Armbro Enterprises Inc.

First Quarter Report

Three months ended March 31, 2001

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Report to Shareholders

We are very pleased to report on the financial results of Armbro Enterprises Inc. for the first quarter of fiscal 2001, which ended March 31, 2001.

Armbro achieved record first quarter revenue of $188.3 million during the three month period. This represents an increase of 8.6% over the same period last year. Furthermore, Armbro had strong origination performance during the period, bringing our backlog of contracts to a record level.

Armbro reported a first quarter net loss of $2.1 million or $0.12 per common share based on 17.9 million shares outstanding. This compares favourably to a net loss of $4.1 million or $0.40 per common share on 10.3 million shares outstanding recorded in the quarter for the same period last year.

Armbro operates in two different market segments that complement one another: Construction Operations and Infrastructure Development. This diversification, in addition to the geographic and operational diversification in the segments themselves, has enabled Armbro to reduce the cyclicality and seasonality of its revenue base and was a major factor in the improvement of the first quarter results.

Construction Operations revenue for the quarter increased 14.6% to $164.6 million from $143.7 million for the same period last year. The increase was driven by strong results from road building, utilities and nuclear related construction activity, as well as the manufacture of once through steam generators by Armbro's wholly owned subsidiary Innovative Steam Technologies.

Infrastructure Development revenue decreased by 20.3% to $23.7 million in the quarter from $29.8 million last year. The reduced revenue in this segment reflects a decrease in activity on the Sky Train rapid transit system project in Vancouver, B.C., now nearing completion.

Armbro successfully achieved an important business objective in the quarter with the origination of $305 million in new business compared to $108 million for the same period last year. As a result, Armbro's backlog of contracts increased to a record $1.146 billion at the end of the quarter.

This new business includes:

- reconstruction and repairs on approximately 4.6 kilometres of the Décarie Expressway in Montreal, Quebec;
- construction of a 4000-foot long tunnel that will run southeast from the Petro-Canada Refinery in East End Montreal to the wharf area on the St. Lawrence River;
- construction management of Phase 1 of Truscan Property's new Creekside Corporate Centre in Mississauga, Ontario, consisting of two 150,000-square-foot facilities, one of which will be occupied by TD Financial Group;
- construction management of the Minto BYG Inc. 17-floor residential tower with 185 high-end residential apartment units located in downtown Toronto;
- construction management of the University of Waterloo Centre for Environmental and Information Technology.

We are very pleased with these strong financial results and the continued growth of Armbro's backlog of contracts. Our growth reflects the strength of the Armbro business model, which is designed to create the most diversified construction and infrastructure development company in Canada. Based on the results of this first quarter, we expect another strong year.

On behalf of the Board of Directors,

John M. Beck, Chairman and Chief Executive Officer
May 15, 2001

Management's Discussion and Analysis of financial condition and operating results

The following discussion and analysis of Armbro's consolidated financial condition and results of operations should be read in conjunction with the Company's Consolidated Financial Statements and Notes.

Results of Operations

The construction industry in Canada is seasonal in nature due to weather conditions with less work performed in the winter and early spring months. Accordingly, the Company experiences a seasonal pattern in its operating results with the first quarter of the year typically reflecting the lowest revenue as well as operating losses. Results in any one quarter are therefore not indicative of results in any other quarter or for the year.

Revenues

Revenues for the three months ended March 31, 2001 were $188.3 million, an increase of $14.9 million or 8.6% over the same period last year. Revenues from Construction Operations were higher by $20.9 million or 14.6% while Infrastructure Development revenues were lower by $6.0 million or 20.3%.

Within Construction Operations, strong growth came from roadbuilding, utilities and nuclear related construction activity as well as the manufacture of once through steam generators.

Reduced revenues from Infrastructure Development reflect a decrease in activity on the Sky Train rapid transit system project in Vancouver, B.C., now nearing completion and in which Armbro participates through the SAR Joint Venture.

Gross Margin

Gross margin of $15.6 million, which represents revenues less costs and expenses (before marketing, general and administration costs and depreciation and amortization), increased by $7.6 million or 95.4% over the same period last year.

