Costain Limited

ANNUAL REPORT

1982

Costain Limited is a Canadian public real estate development company actively engaged in business since 1953, whose shares are traded on the Toronto and Montreal Stock Exchanges.

Revenue is derived from the development and sale of land, the building and marketing of residential properties, and the development of commercial properties for retention or sale. Operating in North America, its activities are located mainly in Ontario, Alberta, Arizona, Florida and the Washington, D.C. area.

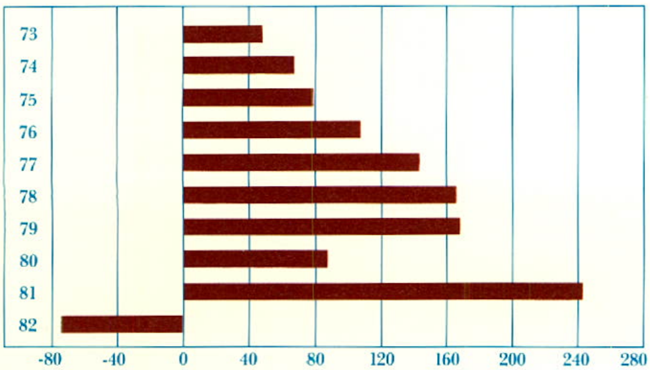
Contents

Financial Highlights

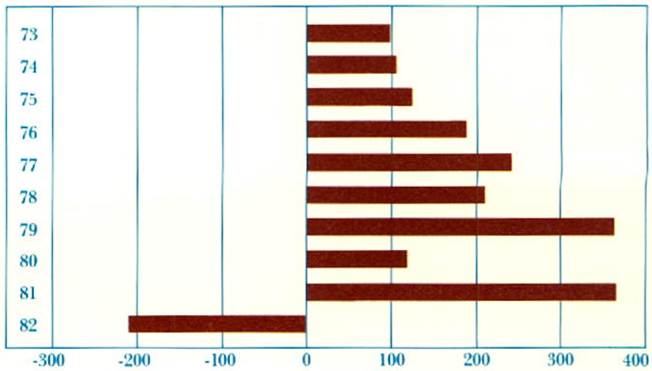
COSTAIN

	1982 ($)	1981 ($)
Total revenues	118,016,000	169,689,000
Net earnings (loss)	(3,437,000)	11,027,000
Earnings (loss) per share	(0.74)	2.42
Cash flow per share	(2.08)	3.65
Total assets	415,582,000	408,969,000
Dividends per share	.25	.41
Shareholders' equity	42,475,000	46,917,000

