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building things that matter

- armbrouter enterprises inc. third quarter report

Nine months ended September 30, 2000

Report to Shareholders

Dear Shareholder:

Strong Financial Quarter

I am pleased to report that the positive results achieved in the third quarter by Armbro Enterprises Inc. have produced a year-to-date net income of \$4.4 million or \$0.28 earnings per share (\$0.23 fully diluted) on revenue of \$722.9 million. This represents a significant improvement from the previous year when the combined Armbro-BFC results showed a loss of \$8.2 million on revenue of \$605.6 million.

As in previous quarters, to better gauge year-over-year performance, comparative results for 1999 have been presented on the basis that Armbro's December 22, 1999 acquisition of BFC Construction Corporation ("BFC"), was effective as of January 1, 1999. On a stand-alone basis (prior to the BFC acquisition), for the same period in 1999, Armbro reported earnings per share of \$0.13 basic (\$0.13 fully diluted) on a weighted average 9.3 million shares (9.6 million fully diluted).

For the third quarter ended September 30, 2000, Armbro's net income was \$5.7 million or \$0.32 per basic share (\$0.28 fully diluted) on a weighted average 18.0 million shares outstanding (20.5 million fully diluted). This compares to net income on a combined basis of \$1.6 million on revenue of \$255.9 million for the same period in 1999. Revenue for the third quarter increased by 22.6% to \$313.7 million on a combined basis.

I am also pleased to report that all divisions except SC Infrastructure Inc. ("SCI"), produced income before tax equal to or greater than their previous year's results and that revenues increased generally across all divisions. As was noted last quarter, SCI recorded a pre-tax provision of \$15.0 million relating to potential losses in respect of its 40% joint venture interest in the SAR Joint Venture ("SAR") for the contract to extend Vancouver's Skytrain rapid transit system.

This year's improved results are mainly attributable to an improved industry environment where contract margins have increased in most sectors after several years of historical lows. Gross margin as a percentage of revenue has improved to 6.2% from 3.9% for the same period in 1999. Last year's results were adversely affected by the provision recorded by BFC Civil for an underground powerhouse project then under construction in Quebec, Armbro's proportion of Canadian Highways International Corporation's proposal costs for the

unsuccessful bid to acquire Highway 407 and the pre-bid costs associated with the Cross Israel Highway project (Armbro has a 22.2% interest) for which the reimbursement of expenses was not received until the fourth quarter of 1999.

Backlog Remains Strong

During the three-month period to September 30, 2000, Armbro was awarded new contracts valued in excess of \$216.0 million. At the end of the quarter our backlog was \$972.8 million, a slight reduction from the \$1.1 billion reported at June 30, 2000, representing the typical seasonal nature of Armbro's revenue and backlog profiles, but still very much in line with Armbro's objectives of having at least one year of revenue in our backlog.

During the quarter, Armbro increased its percentage ownership of Canatom NPM Inc. from 24% to 38.75%. Canatom specializes in engineering, procurement, construction management and commissioning for nuclear projects in the domestic and international markets. Canatom has a history of consistent profitability and Armbro expects to benefit from its increased ownership in this business enterprise. As a result of the increased ownership, backlog grew by over \$40 million in the quarter.

New project awards during the quarter included the following:

- \$42 million of contracts for Armbro Construction operations including major awards from the Ministry of Transportation of Ontario on Highways 69 and 401.
- Innovative Steam Technologies Ltd. ("IST"), which manufactures "once through" steam generators, was awarded three contracts totaling in excess of \$28 million. These awards provide approximately 12 months of backlog for IST.
- BFC Industrial was awarded \$25 million worth of contracts, including \$9 million for pipe fabrication for Suncor's Millennium Tar Sands project in Alberta and for Ford Motor Corporation in St. Thomas, Ontario. BFC Industrial is now the largest fabricator of industrial pipe in Canada.
- BFC Buildings was awarded \$31 million worth of contracts including additional work at Toronto's Pearson International Airport, where this division is a 50% partner in the joint venture responsible for construction management of the new terminal.

