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Costain Limited

Annual Report 1983

Costain Limited is a Canadian public real estate development company with operations in Canada and the United States.

Nineteen hundred and eighty-three marked the thirtieth year Costain has been in business. The company is headquartered in Toronto and its shares are traded on The Toronto Stock Exchange.

Revenues are derived from the building and marketing of residential properties, the development and sale of land and the development of commercial properties for retention or sale. The company's North American activities are located mainly in Ontario, Alberta, Arizona, Florida and the Washington, D.C. area.

Financial Highlights

	1983 ($)	1982 ($)
Total revenues	172,275,000	118,016,000
Net earnings (loss)	5,877,000	(3,437,000)
Earnings (loss) per share	1.11	(0.74)
Cash flow per share	1.53	(2.08)
Total assets	396,541,000	415,582,000
Dividends per share	0.10*	0.25
Shareholders' equity	58,314,000	42,475,000

*Stock dividend

Contents

Report to Shareholders

In all respects, the Company made good progress in the year 1983. Revenues reached a record level of $172 million and net earnings were $5.9 million, after inventory write-downs of $11.3 million. Cash flow was $1.53 per share.

The improvement in the balance sheet, however, is of greater significance and, indeed, this was the major objective of the Company at the beginning of the year. Investment in future land has been reduced from 50 percent of total assets two years ago to 25 percent — an appropriate proportion in the present economic environment.

An effort has also been made to negotiate borrowing terms that are more suited to current conditions, and some progress is already apparent. Certain demand loans have been replaced with term borrowings and a better balance is being achieved between fixed and floating rates of interest.

An important step was taken to strengthen the Company's financial position last June, when $10 million of new equity was raised through the private placement of 1,160,000 common shares with a number of institutional investors and Costain Group PLC. The proceeds of this issue, when combined with the profits earned during the year, were responsible for increasing shareholders' equity from $42.5 million to $58.3 million. In another move to promote the growth of capital, cash dividends were replaced with a stock dividend, valued at approximately 10 cents per share and issued in December.

All financial ratios have improved and further progress is anticipated, particularly in the case of interest coverage and the after-tax return on equity.

Review Of The Year

In 1983 the North American economies performed largely in accordance with the hopes and expectations of a year ago. In both Canada and the United States the rate of inflation eased substantially and interest rates declined. The pace of the economic recovery was controlled and this was particularly favourable to the residential development industry, because it moderated demands for financing and thus avoided undue pressure on lending rates.

Also helpful to the industry was the stability of house prices, and as the year progressed this, together with easing interest rates, produced a marked improvement in affordability. Consumer confidence also grew and once again the general belief in homeownership as a sound investment gained ground.

In the United States, the industry responded to these changes with a 60 percent increase in housing starts, to a total of 1.7 million. Canada's performance was less spectacular but, even so, starts rose from 126,000 in 1982 to 163,000. In each case the activity was particularly strong in the first two quarters as interest rates fell and, in the case of Canada, government housing programs took effect. Later, when these influences were no longer felt, the pace slackened. Associated with this was a change in the composition of the housing demand in the form of a reduced emphasis on starter homes.

The Province of Alberta was a major exception to the rule, as expected, and it remained the only market of any significance in which the industry did not experience an improving trend.

For the Company, the year began with a great deal of activity in selling land and lots to builders who foresaw a strong housing market developing. In view of the priority placed upon reducing inventories of long term land and shortening the development cycle, advantage was taken of this demand and greater emphasis was therefore given to land sales than to housebuilding. A good market also developed for commercial properties and provided an opportunity to dispose of a large parcel of long-term commercial land, as well as smaller investments in completed buildings.

Throughout the year the continuing process of preparing lands for development, negotiating for planning approvals and installing services added to the value of the Company's assets. A significant number of sites were involved with the potential for a good supply of building lots for use and for sale. Housebuilding, although not as active as initially projected for reasons already given, made a strong contribution to profits.

Outlook

Any projection of future economic conditions must take into account the excessive federal deficits which continue to be incurred by the governments of both Canada and the United States. The health of every industry is threatened by such overspending in the public sector, and it is of paramount importance that this concern not be overlooked. However, there is a general consensus that in the near term the economies of North America will continue to grow at a modest rate, with inflation rising only fractionally. Interest rates are expected to have edged upwards by the end of the year.

H. Keith Morley (right)
Chairman and Chief
Executive Officer

L. Ross Cullingworth
President and Chief
Operating Officer

Some improvement is anticipated in the level of unemployment and, compared to last year, there should be a significantly better employment situation.

Under such circumstances, the housing industry has an opportunity to continue its recovery and make an acceptable return on investment. With mortgage money in adequate supply at reasonably stable rates of interest and consumer confidence strong, the necessary ingredients are present for a good market demand. The need for housing, particularly single family housing, has not been fully satisfied in recent years owing to its low level of affordability, but the situation has now changed rather dramatically.

Also changing are the underlying demographics of housing. For the next several years the fastest growing age group will include parents with maturing families. Therefore, although the number of starts will probably remain close to the 1983 levels, their composition will change. The need for move-up housing is regaining strength.

Consumers are expected to retain their confidence in the economy and not be unduly affected by political developments. Under these circumstances, the Company will be able to increase its building volume noticeably in 1984.

Housebuilding will now receive priority and will be concentrated in the areas covered by our six operating divisions. Land development will also play a continuing part in the activities of the Company, and before the end of the year a modest move will be made in commercial property development.

While acknowledging that the business environment can always take an unexpected turn, the likelihood is that the forthcoming United States Presidential election will provide an incentive for decision-makers to strive for economic stability. It is reasonable therefore to assume that the trading prospects for 1984 will remain good.

The Company is now placing emphasis on the achievement of certain operational targets as well as the financial objectives previously stated. Its general condition should thus continue to improve.