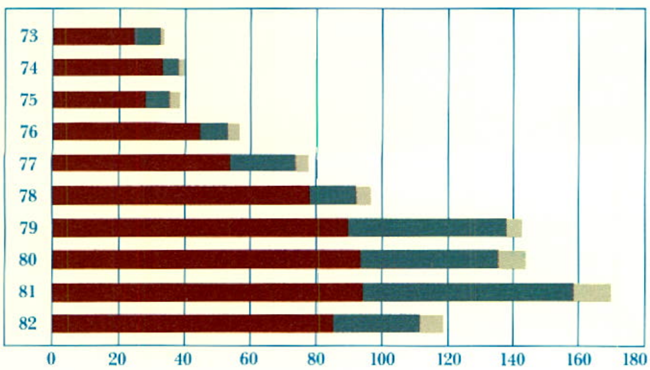
Earnings Per Share



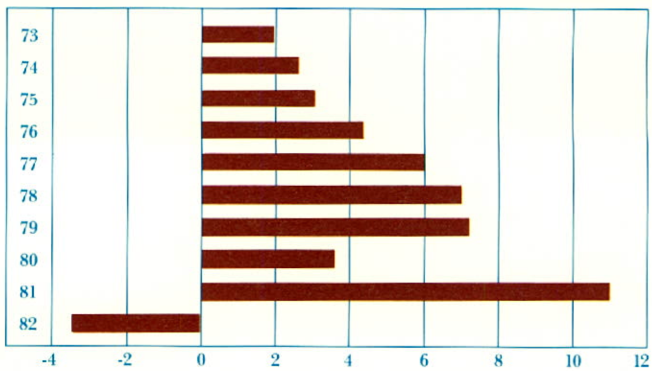
Cash Flow Per Share



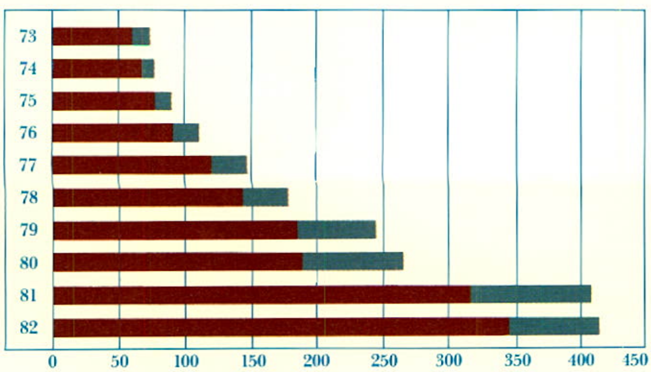
Total Revenues



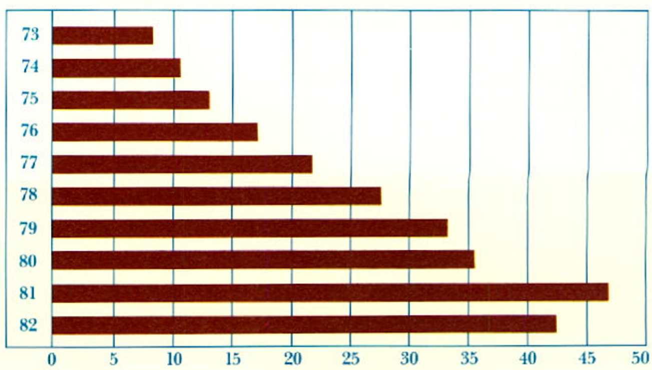
Net Earnings



Total Assets



Shareholders' Equity



In millions of dollars, except per share figures which are in cents

Report to Shareholders

In 1982, for the first time in its history since becoming publicly owned, the Company failed to report a profit from operations. A loss of $3.4 million, or 74 cents per share, was recorded, after allowing for pre-tax inventory write-downs of $8.6 million. Revenues were $118 million, compared to $170 million achieved in 1981. Cash flow turned from a positive $3.65 to a negative $2.08 per share.

Assets at the end of the year totalled $416 million, up slightly from 1981, but down ten percent from June 30th last. There was also an important change in the nature of the assets, in that $71.7 million of land for future development was converted to current land. Shareholders' equity fell during the year from $46.9 million to $42.5 million and, although in the opinion of management the appraisal surplus is still clearly substantial, it is thought to be considerably short of the $90 million estimate at the start of the period. Dividends of 12½ cents per share were declared in each of the first two quarters of 1982, but were discontinued thereafter in response to the severity of the recession and the need to conserve cash.

A change in the method of capitalizing interest costs has been introduced in order to bring the Company's reporting practices more in line with those used by other real estate development companies. The effect of the change for the year was to reduce the net loss by $1.4 million. The accounts for 1981 have been restated with a resultant increase in reported earnings of $0.6 million.

In the early months of 1982 it was generally believed that an upturn in the North American economy was imminent, with the lead to be taken by the United States. Housing, as usual, was expected to be in the forefront of the recovery. However, interest rates failed to soften noticeably until the third quarter of the year, and the upturn was correspondingly delayed. In the United States, concern for rapidly growing government deficits intensified and support for President Reagan's economic policies began to wane. The prospect of an early end to the recession faded and, indeed, fears of a depression were widely expressed.

For the housing industry the recession had a two-fold effect on demand. Many potential purchasers deferred their decision to buy because of rising unemployment and the fear of losing their source of income. Secondly, high mortgage interest rates called for monthly payments beyond the capacity of most of the buying public. On the supply side, the builder and developer found that increased borrowing costs added substantially to the cost of operations, especially for those who followed a policy of maintaining an inventory of land for future development. As a result, the impact of the deepening recession on the real estate industry was extremely severe. Little raw land changed hands and few serviced lots were sold. Many house sales that had been made for delivery during the course of the year failed to close and builders implemented substantial price cuts in an effort to resell them. Most, if not all, companies in the industry experienced a serious deterioration in cash flow and were forced to adopt an abrupt change in operating policy in order to ensure survival. With the market now flooded with sellers there was no likelihood that a balance would be achieved in the near term, nor even for some time after the reversal of the trend in interest rates.