All of the improvement came from Construction Operations. Armbro's Innovative Steam Technology division accounted for approximately 40% of the increase in gross margin resulting from strong demand for its energy recovery products. Roadbuilding and utility construction activities improved over first quarter 2000 results by a combined $1.8 million. These two divisions are typically weak in the first quarter but were more active this period. The first quarter of 2000 was also negatively affected by a provision of $2.6 million for additional costs incurred on a hydro-electric project in Quebec.

Within Infrastructure Development, higher margin from the Cross Israel Highway project was offset by lower margin contribution from the SAR Joint Venture.

Marketing, General and Administrative Expenses

Expenses for marketing, general and administration increased by $5.3 million and represented 8.4% of revenue in the current period compared to 6.1% a year ago. These higher costs are reflective of severances, increased administrative functions in response to Armbro's rapid growth in recent years and because expenses last year included recoveries of $0.5 million relating to businesses that had previously been sold.

Depreciation and Amortization

Depreciation and amortization expense declined by $0.4 million from the same period a year earlier. The decrease was a result of assets employed in the SAR Joint Venture being fully amortized.

Loss (Gain) on Sale of Capital Assets and Investments

Included in the loss of $0.9 million on sale of capital assets and investments in the current quarter is a loss of $0.6 million related to the disposal of the Company's investment in AECedge.

Interest

Interest expense, net of interest income, declined from $1.2 million in the first quarter of 2000 to $1.0 million this year due to higher income derived from cash balances on deposit.

Income Taxes

The effective rate of income tax recovery on pre-tax losses in the quarter was 43.5% which compares with an income tax recovery of 23.7% in the same period of 2000. The lower recovery in the prior period was due to certain losses which were not tax effected as the Company at that time was not reasonably sure they would be utilized.

Net Loss

The net loss for the period was $2.1 million, a substantial reduction from the $4.1 million loss incurred in the first quarter of 2000 and a result of the improvement in gross margin. On a per share basis the loss was $0.12 compared to $0.40 in 2000. The decrease in the per share loss reflects not only the operating improvement but also a significant increase in the average basic number of shares outstanding, which rose from 10,316,606 in 2000 to 17,924,414 in 2001. This increase is principally due to the 8,744,197 shares issued in the first quarter of 2000 upon conversion of a convertible debenture.

Financial Condition, Liquidity and Capital Resources

Net borrowings at March 31, 2001 of $24.7 million were $2.0 million higher than the balance at the end of 2000, the components of which are as follows ($ millions):

	March 31, 2001	December 31, 2000
Bank indebtedness	$ 54.1	$ 34.8
Current portion of long-term debt	8.1	8.2
Long-term debt	29.1	28.6
Convertible debenture	9.1	9.0
Total interest bearing debt	100.4	80.6
Less cash and equivalents	75.7	57.9
Net borrowings	$ 24.7	$ 22.7

For the quarter, cash and cash equivalents increased $17.8 million. Most of the increase was within various joint ventures and the cash is therefore not available to the Company until distributed. For the comparable period of 2000 cash and cash equivalents declined by $5.1 million.

Cashflow from operating activities in the first three months of 2001 was $2.4 million, of which $4.1 million came from a reduction in working capital. Cash provided from investing activities amounted to $0.2 million as proceeds on the sale of capital assets and investments and the decrease in other assets exceeded the amount spent on the purchase of capital assets. Cash from financing activities was $15.3 million, the major source of which was $19.4 million from higher bank indebtedness. Dividends of $1.8 million were paid in the quarter and $1.8 million was used to repay long-term debt.

Generally, Management views the Company's current working capital and credit availability to be satisfactory, but somewhat restrictive in supporting its current operations and growth opportunities. Armbro is expected to generate strong operating cash flow in 2001 and the Company's cash and working capital position is expected to be substantially higher by the end of the year. However, in order to provide increased flexibility, Management is currently exploring various alternatives to improve its cash and working capital position in the interim period when seasonal operating activity and working capital requirements are higher.

