $804. Although the Company has filed Notices of Objection, it was required to pay 50% of the federally assessed amounts and 100% of the Ontario provincial assessments pending resolution of the objections. At December 31, 2004, the Company had paid $5,414 resulting from these assessments. To date, Canada Revenue Agency has not responded to the Notices of Objection. The total potential federal and provincial reassessments, including income taxes, interest and penalties could be up to $17,066. The Company believes it has adequate income tax provisions to cover the ultimate outcome of these reassessments.

(e) The Nathpa Jhakri Project in India has incurred significant delays in respect of which the joint venture, in which Aecon has a 45% interest, has submitted requests for extensions of contract time as well as claims for significant compensation arising from the costs of delays.

The owner of the project, Satluj Jal Vidyut Nigam Ltd. ("SJVN") (formerly Nathpa Jhakri Power Corporation Limited) has granted a number of provisional requests for extensions of contract time as a result of which the joint venture was entitled to escalation on quantities previously billed. Income derived from these escalations has been included in the joint venture profit estimate for this project.

At December 31, 2004, joint venture's claims to cover delay related costs amounted to approximately $107,700 (2003 - $110,000) of which $10,036 (2003 - $10,254), at current exchange rates, had been received by the joint venture based on an interim recommendation made by a claims review panel and is included in the joint venture's profit estimate for this project. A further payment of $9,187 (2003 - $nil) as full settlement, was recommended by the Alternate Disputes Resolution Board ("ADRB"), which was appointed jointly by SJVN and the joint venture. Since ADRB recommendations are not binding and since the joint venture is not satisfied with the level of the final settlement recommended by the ADRB nor does SJVN support the recommendation, income from this award has not been included in the joint venture's profit estimate for this project.

In the event that SJVN denies the current request for extension of contract time and the joint venture is unsuccessful in its claims for additional compensation, the joint venture could be faced with potential liquidated damages claims by SJVN of up to a maximum amount equal to $26,600 (10% of the original contract value) for which the Company is jointly and severally liable. Management believes that due to the extent and nature of the significant delays to the project, which have been previously acknowledged and recognized by SJVN, no significant liquidated damages will be levied against the joint venture.

13) Capital stock

	2004		2003	
	Number of shares issued	**Amount**	Number of shares issued	Amount
Balance – beginning of year (i)	**25,308,542**	**$ 68,216**	25,111,109	$ 67,479
Common shares issued on exercise of options	**616,067**	**2,224**	197,433	737
Common shares issued, less expenses of $761 (ii)	**4,600,000**	**23,389**	–	–
Balance – end of year	**30,524,609**	**$ 93,829**	25,308,542	$ 68,216

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

(ii) On March 18, 2004, the Company issued 4,600,000 common shares at $5.25 per share. Net proceeds, after deducting agents' fees and expenses of the issue were approximately $23,389. The Company's largest shareholder exercised its pre-emptive right in connection with this offering and acquired 2,214,440 common shares, thus maintaining its proportionate interest.

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

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

Under the terms and conditions of the 1998 Stock Option Plan (the 1998 Plan), the aggregate number of common shares, which may be reserved for issuance under the 1998 Plan, shall not exceed 2,700,000 common shares. At December 31, 2004, the maximum number of shares reserved for issuance under the plan, after deducting options that have been exercised, is 1,497,266, of which 1,181,000 have been issued. Each option agreement shall specify the period for which the option thereunder is exercisable (which in no event shall exceed ten years from the date of grant), and shall provide that the option shall expire at the end of such period. The Company's Board of Directors will determine the vesting period on the dates of option grants.

	2004 Shares	2004 Weighted average exercise price	2003 Shares	2003 Weighted average exercise price
Balance outstanding at beginning of year	**1,780,400**	**$ 3.76**	1,911,233	$ 3.71
Granted	**150,000**	**6.27**	100,000	4.75
Exercised	**(616,067)**	**3.61**	(197,433)	3.73
Forfeited	**(133,333)**	**4.72**	(33,400)	4.00
Balance outstanding at end of year	**1,181,000**	**$ 4.05**	1,780,400	$ 3.76
Options exercisable at end of year	**964,333**	**$ 3.66**	1,438,733	$ 3.65

Options were exercised during the year for 616,067 shares (2003 - 197,433) for which share capital was increased by $2,224 (2003 - $737). Options currently outstanding have the following exercise prices and expiry dates:

Options granted in	Number of shares	Exercise price	Expiry date
2000	506,000	$ 3.60	July 20, 2005
2001	200,000	3.60	March 5, 2006
2001	175,000	3.60	April 9, 2006
2001	50,000	4.00	May 7, 2006
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.