H. Keith Morley
Chairman and
Chief Executive Officer

L. Ross Cullingworth
President and
Chief Operating Officer

March 6, 1984

Mariner Village is the first of seven residential communities planned for the Waterways and offers a blend of garden apartments, mid-rise and townhouse units. Costain, now constructing townhouses on the site, is one of several builders participating in this first phase.

The Waterways is a 176-acre residential community located on Florida's Intracoastal Waterway south of Ft. Lauderdale. An impressive "avenue" entrance from Biscayne Boulevard is now under development, together with site work and service installation on the balance of the property.

The Sales Centre for the Waterways overlooks a 21-acre yacht basin.

Review of Operations

As the economy in North America improved throughout 1983, increasing consumer confidence was reflected in a revitalized housing industry. Prices firmed in response to the additional demand for both land and housing. The Company participated in this recovery by achieving land sales of $89 million, an amount significantly above the previously recorded high. The year began with a low level of housing inventories and together with having fewer projects under development resulted in a reduced number of house closings for the year. However, the profitability of the units sold was substantially improved over the prior period.

Canada

Activity in the first half of the year reached a peak as purchasers, stimulated by government incentive schemes, advanced their buying intentions. During this period mortgage funds were plentiful and competition between lenders had the effect of reducing rates by approximately two percentage points which in turn further increased demand. When the government programs terminated at mid-year an adjustment period followed and the housing market softened for several months. However, demand in most markets improved again towards the end of the year.

The Company's activity in Alberta was modestly above that of the prior year. However, the real estate industry continued to be depressed with failures of building firms and foreclosures on houses overhanging the market. On the other hand, in Ontario, the market gained momentum, particularly in Ottawa, where house prices strengthened and the Company closed 320 units. Land registrations achieved in Burlington and Scarborough in the Toronto area and in the Hazeldean and Convent Glen developments in Ottawa contributed to housing volume as well as the sale of serviced land. In addition to marketing developed parcels, the Company reduced its investment in future lands in Ontario by $12.7 million.

The 70 Rosehill project, which is recognized as the premier condominium development in Toronto, progressed well. Occupancies commenced in November and 14 units were closed by year-end with a carry-over of a further 13 sales for delivery in early 1984.

Outlook

Alberta will continue to be plagued by an oversupply of resale homes and serviced lots, dampening prospects for 1984. However, it is likely that the residential market is at the bottom of its decline. Moreover, with increased investment in the smaller oil sands projects, a marginal improvement in the market could develop later in the year. Although an increase over the 1983 activity can be anticipated, it is unlikely to make any contribution to profitability. Inventories and operating costs will be strictly controlled, with construction relying on the pre-sale of housing units.

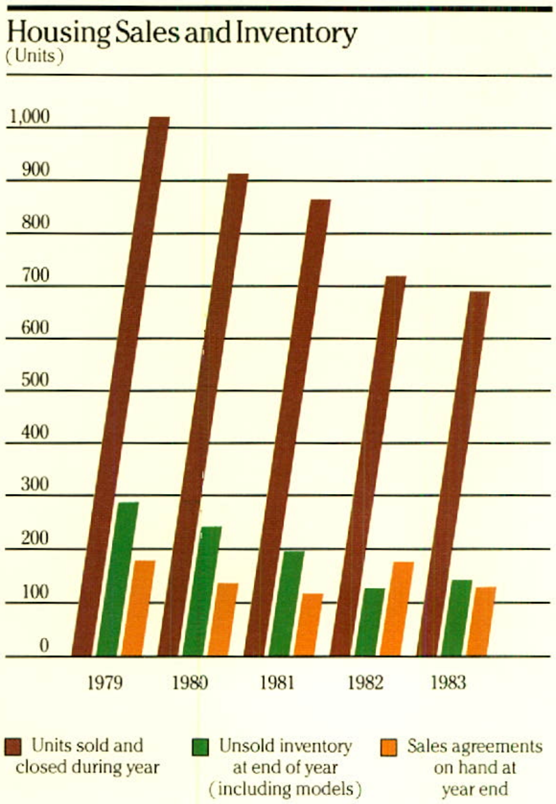
In Ontario, with mortgage rates remaining stable, a reasonable housing market is expected. Furthermore, the Company will be able to benefit in many of its product lines by the anticipated activity in resale homes, thereby providing some impetus to the move-up market. New land registrations in Kitchener, Burlington and Whitby, combined with the purchase of lots in Pickering and Markham, will facilitate a substantial increase in housing activity for 1984 in the Central Ontario branch. Considerable interest has been demonstrated in the Muir Park condominium project, for which planning is proceeding with a view to a construction start later in the year. Market conditions in Ottawa will continue to be strong, with prices rising as a result of a shortage in housing lots. Anticipated land registrations in the Hazeldean, Bridlewood and Sunridge developments, together with the inventory of lots at the beginning of the year, will provide for a reasonable housing program.

United States

Most markets in the United States registered a significant increase in activity, stimulated by the availability of long term fixed rate mortgages with interest rates that remained relatively constant throughout the year. The variable rate mortgage which had been available for some time gained acceptance rapidly in the latter part of the year. Purchasers concluded that the advantage of lower rates in the short term and the probability of a stable

Distinctive roof lines and clay tiles create the "village look" for Costain's Mission Monterey patio homes at Scottsdale Ranch in Phoenix.

Model home, Mission Monterey.



environment with prospects of controlled inflation outweighed the fears of increasing interest rates. Builders bought down the rates on these mortgages for up to three years, facilitating the qualification of additional buyers and significantly expanding certain segments of the market. Demand is not expected to change materially in 1984. It will be supported by an adequate supply of mortgage money at interest rates which approximate current levels.

During 1983 in Florida, the lower priced housing market gained substantial strength. However, the upper end market was depressed by a surplus of luxury units and this condition was further compounded by potential foreign investors who were discouraged from purchasing by unfavourable exchange rates. The Company concentrated its efforts on the advancement of the Waterways project with the objective of making it attractive to condominium developers. Installation commenced on the infrastructure, including utilities, entrance road from Biscayne Boulevard, marina and display centre. Presales of units are proceeding on the townhouse project, with an expected construction start in the first quarter of 1984. In addition, land sales have been committed to three other builders totalling 484 units.

