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building things that matter

- armbrouter enterprises inc. second quarter report

Six months ended June 30, 2000

Report to Shareholders

We are pleased to report Armbro Enterprises' financial results for the second quarter of fiscal 2000. Consistent with the approach that we followed in reporting our first quarter results, to better gauge year-over-year performance, comparative results for 1999 have been presented on the basis that the Armbro acquisition of BFC Construction Corporation ("BFC") was effective as of January 1, 1999.

Quarterly Revenue Increases 10.6%

For the quarter ended June 30, 2000, Armbro recorded revenue of \$235.7 million. This compares to \$213.1 million for the second quarter of 1999, a 10.6% increase. For the six-month period, revenues grew 17.0% to \$409.2 million from \$349.7 million during the same period last year.

Net income for the second quarter of 2000 was \$4.0 million compared to a loss of \$36,000 for the same period in 1999. For the first six months of 2000, Armbro's net loss decreased to \$1.3 million from \$9.8 million in 1999.

Earnings per share for the three-month period amounted to \$0.22 basic (\$0.21 fully diluted) based on a weighted average 18.0 million shares outstanding (18.9 million fully diluted). On a stand-alone basis (prior to the BFC acquisition), for the same period last year Armbro reported earnings per share of \$0.04 basic (\$0.04 fully diluted) on a weighted average 9.3 million shares outstanding (9.6 million fully diluted).

Loss per share for the six-month period amounted to \$0.09 based on a weighted average 14.2 million shares outstanding (18.9 million fully diluted). This compares favourably to a loss per share of \$0.31 for the first six months

of 1999 on a weighted average 9.3 million shares outstanding (9.7 million fully diluted).

Two unusual events influenced Armbro's financial performance during the quarter:

- Results were positively affected by the repayment of \$12.6 million (which included \$2.9 million of interest) from the joint venture building the \$570 million Nathpa Jhakri Hydro Electric Project in northern India. Armbro's wholly owned subsidiary, BFC, is a 45% partner in this joint venture. The ultimate collection of this advance had been previously determined to be at risk and therefore a reserve had been taken.
- Armbro recorded a \$15.0 million pre-tax provision in the second quarter in respect of potential losses relating to its 40% joint venture interest in the \$209.0 million contract to extend the Sky Train rapid transit system in Vancouver, which is held through Armbro's wholly owned subsidiary, SC Infrastructure Inc. These potential losses relate to the uncertainty of change orders issued by the client where financial terms have not yet been finalized.

Backlog Remains At Record Level

Armbro's backlog of contracts increased from \$1.065 billion at the end of the first quarter 2000 to \$1.070 billion as at June 30, 2000.

During the first six months of 2000, Armbro was awarded new contracts totalling more than \$366 million, including the following:

- BFC Civil, in partnership with McNally International Inc., was awarded a \$35 million design/build contract by the Regional Municipality of York for the construction of 5.3 kilometers of trunk sewer along the Ninth Line in the Town of Markham, Ontario.
- The Ministry of Transportation of Ontario recently awarded six contracts, valued at more than \$87 million, to Armbro Construction Limited for the construction of sections of various highways.
- Armbro Construction, BFC Civil and BFC Utilities were awarded five contracts valued at \$46 million for the construction of roads, bridges and precast concrete girders for the extensions to the 407 Express Toll Route located in the Greater Toronto Area.
- BFC Utilities was awarded a \$6.6 million contract by Metromedia-Telus for the installation of fibre optic cable in Ontario. Total new contracts awarded to BFC Utilities amounted to more than \$47 million.
- BFC Industrial was awarded contracts totalling almost \$15 million for the installation and maintenance of equipment in a number of automobile manufacturing facilities in Ontario.
- BFC Buildings was awarded a \$39 million contract for the construction of an office complex for ATI Technologies in Thornhill, Ontario (Greater Toronto Area). BFC Frontier, the U.S division of BFC Buildings, was awarded the contract for the construction of a new hotel and event centre in Worley, Idaho.

Segment Revenues Increase Over 1999

Construction Operations revenue for the six-month period increased 6.4% to \$346.7 million from \$325.9 million in 1999. Infrastructure Development revenue increased by 162.6% from \$23.8 million to \$62.5 million in the same period. Construction Operations accounted for 85% of total revenues during the first six months while Infrastructure Development accounted for the remaining 15%. For the same period last year, Construction Operations accounted for 93% of total revenues while Infrastructure Development accounted for 7%.