The Company has adopted fair value accounting for options granted to employees after 2001. During the year, compensation expense was reduced by $14 (2003 - increased by $136), and contributed surplus was reduced or increased by the same amount, on account of options granted and forfeited.

In connection with an issue of Special Warrants in May 2002, the Company issued to the underwriters 166,750 compensation options ("Compensation Options"). Each Compensation Option entitled the holder thereof to purchase one common share at an exercise price of $5.25 per common share. The Compensation Options, none of which were exercised, expired on May 6, 2004.

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

Details of the 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 1,522,063 common shares on account of share purchase loans receivable from employees. For purposes of calculating diluted loss per share, these shares have been treated as options.

			2004
	Loss (numerator)	Shares (denominator)	Per share (i)
Net loss per share			
Net loss for the year	**$ (41,626)**	**27,567,476**	**$ (1.51)**
Effect of dilutive securities –			
Options	**–**	**1,815,891**	**–**
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	**316**	**2,147,568**	**–**
	$ (41,310)	**31,530,935**	**$ (1.51)**
Loss per share from continuing operations			
Loss from continuing operations	**$ (54,680)**	**27,567,476**	**$ (1.98)**
Effect of dilutive securities –			
Options	**–**	**1,815,891**	**–**
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	**316**	**2,147,568**	**–**
	$ (54,364)	**31,530,935**	**$ (1.98)**

			2003
	Loss (numerator)	Shares (denominator)	Per share(i)
Net loss per share			
Net loss for the year	$ (13,872)	23,707,556	$ (0.59)
Effect of dilutive securities –			
Options	–	1,643,275	–
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	348	2,061,972	–
	$ (13,524)	27,412,803	$ (0.59)
Loss per share from continuing operations			
Loss from continuing operations	$ (18,731)	23,707,556	$ (0.79)
Effect of dilutive securities –			
Options	–	1,643,275	–
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006	348	2,061,972	–
	$ (18,383)	27,412,803	$ (0.79)

(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 discontinued operations amounted to $0.47 (2003 - $0.20) per share, and diluted earnings per share from discontinued operations amounted to $0.47 (2003 - $0.20).

14) Discontinued operations

In the fourth quarter of 2004, the Company sold its 38.75% interest in Canatom NPM Inc. ("Canatom") that was part of the Company's Industrial segment. Net proceeds from the sale were $10,985 and the pre-tax gain from the sale amounted to $6,923. For the year ended December 31, 2004, the Company's proportionate share of revenues, expenses and net loss from this joint venture were as follows: revenues of $15,672 (2003 - $22,837); expenses other than income taxes of $5,856 (2003 - $15,435); net income of $6,470 (2003 - $4,860).

In the fourth quarter of 2004, pursuant to an agreement signed in the third quarter of 2004, the Company sold its Footage Tools division that was part of the Company's Infrastructure segment. Net proceeds from the sale were $1,852, of which $400 is in the form of a note receivable from the purchasers, and the pre-tax gain from the sale amounted to $400. For the year ended December 31, 2004, the Company's revenues, expenses and net loss from this division were as follows: revenues of $3,140 (2003 - $3,735); expenses other than income taxes of $2,631 (2003 - $3,507); net income of $315 (2003 - $146).

In the second quarter of 2004, the Company sold its one-third interest in a joint venture that was part of the Company's Infrastructure segment. Net proceeds from the sale were $1,188 and the pre-tax gain from the sale amounted to $386. For the year ended December 31, 2004, the Company's proportionate share of revenues, expenses and net loss from this joint venture were as follows: revenues of $52 (2003 - $5,348); expenses other than income taxes of $468 (2003 - $5,254); net loss of $347 (2003 - $147).

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

Reflected in the consolidated balance sheets as discontinued operations are the carrying values of the assets and liabilities of the operations that were sold. Included as discontinued operations in the consolidated statements of operations and consolidated statements of cash flows are the results of operations and cash flows related to these operations.