- BFC Utilities was awarded \$21 million worth of work including contracts with the City of Kitchener for maintenance of utilities services, Toronto Hydro for rebuilding of electrical service conduits in several locations in the Toronto area, and the Ministry of Transportation of Ontario for highmast lighting.

Segment Revenues

In terms of segment performance, for the nine-month period, Construction Operations revenue increased 10.5% to \$629.0 million from \$569.0 million for the same period last year. Results were bolstered by improved operating income across all divisions in this segment, particularly Armbrø Construction and BFC Industrial. Additionally, BFC Civil's results are improved over last year due to recoveries booked during the second quarter from the Nathpa Jhakri Hydro Electric Project in northern India (in which Armbrø has a 45% interest).

Infrastructure Development revenue increased to \$93.8 million by September 30, 2000 from \$36.6 million for the same period last year, a 156.4% increase. The revenue mix continues to shift in favour of Infrastructure Development which now accounts for 13% of revenue versus 6% for the same period last year. This revenue increase is mainly attributable to progress made on the Cross Israel Highway project as well as revenue generated from the continued progress of the SAR Joint Venture. The Infrastructure Development segment's operating income for the nine-month period was adversely impacted by losses incurred on SAR and the delay of revenue from the Grain Terminal project in Gdansk, Poland where construction activities remain suspended as efforts continue to restructure the ownership group and reconfirm project financing.

Other Events

Work has restarted on the Nathpa Jhakri Hydro Electric Project, after construction was suspended in early August due to a major flood. The joint venture has received an advance of funds from the client to assist with the restart. At this time, management believes that there will be no negative financial impact.

Construction of the Cross Israel Highway project continues to progress satisfactorily. Recent events in Israel have not materially impacted the project, and opening of the first section of road is scheduled for early 2002, as originally planned.

Construction of the Skytrain LRT in Vancouver, British Columbia also continues to progress satisfactorily. At September 30, 2000, the project was nearly 80% complete. Claims in excess of \$40 million, primarily caused by delays due to changed conditions have been submitted to the owner. Timing of the resolution of the claims cannot currently be determined.

Early in October, 2000, Armbro announced the establishment of a new revolving Operating Line of Credit with The Toronto Dominion Bank and Canadian Imperial Bank of Commerce. This \$40 million facility will be shared equally by the two banks and will be renewable annually. Toronto Dominion has also provided a \$10 million four-year term loan. These funds are being used primarily to fund Armbro's working capital requirements.

Coincident with the establishment of these new facilities, Armbro repaid the \$30 million senior unsecured debenture previously provided to BFC by Principal Capital Management, LLC in 1995.

Dividend Announced

On November 29, 2000, Armbro declared a dividend of \$0.10 per common share, payable on January 4, 2001 to shareholders of record as of December 8, 2000. Armbro has not established a formal dividend policy but believes that this dividend is an appropriate use of capital in recognition of the current year's financial results. This dividend is the first one announced by Armbro in over 10 years. Armbro's Board of Directors will consider the payment of dividends from time to time on an ongoing basis as financial results and conditions warrant.

I am encouraged by the strong financial performance that Armbro has recorded since our acquisition of BFC Construction nearly one year ago. Today, Armbro is a profitable, growing and diversified construction and infrastructure development company with an established presence in each of our core business segments. In the coming year, we plan to continue to build on this solid foundation.

On behalf of the Board of Directors,



John M. Beck

Chairman and Chief Executive Officer

November 28, 2000

Consolidated Statements of Income and Retained Earnings

Armbro Enterprises Inc.