Outlook

The Company's backlog of work as at March 31, 2001 is at a record level of $1.146 billion. During the quarter, $305 million of new awards were achieved.

The Company's Construction Operations segment is well positioned for strong performance again in 2001, with particular strength expected in its civil and buildings construction activities and by Innovative Steam Technologies as it responds to the high demand for products within the very active power generation sector.

The Cross Israel Highway project, in which Armbro has an effective 22.2% interest, is generally progressing well and construction is approximately 23% complete as at March 31, 2001.

The Company continues its efforts to finalize project financing for the Gdansk Grain Terminal project in Poland. While progress is being made, the process continues to be challenging and the ultimate results cannot be predicted at this time.

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 the Company 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 Armbro, 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 Armbro and could cause those results to differ materially from those expressed in any forward-looking statements.

Consolidated Balance Sheets

(in thousands of dollars) (unaudited)

	March 31, 2001	December 31, 2000
Assets		
Current assets		
Cash and cash equivalents	$ 75,739	$ 57,911
Accounts receivable	146,000	178,380
Holdbacks receivable	28,598	34,378
Deferred contract costs and unbilled revenue	78,835	72,624
Inventories	6,513	7,322
Income taxes recoverable	1,049	2,257
Prepaid expenses	6,727	6,765
Future income tax assets	30,485	30,965
Assets held for sale	2,343	2,410
	376,289	393,012
Capital assets	104,347	103,145
Future income tax assets	12,444	12,444
Other assets	15,451	17,163
	$ 508,531	$ 525,764

	March 31, 2001	December 31, 2000
Liabilities		
Current liabilities		
Bank indebtedness	$ 54,142	$ 34,749
Accounts payable and accrued liabilities	164,096	172,752
Dividends payable		1,798
Holdbacks payable	17,259	27,395
Deferred revenue	78,027	88,769
Income taxes payable	1,793	2,249
Future income tax liabilities	45,630	48,232
Current portion of long-term debt	8,078	8,203
	369,025	384,147
Long-term debt	29,111	28,631
Other liabilities	2,754	3,206
Future income tax liabilities	7,656	7,656
	408,546	423,640
Redeemable preferred shares of subsidiary	6,000	6,000
Convertible debenture	9,071	9,030
	423,617	438,670
Shareholders' Equity		
Capital stock (note 3)	33,373	33,402
Convertible debenture	1,075	1,075
Retained earnings	50,466	52,617
	84,914	87,094
	$ 508,531	$ 525,764

Approved by the Board,

John M. Beck, **Director** Scott C. Balfour, **Director**

Consolidated Statements of Operations and Retained Earnings

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

Three months ended March 31	2001	2000 (as restated note 2)
Revenues	$ 188,318	$ 173,455
Costs and expenses	172,712	165,472
Marketing, general and administrative expenses	15,872	10,585
Depreciation and amortization	1,623	1,993
Loss (gain) on sale of capital assets and investments	893	(374)
	191,100	177,676
Operating loss before interest and income taxes	(2,782)	(4,221)
Interest, net	1,001	1,181
Income before income taxes	(3,783)	(5,402)
Income taxes		
Current	475	(584)
Future	(2,122)	(696)
	(1,647)	(1,280)
Net loss for the period	(2,136)	(4,122)
Retained earnings - beginning of period	52,617	37,935
Change in accounting for income taxes		6,031
Common shares purchased in excess of carrying amount (note 3)	(15)	(115)
Retained earnings – end of period	$ 50,466	$ 39,729
Loss per share (notes 2 and 3)		
Basic	$ (0.12)	$ (0.40)
Fully diluted	$ (0.12)	$ (0.40)
Average number of shares outstanding		
Basic	17,924,414	10,316,606
Fully diluted	18,585,521	11,075,260

Consolidated Statements of Cash Flows

(in thousands of dollars) (unaudited)