The markets in both Washington, D.C. and Phoenix were strong, with the latter reaching a new record for housing starts. These locations were characterized by a high proportion of first time home purchasers with the resale market experiencing considerable stagnation. However, toward year end a build-up of unsold multifamily and lower priced product was beginning to occur, while concurrently the move-up market started to improve. The Company concentrated on the sale of land in both locations, with particular interest being demonstrated by Phoenix builders in the Scottsdale Ranch which recorded sales for the partnership of $28.9 million.

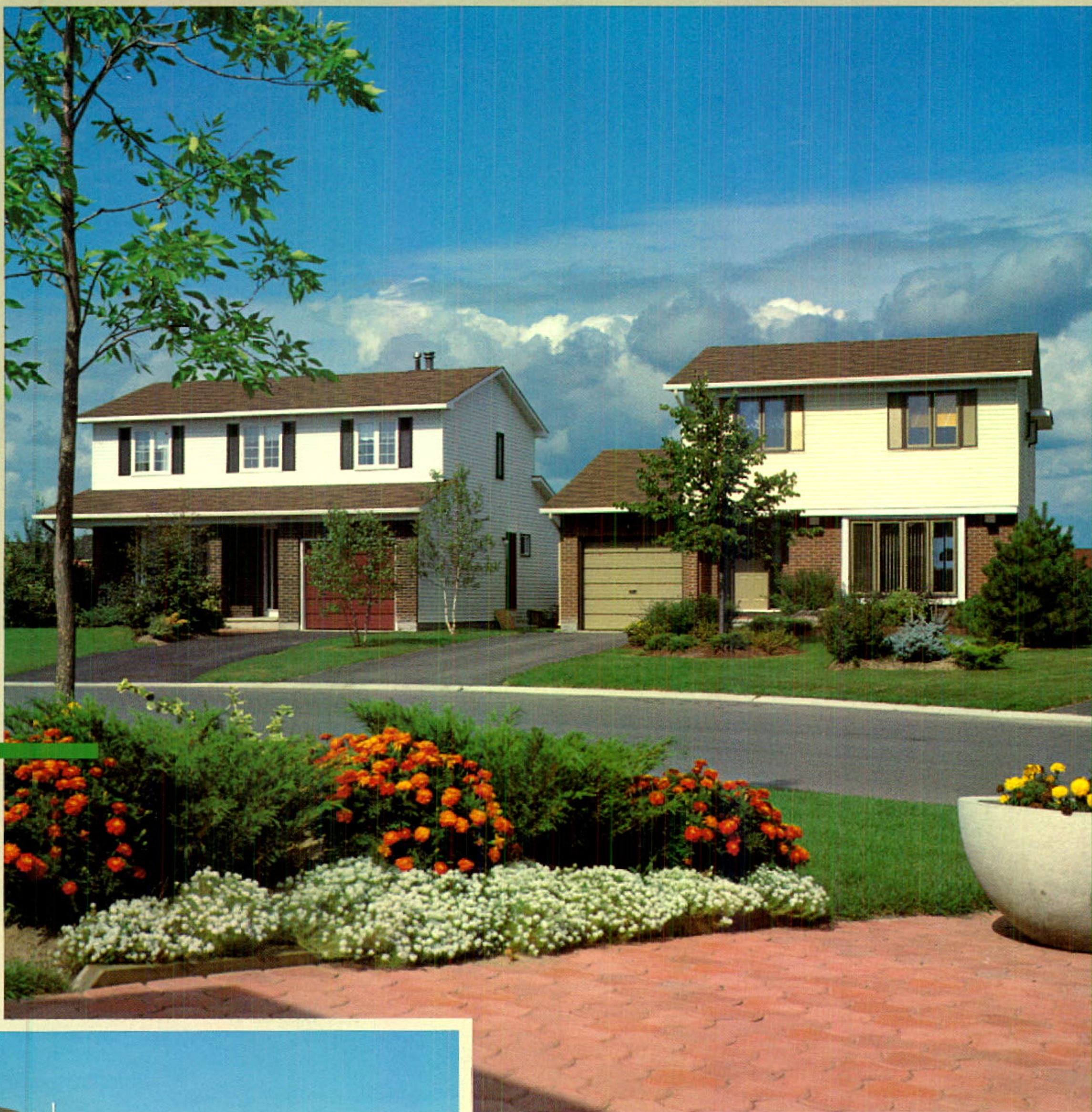
The Academy Place office building in Denver and the Company's interest in the office building at Tyson's Corner in Virginia were disposed of profitably during the year. In addition, commercial land holdings were reduced by the sale of the 106-acre Lakewood Centre property in suburban Washington, D.C. During 1984, the disposition program of the remaining assets in Denver and Seattle is expected to be substantially completed.

Outlook

The Company's housing activity in the United States should increase significantly in 1984, benefiting from a sound economic environment and a strengthening second time buyer market. New housing developments are currently underway in Washington and the product lines in Phoenix have been expanded to appeal to a broader spectrum. Finally, a substantial volume of land sales is anticipated, particularly in the Waterways and Scottsdale Ranch projects.

70 Rosehill, the most prestigious residence currently being marketed in Toronto, is located near Yonge Street and St. Clair Avenue.

The elegant model suite living room is typical of all residences enjoying superb views of the city's downtown to the south.

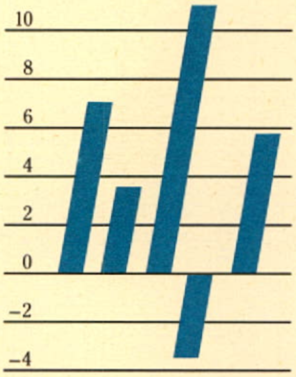


Ottawa again proved to be Costain's strongest residential market in 1983 in both the starter and move-up product range.

