



building things that matter

- armbro enterprises inc. first quarter report

Three months ended March 31, 2000

Report to Shareholders

I am pleased to report Armbro Enterprises' financial results for the first quarter of fiscal 2000. This is the first full reporting period since Armbro's acquisition of BFC Construction Corporation last December. To make year-over-year analysis more meaningful, comparative results for 1999 have been presented on the basis that the Armbro acquisition of BFC was effective as of January 1, 1999.

Revenue Increases 27%

For the quarter ended March 31, 2000, Armbro recorded revenue of \$173.5 million. This compares to \$136.6 million for the first quarter of 1999, a 27% increase. The improvement in revenue was driven by strong increases in both the Construction Operations and Infrastructure Development segments.

Due to the seasonal nature of its operating activities, Armbro has traditionally experienced a loss during the first quarter. The operating loss for the first quarter of 2000, before interest and income taxes, decreased 57% to \$6.3 million from \$14.5 million for the combined companies in 1999. The net loss for the first quarter improved to \$5.3 million in 2000 from \$9.7 million in 1999. On a per share basis, this represents a loss of \$0.51 based on a weighted average of approximately 10 million shares outstanding. During the quarter, Armbro's alliance with Hochtief AG was further solidified when Hochtief converted \$31 million of debt into approximately 8.7 million Armbro common shares. Because this transaction occurred late in the period, the weighted average number of shares outstanding was not materially impacted. If the conversion had occurred at the beginning of the quarter, the quarterly loss per share would have been \$0.30.

Several factors contributed to the improvement in first quarter operating results. Last year, first quarter results included a provision of \$8.6 million for additional costs incurred on a hydro-electric project in Quebec versus a provision

in the first quarter of 2000 of \$2.6 million for the same project. This project is currently 85% complete and no additional provisions are expected. Armbro has submitted significant claims to the owner as a result of material changes. In addition, first quarter results were positively impacted by the start of construction of the Cross Israel Highway project, in which Armbro now has an effective 22.2% participation.

Backlog Increases 26%

Armbro's backlog of contracts has increased 26% from the first quarter of 1999. At March 31, 2000, backlog was \$1.065 billion, which compares to a backlog of \$844.0 million at March 31, 1999. This increase reflects the positive impact of Armbro's continued focus on Infrastructure Development and the more efficient business development capabilities that have resulted from the implementation of Armbro's acquisition strategy.

During the first quarter, Armbro was awarded new contracts in excess of \$108 million, including a \$40 million contract for the construction of a distribution network of gas mains and services for Union Gas in Southwestern Ontario. Armbro was also awarded a \$25 million contract for the realignment of the outbound collector system of Highway 409, as part of the ongoing redevelopment of the Pearson International Airport in Toronto.

Segment Revenues Continue to Grow

Construction Operations revenue increased 20% to \$143.7 million from \$119.5 million in 1999, driven by strong increases in Armbro's Industrial and Utilities divisions. Infrastructure Development provided the most significant percentage growth in revenue, increasing from \$7.0 million in the first quarter of 1999 to \$29.8 million in 2000, a 326% increase.

These results are an endorsement of Armbro's strategic focus on the rapidly growing infrastructure development market. Armbro anticipates that this market will continue to contribute to its growth and result in the further diversification of earnings going forward.

Other Events

BFC Construction Corporation, now a wholly owned subsidiary of Armbro, although current in its payments of principal and interest, is currently in technical breach of certain financial tests in respect of its unsecured subordinated debenture in the amount of \$30.0 million, principally as a result of the financial implications of its recent acquisition by Armbro. Armbro is in discussions with the debenture holder in respect of its continuing support of BFC. Armbro is also in discussions with its principal banker to provide sufficient credit accommodation to allow for the prepayment of the debenture, either if desired by Armbro or if so required by the debenture holder. None of the options being discussed by the parties is expected to have a material impact on Armbro's financial results.

Effective January 1, 2000, Armbro adopted the Canadian Institute of Chartered Accountants' new income tax accounting standard. The impact of this new standard was material to Armbro's first quarter financial statements and resulted in a net increase to Armbro's retained earnings of \$6.0 million.

Armbro purchased 40,400 shares pursuant to its ongoing Normal Course Issuer Bid during the quarter, bringing the total shares purchased to 893,600 since December 1997.

The acquisition by Hochtief of just under 50% of Armbro's outstanding common shares will be a significant benefit to Armbro. Hochtief is recognized as

a world leader in the construction industry. Their technical know-how and financial strength reinforces our goal to become a major force in the construction and infrastructure development industries.

On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to read "John Beck", written in a cursive style.

John M. Beck

Chairman and Chief Executive Officer

May 26, 2000

Consolidated Balance Sheets

Armbrø Enterprises Inc.