Three months ended March 31	2001	2000 (as restated note 2)
Cash provided by (used in):		
Operating activities		
Net loss for the period	$ (2,136)	$ (4,122)
Items not affecting cash –		
Depreciation and amortization	1,623	1,993
Loss (gain) on sale of capital assets and investments	893	(374)
Notional interest representing accretion	41	
Future income taxes	(2,122)	(696)
	(1,701)	(3,199)
Change in other balances relating to operations (note 4)	4,081	10,407
	2,380	7,208
Investing activities		
Purchase of capital assets	(1,200)	(4,533)
Proceeds on sale of capital assets and investments	868	831
Proceeds on disposition of assets held for sale		314
(Increase) decrease in other assets	519	(157)
	187	(3,545)
Financing activities		
Increase (decrease) in bank indebtedness	19,393	(1,861)
Issuance of long-term debt		10,824
Repayments of long-term debt	(1,838)	(17,557)
Decrease in other liabilities	(452)	(65)
Dividends paid	(1,798)	
Repurchase of capital stock (note 3)	(44)	(125)
	15,261	(8,784)
Decrease in cash and cash equivalents	17,828	(5,121)
Cash and cash equivalents - beginning of period	57,911	100,953
Cash and cash equivalents - end of period	$ 75,739	$ 95,832

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies as set out in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2000 and should be read in conjunction with those statements. Certain comparative amounts have been restated to conform with the current period's presentation as described in note 2.

2 ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2001 the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants for Interim Financial Statements. In accordance with these recommendations differences between actual and standard costs in an interim period, which are planned and are expected to be absorbed by the end of the year, are deferred at the end of the interim period. At March 31, 2001 standard cost variances amounting to $2,356 (2000 - $2,080), representing actual costs in excess of standard, were deferred and included in Deferred contract costs and unbilled revenue on the balance sheets. These recommendations have been adopted retroactively and accordingly the net loss for the three months ended March 31, 2000 has been restated. The effect, after income taxes, of adoption of this new accounting policy is to reduce the net loss for the three months ended March 31, 2001 by $1,343 (2000 - $1,186) or $0.07 per share (2000 - $0.11). This change in accounting for interim financial statements will have no impact on the Company's annual financial statements.

Effective December 31, 2000, the Company, on a retroactive basis, changed its method of calculating earnings per share to the new recommendations of The Canadian Institute of Chartered Accountants. Under the new method, the Company's diluted earnings per share are determined using the treasury stock method for the effect of outstanding share options and the dilution impact of the convertible debenture at the stated conversion price.

3 CAPITAL STOCK

	2001		2000	
	Shares	Amount	Shares	Amount
Authorized – unlimited common shares				
Balance – beginning of period	17,936,682	$ 33,402	9,283,085	$ 2,068
Common shares issued on the conversion of convertible debenture			8,744,197	31,479
Common shares repurchased pursuant to Normal Course Issuer Bids	(15,500)	(29)	(40,400)	(10)
Balance – end of period	17,921,182	$ 33,373	17,986,882	$ 33,537

During the three months ended March 31, 2001 the Company repurchased 15,500 (2000 - 40,400) of its common shares on the open market pursuant to the terms and conditions of Normal Course Issuer Bids at a net cost of $44 (2000 - $125); the amount in excess of the carrying value of the common shares was charged to retained earnings.

All shares repurchased by the Company pursuant to its Normal Course Issuer Bids have been cancelled.

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. Each option agreement shall specify the period for which the option thereunder is exercisable (which in no event shall exceed 10 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. The number of shares which may be purchased under options and the weighted average exercise price are as follows:

	2001		2000	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Balance outstanding	1,900,633	$ 3.52	245,000	$ 2.90

During the quarter options to purchase 220,000 shares were granted and 125,367 options were cancelled. There were no changes in the number of options outstanding during the three month period ended March 31, 2000. Options currently outstanding have the following exercise prices and expiry dates:

Options granted in:	Shares	Exercise price	Expiry date
1999	215,333	$ 2.90	April 15, 2004
2000	1,465,300	$ 3.60	July 20, 2005
2001	220,000	$ 3.60	March 4, 2006

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.