Ideal Village cooperative housing project built by Costain in Ottawa.

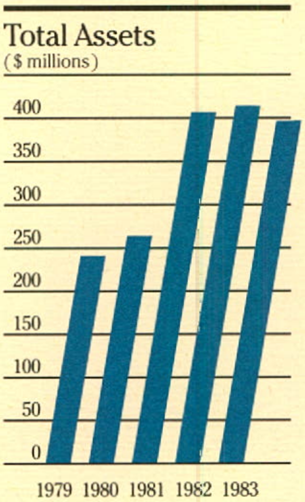
Consolidated Statement of Earnings
for the year ended December 31 ($000s)

Net Earnings
($ millions)



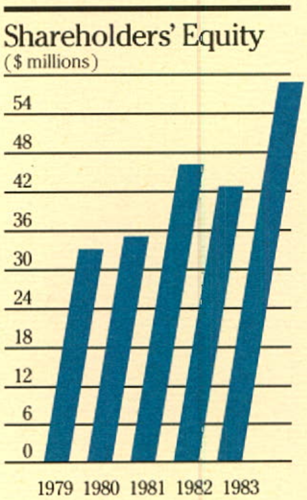
	Notes	1983	1982
Revenues:			
Housing		74,465	85,461
Land		89,252	24,257
Interest and other		8,558	8,298
Total revenues		172,275	118,016
Expenses:			
Housing		70,894	85,475
Land		75,759	22,606
Interest	4	10,267	12,648
General and administrative		8,137	8,962
Total expenses		165,057	129,691
Earnings (Loss) Before Income Taxes		7,218	(11,675)
Income Taxes:	13		
Current (recovery)		156	(1,275)
Deferred (reduction)		1,185	(6,963)
Total income taxes		1,341	(8,238)
Net Earnings (Loss)		5,877	(3,437)
Earnings (Loss) Per Share:			
Basic	12	1.11	(0.74)
Fully diluted		.89	(0.74)

Consolidated Balance Sheet
as at December 31 ($000s)



Assets	Notes	1983	1982
Real estate assets:			
Housing and land under development	1	200,459	165,232
Land for future development	2	97,492	161,635
Rental properties		–	18,539
Cash and short term deposits		2,544	629
Mortgages and other secured receivables	6	82,512	53,179
Accounts receivable		8,387	7,720
Income taxes recoverable		310	1,686
Other assets	7	4,837	6,962
		396,541	415,582

Liabilities			
Bank loans	8	85,649	116,035
Mortgages and other secured payables	9	143,628	155,823
Debentures payable	10	60,996	63,578
Accounts payable and accruals		25,581	16,483
Deferred income taxes		22,373	21,188
		338,227	373,107



Shareholders' Equity			
Capital stock	12	16,694	6,157
Retained earnings		41,620	36,318
		58,314	42,475
		396,541	415,582

On behalf of the Board:

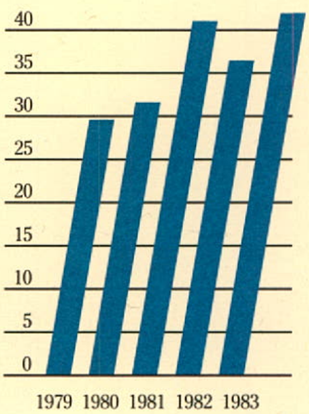
H. Keith Morley
Director

L. Ross Cullingworth
Director

Consolidated Statement of Retained Earnings

for the year ended December 31 ($000s)

Retained Earnings
($ millions)

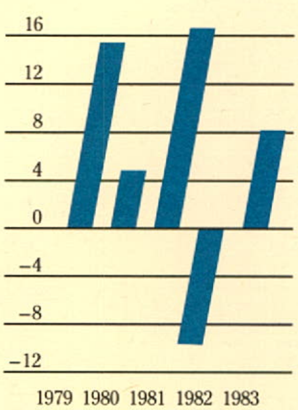


	1983	1982
Retained earnings, beginning of year	36,318	40,917
Net earnings (loss)	5,877	(3,437)
	42,195	37,480
Less dividends:		
Cash	43	1,162
Stock	532	–
Retained earnings, end of year	41,620	36,318

Consolidated Statement of Changes in Financial Position

for the year ended December 31 ($000s)

Cash Flow
($ millions)



	Notes	1983	1982
Financial resources were provided by:			
Net earnings (loss)		5,877	(3,437)
Add (deduct) non-cash items:			
Income taxes deferred		1,185	(6,963)
Depreciation and amortization		1,060	758
Cash flow from (used in) operations*		8,122	(9,642)
Net reduction in real estate assets		47,455	–
Issue of additional capital stock		10,005	157
Increase in bank indebtedness		–	38,646
Decrease in receivables		–	21,173
Net change in other assets and liabilities		9,624	–
		75,206	50,334
Financial resources were used for:			
Decrease in bank indebtedness		30,386	–
Increase in receivables		30,000	–
Decrease in mortgages and other secured payables		12,195	11,738
Redemption of debentures		2,582	1,276
Cash dividends		43	1,162
Additions to real estate assets		–	28,376
Net change in other assets and liabilities		–	7,782
		75,206	50,334
*Cash flow per share — Basic	12	1.53	(2.08)

Summary of Significant Accounting Policies

General

The financial statements are prepared on an historic cost basis in accordance with accounting principles generally accepted in Canada, the recommendations of the Canadian Institute of Public Real Estate Companies of which the Company is a member, and the standards of the International Accounting Standards Committee.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all wholly-owned, together with the Company's share of the assets, liabilities, revenues and expenses of all incorporated and unincorporated joint ventures in which it participates.

Revenue Recognition

Sales are recorded on the following bases:
House sales — when title to the completed house passes to the purchaser,
Condominium sales — when the amount due on closing has been received and the purchaser has become entitled to occupancy,
Land sales — when all material conditions have been fulfilled and cash or appropriate security equal to at least 15 percent of the sale price has been received.