Other Events

Subsequent to the end of the period, work was temporarily suspended on the Nathpa Jhakri project as a result of the damage caused by a major flood in the region. The planned contribution to earnings from this project in the current fiscal year is not material; therefore, the delay caused by the flood is not expected to negatively impact Armbro's financial performance.

In the eight months since the acquisition of BFC by Armbro, management has been able to tap into the strengths and realise operating and cost synergies offered by the combined resources of both companies. The potential of this alliance has been demonstrated through strong revenue growth, improved earnings performance and a backlog in excess of \$1 billion.

On behalf of the Board of Directors,



John M. Beck

Chairman and Chief Executive Officer

August 29, 2000

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 June 30	2000	1999	
Revenues	\$ 235,726	\$ 48,802	\$ 213,087
Costs and expenses	222,668	44,211	198,166
Marketing, general and administrative expenses	8,827	2,274	11,335
Depreciation and amortization	3,147	1,013	2,204
Gain on sale of capital assets	(83)	(191)	(241)
	234,559	47,307	211,464
Operating income before the following	1,167	1,495	1,623
Interest (income) expense	(1,682)	481	181
Income before income taxes	2,849	1,014	1,442
Income taxes (recovery)			
Current	2,697	631	(3,411)
Future	(3,825)	40	4,889
	(1,128)	671	1,478
Net income (loss) for the period	3,977	343	\$ (36)
Retained earnings – beginning of period	38,543	29,195	
Income tax adjustment (note 1)	–	–	
Common share buyback	–	–	
Retained earnings – end of period	\$ 42,520	\$ 29,538	
Earnings per share			
Basic	\$ 0.22	\$ 0.04	
Fully diluted	\$ 0.21	\$ 0.04	
Average number of shares outstanding			
Basic	17,986,882	9,277,709	
Fully diluted	18,852,869	9,569,737	
Actual number of shares outstanding	17,986,882	9,186,702	

Consolidated Statements of Income and Retained Earnings

Armbro Enterprises Inc.

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

			Combined (note 2) 1999
six months ended June 30	2000	1999	
Revenues	\$ 409,181	\$ 62,235	\$ 349,709
Costs and expenses	390,088	56,770	337,756
Marketing, general and administrative expenses	19,544	5,639	21,646
Depreciation and amortization	5,140	1,277	3,655
Gain on sale of capital assets	(457)	(186)	(438)
	414,315	63,500	362,619
Operating loss before the following	(5,134)	(1,265)	(12,910)
Interest (income) expense	(501)	804	234
Loss before income taxes	(4,633)	(2,069)	(13,144)
Income taxes (recovery)			
Current	2,113	763	(3,411)
Future	(5,415)	40	40
	(3,302)	803	(3,371)
Net loss for the period	(1,331)	(2,872)	\$ (9,773)
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	\$ 42,520	\$ 29,538	
Loss per share			
Basic	\$ (0.09)	\$ (0.31)	
Fully diluted	n/a	n/a	
Average number of shares outstanding			
Basic	14,157,920	9,299,598	
Fully diluted	18,860,170	9,663,971	
Actual number of shares outstanding	17,986,882	9,186,702	

Consolidated Balance Sheets

Armbrø Enterprises Inc.

(in thousands of dollars) (unaudited)

as at June 30, 2000	2000	1999
Assets		
Current assets		
Cash and cash equivalents	\$ 61,488	\$ 15,454
Accounts receivable	156,658	44,326
Holdbacks receivable	30,122	4,702
Unbilled revenue and deferred contract costs	92,728	3,149
Inventories	8,868	2,311
Income taxes recoverable	1,023	–
Prepaid expenses	3,957	582
Future income tax assets (note 1)	16,345	–
Assets held for sale	3,089	125
	374,278	70,649
Capital assets	75,788	40,893
Future income tax assets (note 1)	21,255	–
Other assets	25,525	9,887
	\$ 496,846	\$ 121,429
Liabilities		
Current liabilities		
Bank indebtedness	\$ 32,967	\$ 11,602
Accounts payable and accrued liabilities	166,695	40,524
Holdbacks payable	21,411	3,139
Deferred revenue	84,163	5,164
Income taxes payable	1,046	436
Future income tax liabilities (note 1)	30,175	–
Current portion of long-term debt	18,700	9,594
	355,157	70,459
Long-term debt	40,876	19,246
Other liabilities	1,373	–
Future income tax liabilities (note 1)	13,489	618
	410,895	90,323
Convertible debenture	8,865	–
	419,760	90,323
Shareholders' equity		
Capital stock	33,491	1,863
Convertible debenture	1,075	–
Retained earnings (note 1)	42,520	29,243
	77,086	31,106
	\$ 496,846	\$ 121,429

Consolidated Statements of Cash Flows

Armbrø Enterprises Inc.

