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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 Armbro 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 Armbro 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

Armbro Enterprises Inc.

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

| | | | Combined (note 2) 1999 |
|---|-------------------|------------|---------------------------------------|
| nine months ended September 30 | 2000 | 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

Armbro 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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