The table below summarizes income from discontinued operations:

	2004	2003
Revenues	**$ 18,864**	$ 31,920
Expenses	**(8,955)**	(24,196)
Gain on dispositions	**7,709**	–
Income before income taxes	**17,618**	7,724
Income taxes	**4,564**	2,865
Net income	**$ 13,054**	**$** 4,859

Certain comparative figures have been reclassified, consistent with the presentation of discontinued operations.

15) Interest

	2004	2003
Interest on long-term debt and subordinated debentures	**$ 1,849**	$ 2,344
Interest on capital leases	**1,291**	1,145
Interest on short-term debt	**2,965**	2,864
Interest income	**(1,796)**	(3,032)
	$ 4,309	$ 3,321

16) Cash flow information

Change in other balances relating to operations:

	2004	2003
Decrease (increase) in:		
Marketable securities and term deposits	**$ 7,252**	$ 1,046
Accounts receivable	**(796)**	7,807
Holdbacks receivable	**(6,271)**	4,812
Deferred contract costs and unbilled revenue	**(9,916)**	7,910
Inventories	**1,959**	1,388
Prepaid expenses	**751**	1,445
(Decrease) increase in:		
Accounts payable and accrued liabilities	**6,284**	(13,708)
Holdbacks payable	**5,478**	(2,240)
Deferred revenue	**7,553**	(18,854)
Income taxes payable	**2,601**	963
Employee benefit plans	**–**	(1,764)
	$ 14,895	$ (11,195)

Other supplementary information:

	2004	2003
Cash interest paid	**$ 5,111**	$ 6,906
Cash income taxes paid	**3,258**	5,247

Property, plant and equipment acquired and financed by means of capital leases amounted to $2,285 in the year (2003 - $3,320).

Property, plant and equipment of $2,610 were acquired during the year for which a tenant inducement was received from the landlord. This inducement is included in other liabilities on the consolidated balance sheets and is being amortized over the term of the lease.

During the year, the Company received $4,326 upon the transfer to a new partner of a portion of its interest in the Quito, Ecuador airport project.

During the year, cash held in trust to fund an investment in a company that operates and collects tolls on the Cross Israel Highway was released and the investment was made (note 7).

17) Acquisitions

In the second quarter of 2004, the Company acquired the assets and operations of Cegerco CCI Inc., a general contracting company in the Montreal region, specializing in the construction and management of institutional, commercial and pharmaceutical building projects. The purchase price on closing was $784, with potential earn-out payments of up to an additional $1,200 over the next four years. The acquisition was accounted for using the purchase method and the results of operations are included from the date of acquisition.

In the fourth quarter of 2003, the Company acquired the assets and operations of Westeinde, a general contractor in eastern Ontario for a total consideration of $1,503. The acquisition was accounted for using the purchase method and the results of operations are included from the date of acquisition. In the fourth quarter of 2004 the Company entered into a settlement agreement with the former owner of Westeinde in which it was agreed that notes payable to the former owner in the amount of $728 would be forgiven, the Company's obligations under a consulting agreement would be terminated and that the Company would be granted the former owner's interest in a mutually owned joint venture. The remaining carrying value of goodwill and other intangible assets, amounting to $1,130 in Westeinde was written off. This charge is included in the consolidated statements of operations as impairment of goodwill and other intangible assets.

The following is a summary of these acquisitions:

	2004	2003
Net assets acquired		
Non-cash working capital	**$ 19**	$ (1,234)
Property, plant and equipment	**265**	254
Future income tax assets	**–**	58
Intangible assets	**500**	300
Goodwill	**–**	2,125
	$ 784	$ 1,503
Consideration		
Cash	**$ 400**	$ –
Short-term note payable	**384**	1,139
Long-term debt	**–**	364
	$ 784	$ 1,503

18) Employee benefit plans

The Company has defined benefit pension plans including supplementary executive retirement plans and defined contribution plans covering substantially all employees, other than union employees who are covered by multi-employer pension plans administered by the unions. Benefits under the defined benefit plans are generally based on the employee's years of service and level of compensation near retirement. Benefits are not indexed for inflation, except for a supplementary executive retirement plan which is fully indexed for changes in the consumer price index. The Company does not provide post-retirement benefits other than pensions.