Details of the calculation of loss per share follow:

2001		Loss (numerator)	Shares (denominator)		Per share (i)
Net loss for the period	$	(2,136)	17,924,414	$	(0.12)
Effect of dilutive securities:					
Options granted (ii)			12,987		
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006 (iii)		32	648,120		
	$	(2,104)	18,585,521	$	(0.12)

2000		Loss (numerator)	Shares (denominator)		Per share (i)
Net loss for the period	$	(4,122)	10,316,606	$	(0.40)
Effect of dilutive securities:					
Options granted (ii)			15,167		
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006 (iii)		36	743,487		
	$	(4,086)	11,075,260	$	(0.40)

(i) As the impact of dilutive securities would be to decrease the loss per share, they are excluded for purposes of the calculation of fully diluted loss per share.

(ii) At March 31, 2001 options to purchase 1,685,300 (2000 - nil) common shares were not included in the computation of diluted loss per share because the options' exercise price was greater than the average market price of the common shares.

(iii) This represents the limit of the number of shares that could be issued to the holder of debentures as a result of restrictions imposed on the number of shares the holder may own.

4 CASH FLOW INFORMATION

Change in other balances relating to operations:

	2001	2000
(Increase) decrease in:		
Accounts receivable	$ 32,380	$ 13,743
Holdbacks receivable	5,780	7,247
Deferred contract costs and unbilled revenue	(6,211)	(11,280)
Inventories	809	(4,540)
Income taxes recoverable	1,208	(509)
Prepaid expenses	38	(259)
Assets held for sale	67	4,499
Increase (decrease) in:		
Accounts Payable and accrued liabilities	(8,656)	(26,264)
Holdbacks payable	(10,136)	(4,776)
Deferred revenue	(10,742)	32,800
Income taxes payable	(456)	(254)
	$ 4,081	$ 10,407

Other supplementary information:

	2001	2000
Cash interest paid	$ 844	$ 1,158
Cash income taxes paid	$ 945	$ 397

During the quarter capital assets of $2,193 were acquired and financed by capital leases.

5 SEGMENTED INFORMATION

The Company has two operating segments - Construction Operations and Infrastructure Development.

Construction Operations

Construction activities are carried out primarily in North America, although international projects are undertaken. Activities include construction of roads and other transportation projects, buildings, dams and hydro-electric projects, utility projects, industrial, mechanical, electrical and nuclear services and installations and the manufacture of once through steam generators. Projects within this segment typically do not require involvement in the financing of the project nor operation of the facilities once they are complete.

Infrastructure Development

This segment, international in operational scope, captures the Company's activities relating to the development of infrastructure through contracts which include development, design, construction, operation and financing of complex projects. Delivery of these projects is typically by way of build-operate-transfer, build-own-operate-transfer or public-private partnership contract structures.

Industry segmented information is as follows:

2001	Construction Operations	Infrastructure Development	Corporate	Total
Revenue	$ 164,611	$ 23,707	$	$ 188,318
EBITDA	2,106	1,597	(4,862)	(1,159)
Depreciation and amortization	1,267	62	294	1,623
Segment operating profit (loss)	839	1,535	(5,156)	(2,782)
Interest and income taxes				(646)
Net loss				$ (2,136)
Total assets	$ 412,471	$ 87,507	$ 8,553	$ 508,531
Capital expenditures	3,393			3,393
Cash flow from operations	$ 1,678	$ 1,723	$ (5,102)	$ (1,701)

2000	Construction Operations	Infrastructure Development	Corporate	Total
Revenue	$ 143,693	$ 29,762	$	$ 173,455
EBITDA	(1,931)	1,165	(1,462)	(2,228)
Depreciation and amortization	1,175	644	174	1,993
Segment operating profit (loss)	(3,106)	521	(1,636)	(4,221)
Interest and income taxes				(99)
Net loss				$ (4,122)
Total assets	$ 407,162	$ 57,647	$ 14,734	$ 479,543
Capital expenditures	4,469	64		4,533
Cash flow from operations	$ (2,045)	$ 1,435	$ (2,589)	$ (3,199)

EBITDA represents earnings or loss before interest, taxes, depreciation and amortization.

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