(in thousands of dollars) (unaudited)

six months ended June 30, 2000	2000	1999
Cash provided by (used in):		
Operating activities		
Net loss for the period	\$ (1,331)	\$ (2,872)
Items not affecting cash –		
Depreciation and amortization	5,140	1,277
Gain on sale of capital assets	(457)	(186)
Future income tax (recovery)	(5,415)	40
	(2,063)	(1,741)
Decrease in working capital	3,103	7,325
	1,040	5,584
Investing activities		
Purchase of capital assets	(11,305)	(2,798)
Proceeds on sale of capital assets	1,521	316
Proceeds on disposition of assets held for sale	675	–
(Increase) decrease in other assets	28	(6,611)
Decrease in assets held for sale	3,760	–
Decrease in other liabilities	(211)	–
	(5,532)	(9,093)
Financing activities		
Increase in bank indebtedness	11,621	2,146
Issuance of long-term debt	12,769	12,007
Repayments of long-term debt	(59,182)	(492)
Conversion of convertible debenture	(31,479)	–
Issuance of capital stock	31,423	–
Repurchase of capital stock	(125)	(724)
	(34,973)	12,937
Increase (decrease) in cash and short-term investments	(39,465)	9,428
Cash and short-term investments – beginning of period	100,953	6,026
Cash and short-term investments – end of period	\$ 61,488	\$ 15,454

Segment Information

Armbro Enterprises Inc.

(in thousands of dollars) (unaudited)

for the three months ended June 30				
2000				
	Construction Operations	Infrastructure Development	Corporate	Total
Revenue	\$ 203,016	\$ 32,710	\$ –	\$ 235,726
EBITDA	19,512	(15,239)	41	4,314
Depreciation and amortization	2,133	941	73	3,147
Segment operating profit	17,379	(16,180)	(32)	1,167
Interest and income taxes				2,810
Net income				\$ 3,977
Cash flow from operations	\$ 15,924	\$ (11,730)	\$ (978)	\$ 3,216
1999				
	Construction Operations	Infrastructure Development	Corporate	Total
Revenue	\$ 34,516	\$ 14,286	\$ –	\$ 48,802
EBITDA	1,752	1,339	(583)	2,508
Depreciation and amortization	954	47	12	1,013
Segment operating profit	798	1,292	(595)	1,495
Interest and income taxes				(1,152)
Net income				\$ 343
Cash flow from operations	\$ 1,018	\$ 903	\$ (716)	\$ 1,205

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 Statements of Income

The combined Statements of Income for 1999 includes the results of Armbro and BFC Construction Corporation ("BFC") for the periods. Armbro acquired BFC effective December 22, 1999.

Segment Information

Armbro Enterprises Inc.

(in thousands of dollars) (unaudited)

as at and for the six months ended June 30				
2000				
	Construction Operations	Infrastructure Development	Corporate	Total
Revenue	\$ 346,709	\$ 62,472	\$ –	\$ 409,181
EBITDA	15,501	(14,074)	(1,421)	6
Depreciation and amortization	3,413	1,585	142	5,140
Segment operating profit (loss)	12,088	(15,659)	(1,563)	(5,134)
Interest and income taxes				3,803
Net loss				\$ (1,331)
Total assets	411,658	74,882	10,306	496,846
Cash flow from operations	\$ 11,799	\$ (10,295)	\$ (3,567)	\$ (2,063)
1999				
	Construction Operations	Infrastructure Development	Corporate	Total
Revenue	\$ 42,170	\$ 20,065	\$ –	\$ 62,235
EBITDA	404	462	(854)	12
Depreciation and amortization	1,177	80	20	1,277
Segment operating profit (loss)	(773)	382	(874)	(1,265)
Interest and income taxes				(1,607)
Net loss				\$ (2,872)
Total assets	80,945	30,874	9,610	121,429
Cash flow from operations	\$ (758)	\$ (73)	\$ (910)	\$ (1,741)

Armbro Enterprises Inc.

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