The measurement date used for financial reporting purposes of the pension plan assets and benefit obligation is December 31. The most recent actuarial valuation filed for funding purposes for the principal defined benefit pension plan was completed on July 1, 2002 and the next required actuarial valuation is July 1, 2005.

The financial position and other selected information related to the employee defined benefit pension plans is presented in the tables below.

	2004	2003
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	**$ 26,349**	$ 21,997
Actual return on plan assets	**2,577**	2,273
Company contributions	**2,393**	3,883
Plan participant contributions	**181**	108
Benefits paid	**(2,600)**	(1,912)
Fair value of plan assets at end of year	**$ 28,900**	$ 26,349
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 32,248**	$ 29,777
Current service cost	**1,199**	1,255
Interest cost	**1,919**	1,880
Benefits paid	**(2,600)**	(1,912)
Actuarial losses	**2,485**	1,248
Benefit obligation at end of year	**$ 35,251**	$ 32,248
Funded status		
Excess of benefit obligation over plan assets	**$ (6,351)**	$ (5,899)
Unrecognized net actuarial loss	**7,261**	5,960
Unrecognized transitional liability	**188**	238
Prepaid asset at December 31	**$ 1,098**	$ 299
Amounts recognized in consolidated balance sheets		
Other assets	**$ 1,098**	$ 299
Weighted average assumptions to calculate benefit obligation		
Discount rate	**5.75%**	6.0%
Rate of increase in future compensation	**3.5%**	3.5%
Mortality assumption table	**UP94 proj 2015**	GAM83
Asset categories of pension assets		
Cash and short-term notes	**7.0%**	9.3%
Debt securities	**35.7%**	36.0%
Equity securities	**57.3%**	54.7%

Details of pension expense are as follows:

	2004	2003
Pension benefit expense		
Current service cost, net of employee contributions	**$ 1,018**	$ 1,147
Interest cost	**1,919**	1,880
Amortization of actuarial loss (1)	**303**	280
Amortization of transitional liability	**50**	51
Expected return on plan assets	**(1,695)**	(1,550)
Defined benefit pension expense	**1,595**	1,808
Defined contribution pension expense	**1,518**	1,067
Multi-employer pension plan contributions	**12,776**	14,311
Pension benefit expense	**$ 15,889**	$ 17,186
Defined benefit pension expense incurred		
Defined benefit pension expense recognized, above	**1,595**	1,808
Difference between expected and actual return on plan assets	**(882)**	(723)
Difference between actuarial losses amortized and actuarial losses arising	**2,182**	968
Amortization of transitional liability	**(50)**	(51)
Defined benefit pension expense incurred	**$ 2,845**	$ 2,002
Weighted average assumptions to calculate pension benefit expense		
Discount rate	**6.0%**	6.25%
Assumed long-term rate of return on plan assets	**6.5%**	6.5%
Rate of increase in future compensation	**3.5%**	3.5%

(i) At the beginning of each year, it is determined whether the unrecognized actuarial loss is more than 10% of the greater of plan assets or benefit obligations. The amount of unrecognized actuarial losses in excess of this 10% threshold is recognized in expense over the remaining service period of active employees. Amounts below the 10% threshold are not recognized in expense.

Details of cash flows are as follows:

	2004	2003
Cash flows		
Total cash contributions for employee pension plans:		
Defined benefit plans	**$ 2,393**	$ 3,883
Defined contribution plans	**1,518**	1,067
Multi-employer pension plan	**12,776**	14,311
Total cash contributions	**$ 16,687**	$ 19,261

In addition to regular contributions, the Company expects to contribute approximately $900 in 2005 (2004 - $836) to its defined benefit pension plans to cover underfunded liabilities.

19) 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) In December, 2004, the Company's largest shareholder Hochtief transferred its 47.8% stake in the Company to 3094499 Nova Scotia Company, a wholly owned subsidiary of the Turner Corporation, which in turn is a wholly owned subsidiary of Hochtief.

(b) The Company paid guarantee fees in the amount of $432 (2003 - $319) to Hochtief, in relation to the guarantees it has issued for the Nathpa Jhakri Hydro-electric Project in India (note 10).