In light of these economic circumstances the Company took steps in July to strengthen its financial position through additional financing of $30 million, provided effectively by its principal banker, and its major shareholder Costain Group PLC. Of this loan amount, $10 million has been designated subordinated unsecured debt, ranking behind the publicly held debentures for a 12-month period ending December 1, 1983. The loan is non-interest bearing for 18 months and, upon meeting certain financial and other related tests, will be converted at the end of the period into 42-month subordinated debt, with share purchase warrants being issued at that time to the two lenders. As part of the financing arrangements, the Company's existing demand bank loans became 18-month term loans through May 1984. The share purchase warrants will entitle the holders to purchase during a period of five years an aggregate of 1,160,000 common shares of the Company at a price of $1.50 each, which price reflects the benefits received by the Company through the additional financing arrangements and particularly from the non-interest bearing loan mentioned above. The Company also undertook not to pay cash dividends before May 1984 without the prior consent of the bank.

These financing arrangements were completed in November 1982. During the course of their development, and since that time, the Company has followed a policy of realizing on assets, especially those that are of a non-productive nature. For a time the central objective will be to concentrate on the improvement of the balance sheet, with special attention to increasing interest coverage. Economies of operation have been introduced widely and some of the Company's geographic diversification program has been reversed.

The Company's strategy for 1983 is to continue the emphasis on reducing liabilities. This will be achieved through the normal process of the development and marketing of current lands, as well as the sale of the interest or partial interest in lands held for development. During this period profitability will assume a lower priority than the achievement of a sound financial condition.

Operationally, there will be a concentration of effort in six locations, three in each of Canada and the United States. These are Central Ontario, Ottawa, Alberta, Florida, Washington, D.C. and Phoenix, all of which are now well established.

The Company's housing activities in 1983 will be characterized by a renewed effort to achieve maximum effectiveness. With thirty years of experience in the industry, a reputation for excellence and an adequate supply of land for building, it is appropriate to look to housing for a material contribution to the recovery of the financial strength of the Company. Inventories will remain under close control and the majority of building will be undertaken on a pre-sale basis. The marketing of serviced land to builders will be carried out on terms which are in keeping with the changed economic environment.

Investor confidence began to return last fall, as evidenced by the rise in stock market indices. Some months later consumer confidence also showed an improvement. It would now seem that in 1983 there will be a gradually strengthening housing market, supported by a cautious but purposeful consumer. The continuing problem of unemployment will undoubtedly moderate demand for housing, but it may have a gradually lessening effect as it comes to be accepted as a long term structural problem. There are grounds for believing that during the year the level of inflation will not return to double digits and that interest rates will remain at reasonable levels, even though there may be considerable volatility within a range of a few points.

The housing market in the United States is expected to improve earlier, and to a greater extent than in Canada, but in each country first stirrings always occur in the lot sale market as builders look ahead and prepare plans for meeting anticipated demand. Activity in this market had already begun in the latter part of 1982.

Provided that economic events continue to unfold generally in accordance with these expectations and interest rates remain within reasonable limits, there is little doubt that the Company will achieve its financial objectives for 1983, which include improving the cash flow as well as ensuring that operations will once again be profitable.

There are a number of changes to report in the membership of the Board of Directors. After more than nineteen years of service Grant L. Duff resigned last year as President and a director of the Company. The Board would like to pay tribute to the considerable contribution made by Mr. Duff in the various capacities in which he acted and wishes him well in the future.

Having reached the age of 70 years, James W. Westaway cannot stand for re-election to the Board at the forthcoming Annual Meeting of Shareholders. Mr. Westaway has been a director for ten years and the Company owes him a debt of gratitude for his conscientious and capable participation in its affairs.

In November 1982 Robert A. Ferchat was appointed a director. Mr. Ferchat is Executive Vice-President, Finance and Administration of Northern Telecom Limited and a director of a number of other Canadian companies.