Capitalization of Costs

Capitalized costs include: development costs net of miscellaneous revenue, mortgage interest, realty taxes, interest on general borrowings, and the salaries and expenses of personnel directly involved in development.

Housing and Land

Housing and land under development and land for future development are recorded at the lower of cost and net realizable value. Costs of land and development and capitalized costs are allocated in each subdivision to saleable lots and acreage in proportion to anticipated revenues.

Depreciation and Amortization

Depreciation on fixed assets is recorded at rates which will depreciate each asset over its estimated useful life.

Deferred financing costs are amortized to earnings over the term of the debt in relationship to the amount outstanding.

Translation of Foreign Currencies

The accounts of foreign subsidiaries are translated into Canadian dollars as follows:
Monetary assets and liabilities at the exchange rate prevailing at the end of the year;
Real estate assets, fixed assets and depreciation at the rates of exchange prevailing at dates of acquisition;
Cost of housing and land sold, at the weighted average exchange rate prevailing over the development period;
Revenues and other items of expense at the weighted average exchange rate for the year.

Exchange gains or losses (whether realized or unrealized) relating to monetary liabilities which arise with respect to land and housing are considered to be part of the capitalized carrying cost and accordingly are included in the determination of the value of real estate assets. Other gains or losses arising on translation of foreign financial statements are deferred until realization, at which time they are included in the computation of earnings.

PEAT MARWICK

Auditors' Report to Shareholders

We have examined the consolidated balance sheet of Costain Limited as at December 31, 1983 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Toronto, Canada
February 23, 1984

Notes to Consolidated Financial Statements

(Refer to Summary of Significant Accounting Policies)

1. Housing and Land Under Development ($000s)

	1983	1982
Housing, including related lots	44,280	40,919
Land under development	156,179	124,313
	200,459	165,232

2. Land for Future Development ($000s)

	1983	1982
Balance, beginning of year	161,635	209,160
Acquisitions	–	14,568
Costs capitalized:		
Interest	3,037	12,359
Real estate taxes	374	804
Salaries and expenses	176	1,462
Preliminary development costs	1,346	6,477
	166,568	244,830
Transfers to land under development or charged to expense	68,759	83,195
Reduction in inventory values from cost to net realizable value	317	–
Balance, end of year	97,492	161,635

3. Net Increase in Capitalized Costs in Housing and Land ($000s)

	1983	1982
Interest:		
On housing and land under development	11,848	14,504
On land for future development	3,037	12,359
Real estate taxes	2,137	1,139
Salaries and expenses	1,526	2,663
	18,548	30,665
Capitalized costs previously incurred, charged to expense:		
Housing and land under development	10,787	2,198
Land for future development	1,031	32
Net increase in capitalized costs	6,730	28,435

4. Interest ($000s)

	1983	1982
Interest charges were incurred on:		
Mortgages	16,275	21,141
Debentures	7,167	7,410
Bank loans	9,328	16,883
	32,770	45,434
Interest was allocated to:		
Housing and land under development	11,848	14,504
Land for future development	3,037	12,359
Rental property under development	–	693
Expense:		
Housing and land	7,618	5,230
Interest*	10,267	12,648
	32,770	45,434

*Including $6,397,000 interest not capitalized (1982 — $6,332,000), referred to in Note 5.

5. Reduction in Carrying Value of Real Estate Assets ($000s)

Real estate assets are reviewed to determine those which require specific reduction to reflect net realizable value. These reviews have resulted in the following reductions during the year:

	1983	1982
Housing and land under development	5,936	3,453
Land for future development	5,363	5,179
	11,299	8,632
Comprised of:		
Interest not capitalized	6,397	6,332
Reduction in inventory values from cost to net realizable value	4,532	2,125
Other costs not capitalized	370	175
	11,299	8,632

6. Mortgages and Other Secured Receivables ($000s)

These amounts bear interest at rates from 7% to 16%, with a weighted average of 10.42% and mature as follows:

	1983	1982
1983	–	15,668
1984	27,959	18,504
1985	12,433	6,489
1986	14,595	5,705
1987	9,005	2,298
1988	16,273	2,228
Subsequent to 1988	2,247	2,287
	82,512	53,179

7. Other Assets ($000s)

	1983	1982
Fixed assets — at cost, less accumulated depreciation of $1,775,000 (1982 – $1,498,000)	1,472	1,785
Unamortized portion of deferred financing costs	2,169	2,809
Loans to officers under share purchase plan	765	990
Prepaid expenses and sundry assets	431	1,378
	4,837	6,962

8. Bank Loans

Advances under bank lines of credit mature on May 9, 1984 and are secured by first floating charge debentures totalling $122,000,000 covering all assets of the Company, collateral mortgages on certain specific properties and a general assignment of book debts. The line includes a non-interest bearing term loan in the principal amount of $30,000,000 of which one-half has been guaranteed by a wholly-owned subsidiary of Costain Group PLC, the parent company of the largest shareholder of the Company. The guarantor has secured its guarantee by depositing $15,000,000, interest free, with the bank. The bank security ranks ahead of the security for the sinking fund debentures.

Provided the Company meets certain financial tests on May 9, 1984, and the above noted lines of credit are renewed, $30,000,000 of the bank lines will be repaid from the proceeds of two $15,000,000 prime plus 1½% floating rate subordinated secured debentures maturing November 9, 1987 to be issued to the Company's banker and Costain Group PLC or its assign, respectively. Attached to these debentures will be 1,160,000 negotiable warrants for the purchase of common shares of the Company at a price of $1.50 per share exercisable between May 9, 1984 and May 8, 1989.