(c) The Company paid professional fees in the amount of $25 (2003 - $45) to a consulting company in which a director of the Company is a partner.

(d) The Company is a joint venture partner with Hochtief on the Eastmain hydro-electric powerhouse project in Quebec.

(e) During 2004, the Company paid $647 of interest, stand-by fees, and arrangement fees to HCI with respect to a standby facility which was repaid on November 30, 2004 (note 9(c)).

(f) The Company paid interest of $388 to HCI on the convertible debenture described in note 11.

(g) At December 31, 2004, the Company had a receivable of $290 from Hochtief Projektentwicklung GmbH with respect to bid costs, pursuant to an arrangement in place for the sharing of such costs.

(h) The Company paid various services fees in the amount of euro 99,000 to Hochtief VSB a.s. with respect to an automotive contract in Europe.

(i) As at December 31, 2004, the Company had a payable in the amount of $661 to Hochtief Construction AG.

(j) On July 21, 2004 the shareholders voted not to approve a proposed amalgamation that would have resulted in HCI holding all of the outstanding shares of the Company and taking the Company private. The Company incurred legal, valuation and related costs of $1,046 in connection with the proposed amalgamation. HCI reimbursed the Company for $520 of these costs.

(k) The Company paid legal fees in the amount of $319 (2003 - $338) to a firm in which a director of the Company is a partner.

(l) The Company's sale of its Footage Tools division, referred to in note 14, was made to a group that included employees of the Footage Tools division and a former executive of the Company.

20) Financial instruments

Short-term deposits and cash equivalents, marketable securities, accounts receivable, and accounts payable and accrued liabilities approximate their fair values on a discounted cash flow basis because of the short-term nature of these instruments.

The carrying values of long-term debts, including convertible debt, approximate their fair value on a discounted cash flow basis because the majority of these obligations bear interest at market rates.

Other financial instruments held or issued by the Company include holdbacks receivable, non-interest bearing project advances payable or holdbacks payable, which are amounts directly related to construction contracts. These amounts, by their nature, do not bear interest and consideration for the time value of money is thus negotiated into the price of the contracts. The Company does not have plans to sell these financial instruments to third parties and will realize or settle them in the normal course of business. No quoted market price exists for these instruments because they are not traded in an active and liquid market. Accordingly, the fair values of holdbacks receivable, non-interest bearing project advances payable or holdbacks payable are considered to approximate the carrying values.

There is not a liquid or quoted market value for the Company's long-term investment in Derech Eretz. The long-term receivable included in other assets has been discounted at an interest rate, which results in the carrying value approximating its fair value.

From time to time, the Company 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 December 31, 2004, the Company had net outstanding contracts to sell US$9,649 (2003 – buy US$2,479) and sell euro 586,000 (2003 – sell euro 3,400,000) on which there was a net unrealized exchange gain of $582 (2003 – net loss of $22), which represents the estimated amount that the Company would have had to pay in the case of losses and receive in the case of gains if it terminated the contracts at the end of the respective years.

21) 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.

(a) Industry segments

					2004
	Infrastructure	**Buildings**	**Industrial**	**Corporate and Other**	**Total**
Revenues	$ 449,277	$ 367,438	$ 192,486	$ (6,721)	$1,002,480
EBITDA	$ 1,762	$ (11,370)	$ 2,753	$ (11,168)	$ (18,023)
Depreciation and amortization	$ 4,754	736	1,722	721	7,933
Impairment of goodwill and other intangible assets	–	1,130	–	–	1,130
Segment operating profit (loss)	$ (2,992)	$ (13,236)	$ 1,031	$ (11,889)	$ (27,086)
Interest and income taxes					(27,594)
Loss from continuing operations					$ (54,680)
Segment operating profit from discontinued operations	$ 885	$ –	$ 16,648	$ –	$ 17,533
Interest and income taxes					(4,479)
Income from discontinued operations					$ 13,054
Net loss					$ (41,626)
Total assets	$ 238,533	$ 105,690	$ 89,640	$ 21,464	$ 455,327
Intangible assets and goodwill	$ 2,743	$ 1,983	$ 3,750	$ –	$ 8,476
Capital expenditures	$ 873	$ 351	$ 2,321	$ 443	$ 3,988
Cash flow from continuing operations	$ 2,043	$ (11,360)	$ 2,689	$ (21,716)	$ (28,344)