H. Keith Morley
Chairman and
Chief Executive
Officer

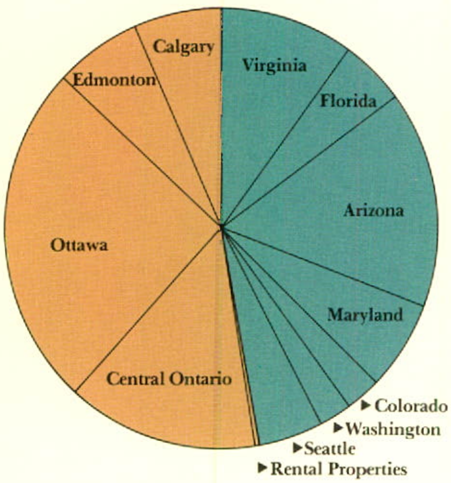
It is also a pleasure to report that at a recent Board Meeting L. Ross Cullingworth was promoted to President and Chief Operating Officer and Richard C. Benmore was appointed Vice-President and Chief Financial Officer. Mr. Cullingworth joined the Company in 1973, became Chief Financial Officer and Secretary in 1975, was made Executive Vice-President in 1979, and last year joined the Board of Directors. Mr. Benmore was, until recently, a senior officer with a major Canadian real estate development company.

The year 1982 was a period of unusual strain and anxiety for the management and staff of the Company. Everyone has been called upon to work longer and harder and to make other personal sacrifices of varying degrees. On behalf of the Board I would like to express sincere appreciation for the readiness with which these additional burdens were assumed while maintaining the customary high standards of performance.

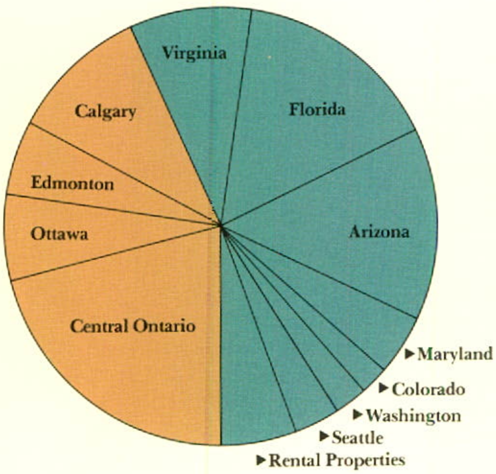
H. Keith Morley
Chairman and
Chief Executive Officer

March 28, 1983

1982 Total Revenues



1982 Real Estate Assets



Canada United States

Total Revenues

($ millions)	1982		1981		1980		1979		1978	
Housing, Land, Interest and Other										
Ontario	**46.5**	**39.4%**	70.3	41.4%	52.0	36.1%	78.0	54.7%	72.9	75.7%
Alberta	**15.3**	**13.0**	47.4	27.9	46.7	32.5	34.5	24.2	18.3	19.0
United States	**55.8**	**47.3**	51.2	30.2	42.5	29.5	27.4	19.2	2.5	2.6
Rental Properties	**.4**	**.3**	.8	.5	2.7	1.9	2.7	1.9	2.6	2.7
Total	**118.0**	**100.0**	169.7	100.0	143.9	100.0	142.6	100.0	96.3	100.0

Real Estate Assets

($ millions)	1982		1981		1980		1979		1978	
Housing and Land										
Ontario	**95.0**	**27.5%**	89.8	28.3%	72.2	38.2%	77.7	42.0%	81.4	55.3%
Alberta	**54.1**	**15.7**	51.0	16.1	37.4	19.8	47.5	25.7	35.3	24.0
United States	**177.8**	**51.5**	162.4	51.2	62.1	32.9	41.7	22.5	14.8	10.0
Rental Properties	**18.5**	**5.3**	13.9	4.4	17.2	9.1	18.1	9.8	15.8	10.7
Total	**345.4**	**100.0**	317.1	100.0	188.9	100.0	185.0	100.0	147.3	100.0

Joint Ventures and Partnerships

	Asset	Interest
Orleans Ottawa, Ontario	521 acres	365 acres (70%)
Brimley Forest Scarborough (Toronto), Ontario	186 acres	56 acres (30%)
Twin Brooks Edmonton, Alberta	280 acres	140 acres (50%)
Millrise Calgary, Alberta	285 acres	143 acres (50%)
Scottsdale Ranch Phoenix, Arizona	811 acres	405 acres (50%)
Treover Columbia, Maryland	409 units (apartment)	245 units (60%)
Tysons International Office Building Fairfax, Virginia	163,700 sq. ft.	81,850 sq. ft.(50%)

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.