(in thousands of dollars) (unaudited)

as at March 31	2000	1999
Assets		
Current assets		
Cash and cash equivalents	\$ 95,832	\$ 12,565
Accounts receivable	201,319	32,278
Holdbacks receivable	34,618	4,050
Inventories	8,963	2,038
Income taxes recoverable	1,482	-
Prepaid expenses	2,880	1,045
Future income tax assets (note 1)	16,345	-
Assets held for sale	2,350	125
	363,789	52,101
Capital assets	72,471	39,356
Future income tax assets (note 1)	17,451	-
Other assets	25,832	5,900
	\$ 479,543	\$ 97,357
Liabilities		
Current liabilities		
Bank indebtedness	\$ 19,485	\$ 7,253
Accounts payable and accrued liabilities	129,061	28,369
Holdbacks payable	20,222	2,677
Deferred revenue	83,823	3,988
Income taxes payable	2,558	43
Future income tax liabilities (note 1)	28,011	-
Current portion of long-term debt	58,307	7,095
	341,467	49,425
Long-term debt	40,949	16,273
Other liabilities	1,519	-
Future income tax liabilities (note 1)	13,588	578
	397,523	66,276
Convertible debenture	8,865	-
	406,388	66,276
Shareholders' equity		
Capital stock	33,537	1,886
Convertible debenture	1,075	-
Retained earnings (note 1)	38,543	29,195
	73,155	31,081
	\$ 479,543	\$ 97,357

Consolidated Statements of Income and Retained Earnings

Armbrø Enterprises Inc.

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

			Combined (note 2) 1999
three months ended March 31	2000	1999	
Revenues	\$ 173,455	\$ 13,433	\$ 136,622
Costs and expenses	167,420	12,559	139,588
Marketing, general and administrative expenses	10,717	3,365	10,312
Depreciation and amortization	1,993	264	1,452
(Gain) loss on sale of capital assets	(374)	5	(197)
	179,756	16,193	151,154
Operating loss before the following	(6,301)	(2,760)	(14,532)
Interest	1,181	323	54
Loss before income taxes	(7,482)	(3,083)	(14,586)
Income taxes			
Current	(584)	132	-
Future	(1,590)	-	(4,849)
	(2,174)	132	(4,849)
Net loss for the period	(5,308)	(3,215)	\$ (9,737)
Retained earnings – beginning of period	37,935	32,787	
Income tax adjustment (note 1)	6,031	-	
Common share buyback	(115)	(377)	
Retained earnings end of period	\$ 38,543	\$ 29,195	
Loss per share			
Basic	\$ (0.51)	\$ (0.34)	
Fully diluted	n/a	n/a	
Average number of shares outstanding			
Basic	10,316,606	9,345,491	
Fully diluted	18,857,090	9,534,126	
Actual number of shares outstanding	17,986,882	9,311,702	

Consolidated Statements of Cash Flows

Armbro Enterprises Inc.

(in thousands of dollars) (unaudited)

three months ended March 31	2000	1999
Cash provided by (used in):		
Operating activities		
Net loss for the period	\$ (5,308)	\$ (3,215)
Items not affecting cash -		
Depreciation and amortization	1,993	264
(Gain) loss on sale of capital assets	(374)	5
Future income tax recovery	(1,590)	-
	(5,279)	(2,946)
Decrease in working capital	7,988	8,798
	2,709	5,852
Investing activities		
Purchase of capital assets	(4,533)	(146)
Proceeds on sale of capital assets	831	14
Proceeds on disposition of assets held for sale	314	-
Increase in other assets	(157)	(2,615)
Decrease in assets held for sale	4,499	-
Decrease in other liabilities	(65)	-
	889	(2,747)
Financing activities		
Decrease in bank indebtedness	(1,861)	(2,203)
Issuance of long-term debt	10,824	6,571
Repayments of long-term debt	(17,557)	(528)
Conversion of convertible debenture	(31,479)	-
Issuance of capital stock	31,479	-
Repurchase of capital stock	(125)	(406)
	(8,719)	3,434
Increase (decrease) in cash and short-term investments	(5,121)	6,539
Cash and short-term investments - beginning of period	100,953	6,026
Cash and short-term investments - end of period	\$ 95,832	\$ 12,565

Segment Information

Armbrø Enterprises Inc.

(in thousands of dollars) (unaudited)

as at March 31 and for the three months then ended				2000
	Construction Operations	Infrastructure Development	Corporate	Total
Revenue	\$ 143,693	\$ 29,762	\$ -	\$ 173,455
EBITDA	(4,011)	1,165	(1,462)	(4,308)
Depreciation and amortization	1,280	644	69	1,993
Segment operating profit (loss)	(5,291)	521	(1,531)	(6,301)
Interest and income taxes				993
Net loss				\$ (5,308)
Total assets	407,162	57,647	14,734	479,543
Cash flow from operations	\$ (4,125)	\$ 1,435	\$ (2,589)	\$ (5,279)
1999				
	Construction Operations	Infrastructure Development	Corporate	Total
Revenue	\$ 7,654	\$ 5,779	\$ -	\$ 13,433
EBITDA	(1,348)	(877)	(271)	(2,496)
Depreciation and amortization	223	33	8	264
Segment operating loss	(1,571)	(910)	(279)	(2,760)
Interest and income taxes				(455)
Net loss				\$ (3,215)
Total assets	59,808	28,654	8,896	97,357
Cash flow from operations	\$ (1,776)	\$ (976)	\$ (194)	\$ (2,946)

Note 1. Change in accounting policies

Effective January 1, 2000, the Canadian Institute of Chartered Accountants ("CICA") changed the accounting standard pertaining to the accounting for income taxes. The CICA's new standard adopts the liability method of accounting for future income taxes.

The Company adopted this new accounting standard retroactively, without restating the financial statements of prior periods. As a result, the Company has recorded an increase to retained earnings of \$6,031, an increase in future tax assets of \$32,206 and an increase to future tax liabilities of \$26,175 as at January 1, 2000.

Note 2. Combined 1999 Statement of Income

The combined Statement of Income for 1999 includes the results of Armbrø and BFC Construction Corporation ("BFC") for the period. Armbrø acquired BFC effective December 22, 1999.

Armbro Enterprises Inc.

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