9. Mortgages and Other Secured Payables ($000s)

Amounts payable under mortgages, agreements of purchase and sale and other secured payables relate to the following assets:

	1983	1982
Housing and land under development:		
Housing (interim financing)	27,556	28,156
Land under development	79,028	52,067
Land for future development	28,723	62,142
Rental properties	–	13,458
Mortgage receivable	8,321	–
	143,628	155,823

Interim financing obligations on housing will be replaced or repaid as each house closes.
Interest rates and approximate principal repayments relating to other real estate assets are as follows:

	Land under develop- ment	Land for future develop- ment	Total
Range of rates	7.00%- 13.00%	6.75%- 12.25%	6.75%- 13.00%
Weighted average	11.02%	11.00%	11.02%
Principal due ($000s):			
1984	31,424	17,818	49,242
1985	13,966	1,141	15,107
1986	28,886	9,764	38,650
1987	817	–	817
1988	1,079	–	1,079
Subsequent to 1988	2,856	–	2,856
	79,028	28,723	107,751

10. Debentures Payable ($000s)

	1983	1982
9¾% Sinking Fund Debentures Series A maturing May 15, 1991	2,796	2,952
12% Sinking Fund Debentures Series B maturing February 12, 1990	5,525	6,123
11¼% Sinking Fund Debentures Series D maturing June 15, 1997	11,836	12,739
11⅜% Sinking Fund Debentures Series E maturing November 1, 1998	22,450	23,000
12% Sinking Fund Debentures Series F maturing October 15, 1999	18,389	18,764
	60,996	63,578

The debentures are secured by a floating charge on the assets of the Company (subject to the security referred to in Note 8). The holders of any Series D, E or F debentures have the right to require the Company to prepay the principal amounts on June 15, 1987, November 1, 1988 or October 15, 1989, respectively. However, the Company has the right to offer holders a higher rate of interest prior to the retraction date.

The Company is required to establish sinking funds sufficient to retire the following principal amounts:

Series A issue, presently $200,000 annually on May 15, increasing to $250,000 in the years 1987 through 1990;

Series B issue, presently $448,440 annually on February 12, increasing to $523,180 in the years 1986 through 1989;

Series D issue, presently $450,000 annually on June 15, changing to 6% of the principal amount outstanding on June 15, 1987 in the years 1988 through 1996;

Series E issue, commencing in 1989, 4% annually of the principal amounts outstanding on November 1, 1988;

Series F issue, commencing in 1990, 4% annually of the principal amount outstanding on October 15, 1989;

Under a purchase fund obligation expiring in 1988, the Company agrees to use all reasonable efforts to acquire in each 12-month period ending October 31, $500,000 principal amount of Series E debentures at a price not exceeding the principal amount thereof. In addition, under a purchase fund obligation expiring in 1989, the Company agrees to use all reasonable efforts to acquire in each 12-month period ending October 14, $400,000 principal amount of Series F debentures at a price not exceeding the principal amount thereof.

Retirements made during 1983 as a result of sinking and purchase fund requirements amounted to $2,582,000 (1982 – $1,276,000).

11. Commitments and Contingent Liabilities

The Company has entered into various occupancy lease commitments with lease periods up to 1988. The aggregate minimum rentals payable under such leases amount to approximately $1,636,000, payable within the next five years.

Pursuant to a master lease agreement relating to a rental property that was sold during the year the Company has a net lease obligation of approximately $4,932,000 to 1988. This obligation will be reduced to the extent of sublease performance.

The Company is a defendant in legal actions for damages in the aggregate of approximately $11,500,000 pertaining to the purchase of a parcel of land and a sale of a parcel of land. The Company is defending these actions and management anticipates favourable results. Accordingly, no provision is recorded in the accounts for these matters.

12. Capital Stock

Authorized:

12,000,000 common shares (1982 – 6,000,000)

Unlimited number preferred shares issuable in series

Issued and Outstanding:	1983 Shares	1983 ($000s)	1982 Shares	1982 ($000s)
Common shares outstanding, beginning of year	4,645,696	6,157	4,611,946	6,000
Stock options exercised	17,550	114	33,750	157
Common shares issued for cash, net of issue expenses	1,160,000	9,891	–	–
Stock dividends paid	53,855	532	–	–
Common shares outstanding, end of year	5,877,101	16,694	4,645,696	6,157

No preferred shares have been issued.

At December 31, 1983, 8,400 shares were reserved for future issuance under the 1981 Employee Stock Purchase Plan which expires in 1986 and 1,160,000 common shares have been reserved for issuance in connection with the negotiable warrants described in Note 8.

At December 31, 1983, options to an officer for 25,000 shares remained outstanding. These options were granted during 1983 having an exercise price of $8.10 per share and will expire on September 16, 1988.

For purposes of calculating basic earnings per share and cash flow per share, the weighted average number of shares outstanding during the year was 5,292,714 (1982 – 4,642,552).

13. Income Taxes

The Company is subject to varying rates of taxation on its income as a result of maintaining operations in several different tax jurisdictions. Consequently, on a consolidated basis, the effective rates of tax differ from the expected Canadian tax rates.

14. Joint Venture Operations ($000s)

The Company's share of real estate joint venture operations accounted for on a line-by-line basis is summarized as follows:

	1983	1982
Assets:		
Real estate assets	34,536	61,175
Miscellaneous assets	13,800	10,929
Total assets	48,336	72,104
Liabilities:		
Mortgages payable	10,424	19,894
Other liabilities	2,593	4,382
Deferred income taxes	249	305
Total liabilities	13,266	24,581
Investment in real estate joint ventures	35,070	47,523
Total liabilities and investment	48,336	72,104
Revenues	32,286	9,741
Expenses	21,197	5,719
Share of joint venture trading profits	11,089	4,022

15. Segmented Information ($000s)

The predominant business of the Company is the development and sale of real estate in Canada and the United States. The following summarizes the Company's operations and assets on a geographic basis:

	Canada		United States		Total	
	1983	1982	1983	1982	1983	1982
Operations:						
Total revenues	82,883	62,251	89,392	55,765	172,275	118,016
Trading profit	12,267	8,000	13,355	1,935	25,622	9,935
Interest expense					10,267	12,648
General and administrative					8,137	8,962
Income taxes					1,341	(8,238)
Net earnings (loss)					5,877	(3,437)
Assets:						
Real estate assets:						
Housing and land under development	63,735	50,905	136,724	114,327	200,459	165,232
Land for future development	81,096	98,212	16,396	63,423	97,492	161,635
Rental properties	–	–	–	18,539	–	18,539
	144,831	149,117	153,120	196,289	297,951	345,406
Other assets	37,826	37,604	60,764	32,572	98,590	70,176
Total assets	182,657	186,721	213,884	228,861	396,541	415,582

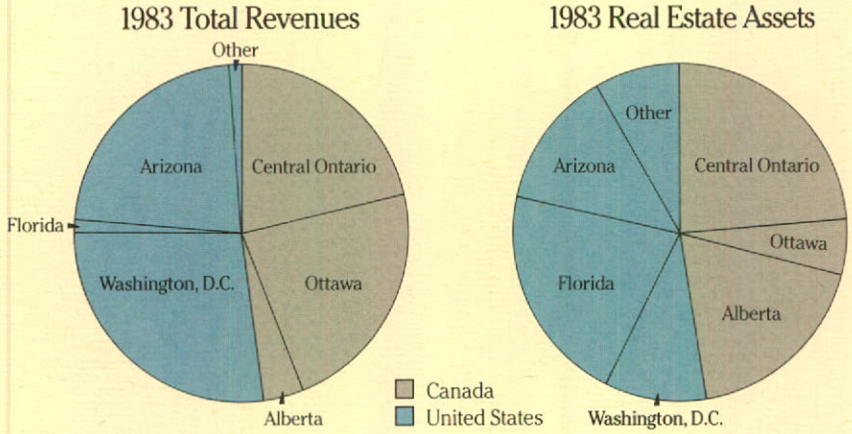
Statistical Information

Total Revenues

($ 000s)	1983		1982		1981		1980		1979	
Canada	82.9	48.1%	62.2	52.7%	118.5	69.8%	101.4	70.5%	115.2	80.8%
United States	89.4	51.9	55.8	47.3	51.2	30.2	42.5	29.5	27.4	19.2
Total	172.3	100.0	118.0	100.0	169.7	100.0	143.9	100.0	142.6	100.0

Real Estate Assets

($ 000s)	1983		1982		1981		1980		1979	
Housing and Land										
Canada	144.8	48.6%	149.1	43.2%	140.8	44.4%	109.6	58.0%	125.2	67.7%
United States	153.1	51.4	177.8	51.5	162.4	51.2	62.1	32.9	41.7	22.5
Rental Properties	–	–	18.5	5.3	13.9	4.4	17.2	9.1	18.1	9.8
Total	297.9	100.0	345.4	100.0	317.1	100.0	188.9	100.0	185.0	100.0



Partnerships and Joint Ventures

	Asset	Interest
Delorme Ottawa, Ontario	104 acres	52 acres (50%)
Orleans Ottawa, Ontario	48 acres	34 acres (70%)
Twin Brooks Edmonton, Alberta	280 acres	140 acres (50%)
Millrise Calgary, Alberta	261 acres	131 acres (50%)
Scottsdale Ranch Phoenix, Arizona	687 acres	344 acres (50%)
Tamar Columbia, Maryland	306 units (condominium)	184 units (60%)

Housing Summary

	1983 Closings	Under Construction as at December 31, 1983				Sales Carried Forward into 1984		
		Models	Unsold	Sold	Total	Under Construction	Not Started	Total
Canada								
Central Ontario	167	4	48	29	81	29	17	46
Ottawa	320	1	7	12	20	12	13	25
Alberta	41	1	1	2	4	2	-	2
	528	6	56	43	105	43	30	73
United States								
Florida	-	-	-	-	-	-	-	-
Washington, D.C.	80	4	30	34	68	34	6	40
Arizona	85	3	43	5	51	5	10	15
Other	1	-	-	-	-	-	-	-
	166	7	73	39	119	39	16	55
Total	694	13	129	82	224	82	46	128

Land Development Summary

	1983 Activity					Inventory at December 31, 1983						
	Sales(1)		Purchases(2)		Registrations	Under Development				Future		
	Lots (Units)	Acres	Lots (Units)	Acres	Acres	Lots (Units)	Lots (Acres)(2)	Multiple Residential	Commercial and Industrial	Preliminary Approval Or Zoned	Raw	Total Acres
Canada												
Central Ontario	129	69	6	1	49	305	39	33	-	563	378	1,013
Ottawa	-	295	47	-	23	149	24	16	35	-	697	772
Alberta	44	1	-	-	-	223	37	-	13	182	402	634
	173	365	53	1	72	677	100	49	48	745	1,477	2,419
United States												
Florida	57	-	-	-	-	982	52	80	35	-	-	167
Washington, D.C.	1,101	107	-	-	9	888	96	8	1	195	-	300
Arizona	51	293	-	11	-	279	41	234	148	30	-	453
Other	30	2	-	-	33	118	50	-	25	178	-	253
	1,239	402	-	11	42	2,267	239	322	209	403	-	1,173
Total	1,412	767	53	12	114	2,944	339	371	257	1,148	1,477	3,592

(1) Represents sales and purchases during the year of building lots and of acres of land.
(2) Represents the approximate acreage equivalent of the lots in inventory.