Rental Properties - revenue from rental properties is included in the consolidated statement of earnings when breakeven cash flow after debt servicing is achieved, subject to a maximum period of time for lease-up related to the specific nature of the asset. Prior to such time, operating and carrying costs net of rental revenue are capitalized as cost of rental properties.

Capitalization of Costs

Capitalized costs include: development costs which are 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 is recorded on rental properties on a 5 percent, fifty-year sinking fund basis. Under this method, depreciation is charged to income in an amount which increases annually, consisting of a fixed annual sum, together with interest compounded at the rate of 5 percent per annum so as to fully depreciate the buildings over fifty years. Depreciation on other fixed assets is recorded at rates which will depreciate each asset over its estimated useful life.

Deferred financing costs are amortized to income 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.

Consolidated Statement of Earnings

Costain Limited	Year ended December 31	Notes	1982 ($000s)	1981 ($000s) Restated
	Revenues			
	Housing		85,461	93,872
	Land		24,257	64,878
	Rental properties		383	772
	Interest and other		7,915	10,167
	Total revenues		118,016	169,689
	Expenses			
	Housing		85,475	85,806
	Land		22,191	43,000
	Rental properties		415	835
	Interest	11	12,648	10,481
	General and administrative		8,962	9,668
	Total expenses		129,691	149,790
	Earnings (loss) before income taxes		(11,675)	19,899
	Income taxes			
	Current (recovery)		(1,275)	3,938
	Deferred (reduction)		(6,963)	4,934
	Total income taxes	15	(8,238)	8,872
	Net earnings (loss)		(3,437)	11,027
	Earnings (loss) per share: Basic	10	(0.74)	2.42
	Fully diluted	10	(0.74)	2.37

Consolidated Statement of Retained Earnings

Costain Limited	Year ended December 31	Notes	1982 ($000s)	1981 ($000s) Restated
	Retained earnings, beginning of year as previously reported		40,282	31,777
	Adjustment for change in the method of accounting for the capitalization of interest	14	635	—
	As restated		40,917	31,777
	Net earnings (loss)		(3,437)	11,027
			37,480	42,804
	Less dividends		1,162	1,887
	Retained earnings, end of year		36,318	40,917

Consolidated Balance Sheet

Costain Limited	December 31	Notes	1982 ($000s)	1981 ($000s) Restated
	Assets			
	Cash and short term deposits		**629**	1,257
	Accounts receivable		**7,720**	8,312
	Income taxes recoverable		**1,686**	—
	Mortgages and other secured receivables	1	**53,179**	75,446
	Real estate assets	5		
	Housing and land under development	3	**165,232**	94,038
	Land for future development	4	**161,635**	209,160
	Rental properties		**18,539**	13,853
	Other assets	6	**6,962**	6,903
	Total assets		**415,582**	408,969
	Liabilities			
	Bank loans	7	**116,035**	77,389
	Accounts payable and accruals		**16,483**	24,097
	Mortgages and other secured payables	8	**155,823**	167,561
	Debentures payable	9	**63,578**	64,854
	Deferred income taxes		**21,188**	28,151
	Total liabilities		**373,107**	362,052
	Shareholders' equity			
	Capital stock	10	**6,157**	6,000
	Retained earnings		**36,318**	40,917
	Total shareholders' equity		**42,475**	46,917
	Total liabilities and shareholders' equity		**415,582**	408,969
	Commitments and contingent liabilities	16		

On behalf of the Board:

H.K. Morley
Director

L.R. Cullingworth
Director

Consolidated Statement of Changes in Financial Position

Costain Limited	Year ended December 31	1982 ($000s)	1981 ($000s) Restated
	Financial resources were provided by		
	Net earnings (loss)	(3,437)	11,027
	Add (deduct) non-cash items		
	Income taxes deferred	(6,963)	4,934
	Depreciation		
	Fixed assets	510	445
	Rental properties	21	32
	Amortization of deferred financing costs	227	208
	Cash flow from (used in) operations*	(9,642)	16,646
	Increase in bank indebtedness	38,646	36,774
	Decrease in receivables	21,173	—
	Issue of additional capital stock	157	2,331
	Increase in mortgages and other secured payables	—	92,546
	Net change in other assets and liabilities	—	8,876
		50,334	157,173
	Financial resources were used for		
	Additions to real estate assets	28,376	128,109
	Decrease in mortgages and other secured payables	11,738	—
	Redemption of debentures	1,276	1,648
	Dividends	1,162	1,887
	Increase in receivables	—	25,529
	Net change in other assets and liabilities	7,782	—
		50,334	157,173
	***Cash flow per share — Basic**	(2.08)	3.65