					2003
	Infrastructure	Buildings	Industrial	Corporate and Other	Total
Revenues	$ 447,644	$ 299,298	$ 195,413	$ (1,789)	$ 940,566
EBITDA	$ (18,910)	$ 2,349	$ 9,279	$ (5,512)	$ (12,794)
Depreciation and amortization	$ 5,854	199	1,663	852	8,568
Segment operating profit (loss)	$ (24,764)	$ 2,150	$ 7,616	$ (6,364)	$ (21,362)
Interest and income taxes					2,631
Loss from continuing operations					(18,731)
Segment operating profit from discontinued operations	$ 362	$ –	$ 7,109	$ –	$ 7,471
Interest and income taxes					(2,612)
Income from discontinued operations					$ 4,859
Net loss					$ (13,872)
Total assets	$ 257,763	$ 81,360	$ 70,918	$ 60,193	$ 470,234
Assets of discontinued operations	$ 23,536	$ –	$ 11,867	$ –	$ 35,403
Intangible assets and goodwill	$ 2,878	$ 4,188	$ 3,750	$ –	$ 10,816
Capital expenditures	$ 503	$ 225	$ 514	$ 403	$ 1,645
Cash flow from continuing operations	$ (13,774)	$ 2,349	$ 9,221	$ (17,627)	$ (19,831)

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

(b) Geographic segments

	2004	2003
Revenues		
Canada	**$ 855,691**	$ 763,060
United States	**$ 76,222**	72,827
Other	**70,567**	104,679
	$1,002,480	$ 940,566
Property, plant and equipment, intangible assets and goodwill		
Canada	**$ 67,308**	$ 69,953
United States	**151**	244
	$ 67,459	$ 70,197

During the current year, the Company generated $101,063 or 10.1% of its revenue from a major customer in Quebec.

22) Comparative figures

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

23) Subsequent events

On January 24, 2005, the Company closed a series of transactions, first announced on September 27, 2004, to increase its stake in Derech Eretz from an effective 22.2% to 25%. The transactions involved the exit of AMEC Inc. ("AMEC"), effective owners of 11.1% of Derech Eretz, from the project. On AMEC's departure, the Company increased its stake in Derech Eretz by approximately 3% to 25% and the Company's two partners, Housing and Construction Holding Company Ltd. and Africa Israel Investment Ltd., each increased their stakes by approximately 4% to 37.5%. In addition, the Company purchased AMEC's share of the company holding an ownership interest in the construction joint venture, which constructed the Cross Israel Highway, and in related companies.

Under the terms of the transactions, the Company paid a net $4,350 (US$3,500) for its increased stake. As the fair value of the financial and current net assets acquired in the joint venture exceeded the amount paid, the Company will record an after tax gain of $3,400 on this transaction in the first quarter of 2005, which will be classified in the consolidated statements of operations as an extraordinary item.

Effective March 14, 2005, the Company amended the credit agreement with its bankers. The $35,000 facility, which was to expire on June 4, 2005, was reduced to $17,950 effective the date of amendment, a waiver of certain financial covenants was obtained and the expiry date was changed to April 30, 2005. The Company plans to use proceeds from the issuance of the convertible debentures, referred to below, to substantially replace borrowings under the credit agreement.

On March 17, 2005, pursuant to an agreement entered into on March 4, 2005 with a syndicate of underwriters, the Company issued $32,500 principal amount of an unsecured, subordinated convertible debenture maturing March 17, 2010. The debenture bears 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 $7.60 for each common share, subject to adjustment in certain circumstances. The convertible debenture will not be redeemable before March 18, 2008. From March 18, 2008 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. Subject to specified conditions, the Company will have the right to repay the outstanding principal amount of the convertible debenture, 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 has the option, subject to prior agreement of the holders, to settle its obligations on conversion by way of a cash payment of equal value.

Hochtief, the Company's largest shareholder, has indicated that it will not sell or otherwise monetize any securities of Aecon that it directly or indirectly owns for a minimum period of 60 days following closing, without the prior approval of the underwriters.

2004 Aecon Award Recipients

Extraordinary Achievement Award

This annual award recognizes Aecon employees who exhibit extraordinary commitment to the achievement of our vision, values and business objectives and who are instrumental in helping Aecon to exceed expectations.