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

			Combined (note 2) 1999
three months ended September 30	2000	1999	
Revenues	\$ 313,678	\$ 62,139	\$ 255,903
Costs and expenses	287,875	54,925	244,138
Marketing, general and administrative expenses	10,474	2,126	9,958
Depreciation and amortization	3,540	1,740	2,952
Loss (gain) on sale of capital assets	481	(29)	(95)
	302,370	58,762	256,953
Operating income (loss) before the following	11,308	3,377	(1,050)
Gain on disposal of investment	–	(1,125)	(1,125)
Interest expense	1,265	503	252
	1,265	(622)	(873)
Income (loss) before income taxes	10,043	3,999	(177)
Income taxes (recovery)			
Current	5,056	(82)	(1,764)
Future	(711)	–	–
	4,345	(82)	(1,764)
Net income for the period	5,698	4,081	\$ 1,587
Retained earnings – beginning of period	42,520	29,243	
Common share buyback	–	(241)	
Retained earnings – end of period	\$ 48,218	\$ 33,083	
Earnings per share			
Basic	\$ 0.32	\$ 0.44	
Fully diluted	\$ 0.28	\$ 0.43	
Average number of shares outstanding			
Basic	17,990,795	9,249,488	
Fully diluted	20,473,368	9,535,716	
Actual number of shares outstanding	17,991,882	9,299,324	

Consolidated Statements of Income and Retained Earnings

Armbrø Enterprises Inc.

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

nine months ended September 30	2000	1999	Combined (note 2) 1999
Revenues	\$ 722,859	\$ 124,374	\$ 605,612
Costs and expenses	677,963	111,695	581,894
Marketing, general and administrative expenses	30,018	7,765	31,604
Depreciation and amortization	8,680	3,017	6,607
Loss (gain) on sale of capital assets	24	(215)	(533)
	716,685	122,262	619,572
Operating income (loss) before the following	6,174	2,112	(13,960)
Gain on disposal of investment	–	(1,125)	(1,125)
Interest expense	764	1,307	486
	764	182	(639)
Income (loss) before income taxes	5,410	1,930	(13,321)
Income taxes (recovery)			
Current	7,169	681	(5,175)
Future	(6,126)	40	40
	1,043	721	(5,135)
Net income (loss) for the period	4,367	1,209	\$ (8,186)
Retained earnings – beginning of period	37,935	32,787	
Income tax adjustment (note 1)	6,031	–	
Common share buyback	(115)	(913)	
Retained earnings – end of period	\$ 48,218	\$ 33,083	
Earnings per share			
Basic	\$ 0.28	\$ 0.13	
Fully diluted	\$ 0.23	\$ 0.13	
Average number of shares outstanding			
Basic	15,444,889	9,282,711	
Fully diluted	20,480,669	9,631,323	
Actual number of shares outstanding	17,991,882	9,299,324	

Consolidated Balance Sheets

Armbrø Enterprises Inc.

(in thousands of dollars) (unaudited)

as at September 30	2000	1999
Assets		
Current assets		
Cash and cash equivalents	\$ 44,016	\$ 10,294
Accounts receivable	213,838	35,781
Holdbacks receivable	41,682	6,666
Unbilled revenue and deferred contract costs	82,408	12,615
Inventories	8,963	2,556
Income taxes recoverable	1,277	–
Prepaid expenses	3,385	7
Future income tax assets (note 1)	16,750	–
Assets held for sale	3,972	125
	416,291	68,044
Capital assets	75,448	40,651
Future income tax assets (note 1)	21,912	–
Other assets	28,223	10,858
	\$ 541,874	\$ 119,553
Liabilities		
Current liabilities		
Bank indebtedness	\$ 30,994	\$ 3,536
Accounts payable and accrued liabilities	202,596	44,069
Holdbacks payable	25,291	4,223
Deferred revenue	84,353	4,399
Income taxes payable	2,852	245
Future income tax liabilities (note 1)	31,570	–
Current portion of long-term debt	18,341	8,722
	395,997	65,194
Long-term debt	38,937	18,646
Other liabilities	1,273	–
Future income tax liabilities (note 1)	14,003	636
	450,210	84,476
Convertible debenture	8,865	–
	459,075	84,476
Shareholders' equity		
Capital stock	33,506	1,994
Convertible debenture	1,075	–
Retained earnings (note 1)	48,218	33,083
	82,799	35,077
	\$ 541,874	\$ 119,553

Consolidated Statements of Cash Flows

Armbrø Enterprises Inc.