Notes to Consolidated Financial Statements

(Refer to Summary of Significant Accounting Policies)

1. Mortgages and Other Secured Receivables

These amounts bear interest at rates from 7.0% to 16.0%, with a weighted average of 11.09% and mature as follows:

		1982 ($000s)	1981 ($000s)
	1982	—	26,920
	1983	15,668	15,920
	1984	18,504	13,127
	1985	6,489	4,083
	1986	5,705	7,301
	1987	2,298	1,514
Subsequent to	1987	4,515	6,581
		53,179	75,446

2. Segmented Information

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	
	1982	1981	1982	1981	1982 ($000s)	1981 ($000s)
Operations						
Total revenues	62,251	118,456	55,765	51,233	118,016	169,689
Trading profit	8,000	30,743	1,935	9,305	9,935	40,048
Interest expense					12,648	10,481
General and administrative					8,962	9,668
Income taxes					(8,238)	8,872
Net earnings (loss)					(3,437)	11,207
Assets						
Real estate assets						
Housing and land under development	50,905	43,622	114,327	50,416	165,232	94,038
Land for future development	98,212	97,213	63,423	111,947	161,635	209,160
Rental properties	—	3,129	18,539	10,724	18,539	13,853
	149,117	143,964	196,289	173,087	345,406	317,051
Miscellaneous assets	37,604	54,905	32,572	37,013	70,176	91,918
Total assets	186,721	198,869	228,861	210,100	415,582	408,969

3. Housing and Land Under Development

	1982 ($000s)	1981 ($000s)
Housing including related lots	32,506	33,624
Building lots acquired	8,413	10,482
Land under development	124,313	49,932
	165,232	94,038

4. Land for Future Development

	1982 ($000s)	1981 ($000s)
Opening inventory	209,160	91,047
Acquisitions	14,568	100,594
Costs capitalized		
Interest	12,359	18,436
Real estate taxes	804	365
Salaries and expenses	1,462	1,314
Preliminary development costs	6,477	8,481
	244,830	220,237
Transfers to land under development or charged to expense	83,195	9,873
Reduction in inventory values from cost to net realizable value	—	1,204
	161,635	209,160

5. Reduction in Carrying Value of Real Estate Assets

Real estate assets have been written down to reflect the net realizable values as follows:

	1982 ($000s)	1981 ($000s)
Housing and land under development		
Housing and related lots	2,125	288
Land under development	1,328	883
Land for future development	5,179	2,515
	8,632	3,686
Comprised of		
Interest not capitalized	6,332	2,194
Housing costs not capitalized	2,125	288
Reduction in inventory values from cost to net realizable value	—	1,204
Other costs not capitalized	175	—
	8,632	3,686

6. Other Assets

	1982 ($000s)	1981 ($000s)
Fixed assets - at cost less accumulated depreciation of $1,498,000 (1981 - $1,412,000)	1,785	2,023
Unamortized portion of deferred financing costs	2,809	2,493
Loans to officers under share purchase plan	990	1,440
Prepaid expenses and sundry assets	1,378	947
	6,962	6,903

7. 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 18-month 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 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 except for $10,000,000 of the bank line which has been designated as subordinated unsecured debt that ranks behind the sinking fund debentures for a 12-month period expiring December 1, 1983.

Provided the Company meets certain financial tests on May 9, 1984, $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, 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.

8. Mortgages and Other Secured Payables

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

	1982 ($000s)	1981 ($000s)
Housing and land under development		
Housing (interim)	**28,156**	28,520
Land under development	**52,067**	15,139
Land for future development	**62,142**	115,905
Rental properties	**13,458**	7,997
	155,823	167,561

Interim financing obligations on housing will be replaced or repaid as each house closes.