Winner:
Office Consolidation Project Team:
Lucy Jamison, Director Procurement, Corporate
Sue Anderson, Facilities Service Coordinator, Corporate
Terry Petrie, Project Manager, Buildings
Vel Kobak, Superintendent, Buildings

Winner:
Albert Furlong, Project Controller, Aecon Constructors

Honourable Mention:
Dave Mackey, Operations Superintendent,
Aecon Civil and Utilities

Humanitarian Award

This annual award recognizes an individual employee's commitment to construction safety. The achievements of the winners have contributed to the safety of colleagues and clearly demonstrate the Aecon core value to ensure safety in all our activities.

Winner:
Shirley Duffy, Information Manager, Corporate

Honourable Mention:
Jim Cook, Production Control Manager, Aecon Industrial

Honourable Mention:
Karen McIlroy, Operations Finance Manager, Aecon Industrial

Individual Excellence In Safety Award

This annual award recognizes the outstanding contribution of Aecon employees to the communities in which we live and operate. Winners of this award clearly demonstrate through their actions their commitment to both the core business of Aecon and our mission to develop, build and maintain world class quality infrastructure that supports and improves the communities in which we live and work.

Winner:
MTO Highway 401 Widening in Kingston Project Team:
Pat Goody, Senior Superintendent
Donato DiBenedetto, Superintendent
David St. Marie, Concrete Superintendent
Aecon Civil and Utilities

Honourable Mention:
The Grandview Project Construction Management Team:
Tim Austin, Al Campbell, Kevin Kaczmarczyk, Jeff Myhal,
Ralph Sorbara and Peter Windrem
Aecon Industrial

Honourable Mention:
Gary Kmith, Senior Superintendent, Aecon Civil and Utilities

Division Excellence in Safety Award

Winner:
Aecon Buildings

Corporate Information

Board of Directors

John M. Beck	Chairman and Chief Executive Officer, Aecon Group Inc.
Scott C. Balfour	Executive Vice President and Chief Financial Officer, Aecon Group Inc.
Austin Beutel	Chairman, Oakwest Corporation Limited
Michael A. Butt	President, Buttcon Limited
John DiCiurcio	Executive Vice President, Turner Construction Company
Rolf Kindbom	Officer and Director, Hochtief Canada Inc.
Hans-Wolfgang Koch	Member of the Executive Board, Hochtief AG
Dr. Martin Rohr	Chief Operating Officer, Hochtief AG
Hon. Brian Tobin	Senior Business Advisor, Fraser Milner Casgrain LLP
Robert P. Wildeboer	Partner, Wildeboer Rand Thompson Apps & Dellelce, LLP

Executive Committee

John M. Beck	Chairman and Chief Executive Officer
Scott C. Balfour	Executive Vice President and Chief Financial Officer
Paul P. Koenderman	Executive Vice President
H. William (Bill) Pearson	Executive Vice President
L. Brian Swartz	Senior Vice President, Legal and Commercial Services and Secretary

Aecon Board of Directors Standing (from left to right) Scott Balfour, Austin Beutel, John DiCiurcio, Rolf Kindbom, Brian Tobin, Martin Rohr, Michael Butt. Seated (from left to right) John M. Beck, Hans-Wolfgang Koch, Rob Wildeboer.

Corporate Management Team

Andy DeHaan	Vice President, Management Information Systems
Gerry Kelly	Senior Vice President, Finance
Mitch Patten	Vice President, Corporate Affairs
Gernot Wittig	Senior Vice President, Contracts and Project Controls

Divisional Leadership

Scott C. Balfour	Chief Executive Officer, Infrastructure Construction
Jacob Berg	President, Aecon Industrial
R.D. (Bob) Dautovich	President, Innovative Steam Technologies
Laurent Hamel	Chairman, Groupe Aecon Ltée
Paul P. Koenderman	Chief Executive Officer, Aecon Industrial Group
Terrance McKibbon	Senior Vice President and General Manager, Aecon Civil and Utilities
Robert Molgat	President, Aecon Buildings
H. William (Bill) Pearson	Chairman and Chief Executive Officer, Aecon Infrastructure
Doug Steels	President, Aecon Constructors

Annual Meeting

The Annual Meeting of Shareholders of Aecon Group Inc. will be held at the TSX Broadcast and Conference Centre, The Exchange Tower, 130 King Street West, Toronto, Ontario, Canada, on Tuesday, June 21, 2005 at 11:00 a.m. (Toronto time).