(in thousands of dollars) (unaudited)

nine months ended September 30	2000	1999
Cash provided by (used in):		
Operating activities		
Net income for the period	\$ 4,367	\$ 1,209
Items not affecting cash –		
Depreciation and amortization	8,680	3,017
Loss (gain) on sale of capital assets	24	(215)
Future income tax recovery	(6,126)	40
Gain on disposal of investment	–	(1,125)
	6,945	2,926
(Increase) decrease in working capital	(13,091)	8,443
	(6,146)	11,369
Investing activities		
Purchase of capital assets	(14,970)	(4,307)
Proceeds on sale of capital assets	1,579	383
Proceeds on disposition of assets held for sale	–	1,125
Increase in other assets	(1,612)	(7,592)
Decrease in assets held for sale	3,742	–
Decrease in other liabilities	(311)	–
	(11,572)	(10,391)
Financing activities		
Increase (decrease) in bank indebtedness	9,648	(5,920)
Issuance of long-term debt	13,681	13,901
Repayments of long-term debt	(62,392)	(3,858)
Conversion of convertible debenture	(31,479)	–
Issuance of capital stock	31,438	147
Repurchase of capital stock	(115)	(980)
	(39,219)	3,290
Increase (decrease) in cash and short-term investments	(56,937)	4,268
Cash and short-term investments – beginning of period	100,953	6,026
Cash and short-term investments – end of period	\$ 44,016	\$ 10,294

Segment Information

Armbro Enterprises Inc.

(in thousands of dollars) (unaudited)

for the three months ended September 30						2000
	Construction Operations	Infrastructure Development	Inter- Segment	Corporate	Total	
Revenue	\$ 282,301	\$ 31,377	\$ -	\$ -	\$ 313,678	
EBITDA	16,208	1,132	-	(2,492)	14,848	
Depreciation and amortization	2,987	695	-	(142)	3,540	
Segment operating profit	13,221	437	-	(2,350)	11,308	
Interest and income taxes					(5,610)	
Net income					\$ 5,698	
Cash flow from operations	\$ 14,471	\$ (3,784)	\$ -	\$ (1,679)	\$ 9,008	
1999						
	Construction Operations	Infrastructure Development	Inter- Segment	Corporate	Total	
Revenue	\$ 52,680	\$ 9,533	\$ (74)	\$ -	\$ 62,139	
EBITDA	4,849	1,353	-	40	6,242	
Depreciation and amortization	1,654	99	-	(13)	1,740	
Segment operating profit	3,195	1,254	-	53	4,502	
Interest and income taxes					(421)	
Net income					\$ 4,081	
Cash flow from operations	\$ 4,284	\$ 285	\$ -	\$ 98	\$ 4,667	

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 Group Inc. ("BFC") for the periods. Armbro acquired BFC effective December 22, 1999.

Segment Information

Armbro Enterprises Inc.

(in thousands of dollars) (unaudited)

for the nine months ended September 30						2000						
	Construction Operations	Infrastructure Development	Inter- Segment	Corporate	Total							
Revenue	\$ 629,010	\$ 93,849	\$ -	\$ -	\$ 722,859							
EBITDA	31,709	(12,942)	-	(3,913)	14,854							
Depreciation and amortization	6,400	2,280	-	-	8,680							
Segment operating profit (loss)	25,309	(15,222)	-	(3,913)	6,174							
Interest and income taxes						(1,807)						
Net income						\$ 4,367						
Total assets	\$ 409,829	\$ 121,374	\$ -	\$ 10,671	\$ 541,874							
Cash flow from operations	\$ 26,270	\$ (14,079)	\$ -	\$ (5,246)	\$ 6,945							
1999												
	Construction Operations	Infrastructure Development	Inter- Segment	Corporate	Total							
Revenue	\$ 94,850	\$ 29,598	\$ (74)	\$ -	\$ 124,374							
EBITDA	5,253	1,815	-	(814)	6,254							
Depreciation and amortization	2,831	179	-	7	3,017							
Segment operating profit (loss)	2,422	1,636	-	(821)	3,237							
Interest and income taxes						(2,028)						
Net income						\$ 1,209						
Total assets	\$ 85,081	\$ 29,206	\$ -	\$ 5,266	\$ 119,553							
Cash flow from operations	\$ 3,526	\$ 212	\$ -	\$ (812)	\$ 2,926							



Armbro Enterprises Inc.

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