Interest rates and approximate principal repayments are as follows:

	Land under develop-ment	Land for future develop-ment	Rental properties	Total
Range of rates	8.0%–15.0%	7.0%–14.0%	9.5%–13.25%	7.0%–15.0%
Weighted average	10.7%	11.3%	11.1%	11.3%
Principal due ($000s)				
1983	19,098	18,088	35	37,221
1984	11,801	12,251	517	24,569
1985	10,907	3,696	43	14,646
1986	10,261	20,829	5,695	36,785
1987	–	932	52	984
Subsequent to 1987	–	6,346	7,116	13,462
	52,067	62,142	13,458	127,667

9. Debentures Payable

	1982 ($000s)	1981 ($000s)
9¾% Sinking Fund Debentures Series A maturing May 15, 1991	**2,952**	3,107
12% Sinking Fund Debentures Series B maturing February 12, 1990	**6,123**	6,531
11¼% Sinking Fund Debentures Series D maturing June 15, 1997	**12,739**	13,065
11⅜% Sinking Fund Debentures Series E maturing November 1, 1998	**23,000**	23,000
12% Sinking Fund Debentures Series F maturing October 15, 1999	**18,764**	19,151
	63,578	64,854

The debentures are secured by a floating charge on the assets of the Company (subject to the security referred to in Note 7). 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.

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 changing to $250,000 in the years 1987 through 1990,

Series B issue, presently $448,440 annually on February 12, changing 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. 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,

Series F issue, commencing in 1990, 4% annually of the principal amount outstanding on October 15, 1989. 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 1982 as a result of sinking and purchase fund requirements amounted to $1,276,000 (1981 – $1,648,000).

10. Capital Stock

The authorized capital comprises 6,000,000 common shares without nominal or par value and an unlimited number of preferred shares issuable in series. At December 31, 1982, 4,645,696 common shares were issued and outstanding (1981 – 4,611,946). No preferred shares have been issued. For purposes of calculating basic earnings per share and cash flow per share, the weighted average number of shares outstanding during the year was 4,642,552 (1981 – 4,559,689).

At December 31, 1982, 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 7.

During 1982, options to an officer covering 33,750 shares were exercised for a total cash consideration of $157,500. At December 31, 1982 options to an officer for 17,550 shares remained outstanding having an exercise price of $6.50 per share and will expire on April 11, 1983.

As a condition of the banking arrangements, until May 9, 1984, the Company may not without the prior consent of its banker declare any dividends except that the Company is permitted to pay stock dividends not exceeding on an annual basis 4 percent of the then outstanding number of its common shares.

11. Interest

	1982 ($000s)	1981 ($000s)
Interest charges were incurred on		
Mortgages	**21,141**	15,751
Debentures	**7,410**	7,518
Bank loans	**16,883**	15,286
	45,434	38,555
Interest was allocated to		
Housing and land under development	**14,504**	3,869
Land for future development	**12,359**	18,436
Rental property under development	**693**	284
Expense		
Housing and land	**4,989**	5,050
Rental properties	**241**	435
Interest*	**12,648**	10,481
	45,434	38,555

*Including $6,332,000 interest not capitalized (1981 – $2,194,000), referred to in Note 5.

12. Joint Venture Operations

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

	1982 ($000s)	1981 ($000s)
Assets		
Real estate assets	**61,175**	51,928
Miscellaneous assets	**10,929**	18,229
Total assets	**72,104**	70,157
Liabilities		
Mortgages payable	**19,894**	12,664
Other liabilities	**4,382**	6,642
Deferred income taxes	**10,869**	9,962
Total liabilities	**35,145**	29,268
Investment in real estate joint ventures	**36,959**	40,889
Total liabilities and investment	**72,104**	70,157
Revenues	**9,741**	23,967
Expenses	**5,719**	13,898
Trading profit	**4,022**	10,069

13. Net Increase in Capitalized Costs in Housing and Land

	1982 ($000s)	1981 ($000s)
Interest		
On housing and land under development	**14,504**	3,869
On land for future development	**12,359**	18,436
Real estate taxes	**1,139**	738
Salaries and expenses	**2,663**	2,225
	30,665	25,268
Capitalized costs previously incurred, charged to expense	**2,230**	2,393
Net increase in capitalized costs	**28,435**	22,875

14. Accounting Change

During 1982 the Company changed the method of allocating interest on general borrowings so that interest continues to be capitalized on land under development. Formerly capitalization of interest related to general borrowings ceased when land was reclassified from future development to land under development. The change has been applied retroactively and accordingly, the amounts presented for comparative purposes have been restated. The change had the effect of reducing the 1982 loss by $1,393,000 and increasing previously reported earnings for 1981 by $635,000.