Ten Year Review

Year ended December 31 In thousands of dollars unless otherwise noted	1983		1982		1981		1980	
Revenues:								
Housing	74,465	43.2%	85,461	72.4	93,872	55.3	93,569	65.0
Land	89,252	51.8	24,257	20.6	64,878	38.2	41,460	28.8
Interest and other	8,558	5.0	8,298	7.0	10,939	6.5	8,918	6.2
Total revenues	172,275	100.0	118,016	100.0	169,689	100.0	143,947	100.0
Expenses:								
Housing	70,894	41.2	85,475	72.4	85,806	50.6	86,499	60.1
Land	75,759	44.0	22,606	19.2	43,835	25.8	34,550	24.0
Interest	10,267	5.9	12,648	10.7	10,481	6.2	7,797	5.4
General and administrative	8,137	4.7	8,962	7.6	9,668	5.7	8,096	5.6
Total expenses	165,057	95.8	129,691	109.9	149,790	88.3	136,942	95.1
Earnings (loss) before income taxes	7,218		(11,675)	(9.9)	19,899	11.7	7,005	4.9
Income taxes:								
Current (recovery)	156	.1	(1,275)	(1.1)	3,938	2.3	2,698	1.9
Deferred (reduction)	1,185	.7	(6,963)	(5.9)	4,934	2.9	658	.5
Total income taxes	1,341	.8	(8,238)	(7.0)	8,872	5.2	3,356	2.4
Net earnings (loss)	5,877	3.4	(3,437)	(2.9)	11,027	6.5	3,649	2.5
Total assets	396,541		415,582		408,969		264,724	
Shareholders' equity	58,314		42,475		46,917		35,446	
Real estate assets:								
Housing and land under development	200,459		165,232		94,038		80,713	
Land for future development	97,492		161,635		209,160		91,047	
Rental properties	–		18,539		13,853		17,214	
Inventory of land holdings (acres)	3,592		5,006		5,362		4,894	
Sales:								
Houses closed (units)	694		714		868		913	
Lots (units)	1,412		422		601		447	
Land (acres)	767		128		290		389	
Average number of shares outstanding	5,292,714		4,642,552		4,559,689		4,247,691	
Per common share(1):								
Earnings (loss)	$ 1.11		(.74)		2.42		.86	
Fully diluted earnings (loss)	$ .89		(.74)		2.37		.83	
Cash flow	$ 1.53		(2.08)		3.65		1.17	
Dividends	$ .10(2)		.25		.41		.38	
Shareholders' equity	$11.05		9.15		10.29		8.30	
Stock price range	$10¾-6½		9¼-3.85		15-8¼		11⅜-6½	
After tax return on:								
Average shareholders' equity	11.7%		(7.7)		26.8		10.6	
Revenues	3.4%		(2.9)		6.5		2.5	
Debt to equity ratio	3.91:1		5.53:1		4.45:1		2.94:1	

(1) Per share figures are adjusted for stock splits in 1977 (2 for 1) and 1979 (3 for 2).
(2) Stock dividend.

1979		1978		1977		1976		1975		1974	
89,729	62.9	77,212	80.2	54,183	70.2	44,423	78.7	28,713	74.9	33,350	83.4
48,231	33.8	14,432	15.0	18,983	24.6	8,734	15.5	6,865	17.9	4,799	12.0
4,699	3.3	4,617	4.8	4,021	5.2	3,269	5.8	2,758	7.2	1,836	4.6
142,659	100.0	96,261	100.0	77,187	100.0	56,426	100.0	38,336	100.0	39,985	100.0
82,853	58.1	64,567	67.1	46,191	59.8	37,010	65.6	22,691	59.2	26,625	66.6
33,804	23.7	10,325	10.7	13,189	17.1	7,045	12.5	6,133	16.0	4,720	11.8
4,801	3.3	2,685	2.8	1,911	2.5	1,101	1.9	747	2.0	583	1.4
7,389	5.2	5,060	5.2	4,032	5.2	3,079	5.5	2,434	6.3	2,148	5.4
128,847	90.3	82,637	85.8	65,323	84.6	48,235	85.5	32,005	83.5	34,076	85.2
13,812	9.7	13,624	14.2	11,864	15.4	8,191	14.5	6,331	16.5	5,909	14.8
(1,116)	(.7)	5,274	5.5	2,252	2.9	812	1.4	1,595	4.2	1,815	4.5
7,751	5.4	1,349	1.4	3,612	4.7	3,040	5.4	1,544	4.0	1,397	3.5
6,635	4.7	6,623	6.9	5,864	7.6	3,852	6.8	3,139	8.2	3,212	8.0
7,177	5.0	7,001	7.3	6,000	7.8	4,339	7.7	3,192	8.3	2,697	6.8
	242,445		178,529		148,136		111,646		92,625		79,852
	33,315		27,650		21,776		17,076		13,143		10,486
	72,330		56,335		46,534		24,170		18,826		11,394
	94,629		75,086		60,399		54,157		46,985		43,701
	18,118		15,854		15,925		16,031		16,134		16,128
	4,603		4,445		3,813		3,614		3,582		3,710
	1,018		1,071		784		814		498		724
	926		468		837		323		358		391
	388		17		41		7		—		—
	4,238,400		4,234,161		4,202,669		4,053,591		4,037,988		4,035,033
	1.69		1.65		1.43		1.07		.79		.67
	1.60		1.56		1.34		.96		.71		.60
	3.68		2.09		2.38		1.89		1.22		1.06
	.36		.27		.18		.13		.13		.08
	7.86		6.53		5.15		4.16		3.25		2.60
	11½-6½		9⅓-5		5⅞-2⅔		3½-2⅛		3¼-1⅞		3¼-1⅔
	23.5		28.3		30.9		28.7		27.0		29.0
	5.0		7.3		7.8		7.7		8.3		6.8
	3.22:1		4.03:1		2.74:1		2.66:1		3.04:1		3.48:1

Corporate Directory

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Marcel Lalande
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Meier Miller
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Leslie Parker
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Transfer Agent

Canada Permanent Trust Company

Trustee for Debentures

National Trust Company, Limited

Stock Exchange Listing

Toronto (Symbol COT)

Annual Meeting

May 23, 1984
The Westin Hotel
Toronto, Ontario

Scottsdale Ranch, the 1,100-acre partnership development in Phoenix, Arizona.

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