Investor Relations

For further information about Aecon Group Inc. or any of its affiliated companies, please contact Mitch Patten, Vice President, Corporate Affairs or Shirley Duffy, Information Manager. They can be reached at 416-293-7004, 1-877-232-2677 or at aecon@aecon.com.

Registrar and Transfer Agent

The Registrar and Transfer Agent for Aecon Group Inc. shares is Computershare Trust Company of Canada. They can be reached at 514-982-7555, 1-800-564-6253 or at service@computershare.com.

Aecon Group Inc.

Aecon Group Inc.
20 Carlson Court, Suite 800
Toronto, Ontario
Canada M9W 7K6
Phone: (416) 293-7004
Toll free: 1-877-232-2677
Facsimile: (416) 293-0271
www.aecon.com
aecon@aecon.com
TSX:ARE

Aecon Atlantic Group

1387 Eastern Passage Highway
P.O. Box 280
Eastern Passage, Nova Scotia
Canada B3G 1M5
Phone: (902) 429-9341

Aecon Buildings

20 Carlson Court, Suite 800
Toronto, Ontario
Canada M9W 7K6
Phone: (416) 293-7004

19217-36 Avenue W.
Suite 200
Lynnwood, WA
U.S.A. 98036
Phone: (425) 774-2945

15 Fitzgerald Road
Suite 200
Nepean, Ontario
K2H 9G1
Phone: (613) 820-9600

Aecon Civil and Utilities

Aecon Construction and Materials Limited
20 Carlson Court, Suite 800
Toronto, Ontario
Canada M9W 7K6
Phone: (416) 293-7004

Aecon Utilities
20 Carlson Court, Suite 800
Toronto, Ontario
Canada M9W 7K6
Phone: (416) 293-7004

Aecon Constructors

20 Carlson Court, Suite 800
Toronto, Ontario
Canada M9W 7K6
Phone: (416) 293-7004

Aecon Industrial

150 Sheldon Drive
Cambridge, Ontario
Canada N1R 7K9
Phone: (519) 653-3200

6820 Gateway Blvd.
Edmonton, Alberta
Canada T6H 2J2
Phone: (780) 433-9321

1195 Speers Road
Oakville, Ontario
Canada L6J 1X8
Phone: (905) 842-7307

Aecon-Fabco
61 Estates Road
Dartmouth, Nova Scotia
Canada B2Y 4K3
Phone: (902) 482-6500

Aecon Infrastructure

20 Carlson Court, Suite 800
Toronto, Ontario
Canada M9W 7K6
Phone: (416) 293-7004

Groupe Aecon Ltée

255, boul. Crémazie Est
Bureau 300
Montréal, Québec
Canada H2M 1M2
Phone: (514) 352-0100

Aecon Cegerco Bâtiments
25 H, De, Lauzon
Boucherville, Québec
Canada J4B 1E7
Phone: (450) 449-6333

Aecon Civil-Industriel
255, boul. Crémazie Est
Bureau 300
Montréal, Québec
Canada H2M 1M2
Phone: (514) 352-0100

Innovative Steam Technologies

549 Conestoga Blvd.
Cambridge, Ontario
Canada N1R 7P4
Phone: (519) 740-0757

Derech Eretz Consortium (25%)

23 Hamelacha Street
Afek Industrial Park
Rosh Haayin 48091 Israel
Phone: 972 3 915 1300

Nathpa Jhakri Joint Venture (45%)

Continental House
28 Nehru Place
New Delhi 110-019 India
Phone: 91 11 641 2795

Corporación Quiport S.A. (45.5%)

Av. Amazonas y Prensa
Aeropuerto Mariscal Sucre de Quito
3er. Piso (salida internacional)
Quito, Ecuador
Phone : (593 2) 294-4978

Aecon Group Inc.
20 Carlson Court, Suite 800
Toronto, Ontario
Canada M9W 7K6
Telephone 416·293·7004
Facsimile 416·293·0271
aecon@aecon.com
www.aecon.com