15. 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.

16. Commitments and Contingent Liabilities

The Company has entered into various occupancy lease commitments with lease periods up to 1986. The aggregate minimum rentals payable under such leases amount to approximately $2,046,000, payable within the next four years.

The Company is a defendant in a legal action for damages in the aggregate of approximately $3,600,000 pertaining to the purchase of a parcel of land. The Company is defending this action and management anticipates a favourable result. Accordingly, no provision is recorded in the accounts for this matter.

Peat, Marwick, Mitchell & Co.

Auditors' Report to Shareholders

We have examined the consolidated balance sheet of Costain Limited as at December 31, 1982 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, 1982 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, after giving retroactive effect to the change in the method of accounting for the capitalization of interest as referred to in Note 14 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Peat Marwick Mitchell & Co

Chartered Accountants

Toronto, Canada
February 23, 1983

Ten Year Review

Year ended December 31 In thousands of dollars unless otherwise noted	1982		1981		1980		1979	
Revenues								
Housing	85,461	72.4%	93,872	55.3%	93,569	65.0%	89,729	62.9%
Land	24,257	20.6	64,878	38.2	41,460	28.8	48,231	33.8
Rental properties	383	.3	772	.5	2,717	1.9	2,746	1.9
Interest and other	7,915	6.7	10,167	6.0	6,201	4.3	1,953	1.4
Total revenues	118,016	100.0	169,689	100.0	143,947	100.0	142,659	100.0
Expenses								
Housing	85,475	72.4	85,806	50.6	86,499	60.1	82,853	58.1
Land	22,191	18.8	43,000	25.3	31,866	22.1	30,962	21.7
Rental properties	415	.4	835	.5	2,684	1.9	2,842	2.0
Interest	12,648	10.7	10,481	6.2	7,797	5.4	4,801	3.3
General and administrative	8,962	7.6	9,668	5.7	8,096	5.6	7,389	5.2
Total expenses	129,691	109.9	149,790	88.3	136,942	95.1	128,847	90.3
Earnings (loss) before income taxes	(11,675)	(9.9)	19,899	11.7	7,005	4.9	13,812	9.7
Income taxes								
Current (recovery)	(1,275)	(1.1)	3,938	2.3	2,698	1.9	(1,116)	(.7)
Deferred (reduction)	(6,963)	(5.9)	4,934	2.9	658	.5	7,751	5.4
Total income taxes	(8,238)	(7.0)	8,872	5.2	3,356	2.4	6,635	4.7
Net earnings (loss)	(3,437)	(2.9)	11,027	6.5	3,649	2.5	7,177	5.0

	1982	1981	1980	1979
Total assets	415,582	408,969	264,724	242,445
Shareholders' equity	42,475	46,917	35,446	33,315
Real estate assets				
Housing and land under development	165,232	94,038	80,713	72,330
Land for future development	161,635	209,160	91,047	94,629
Rental properties	18,539	13,853	17,214	18,118
Inventory of land holdings (acres)	5,006	5,362	4,894	4,603
Sales				
Houses closed	714	868	913	1,018
Lots (units)	422	601	447	926
Land (acres)	128	290	389	388
Average number of shares outstanding	4,642,552	4,559,689	4,247,691	4,238,400
Per common share				
Earnings (loss)	$(0.74)	2.42	.86	1.69
Fully diluted earnings (loss)	$(0.74)	2.37	.83	1.60
Cash flow	$(2.08)	3.65	1.17	3.68
Dividends	$ 0.25	0.41	.380	.357
Shareholders' equity	$ 9.15	10.29	8.30	7.86
Stock price range	$10-3.85	15-8¼	11⅜-6½	11½-6½
Return on				
Average shareholders' equity	(7.7)%	26.8%	10.6	23.5
Revenues	(2.9)%	6.5%	2.5	5.0

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

1978		1977		1976		1975		1974		1973	
77,212	80.2%	54,183	70.2%	44,423	78.7%	28,713	74.9%	33,350	83.4%	24,127	72.7%
14,432	15.0	18,983	24.6	8,734	15.5	6,865	17.9	4,799	12.0	8,350	25.2
2,584	2.7	2,422	3.1	2,181	3.9	2,069	5.4	1,149	2.9	24	.1
2,033	2.1	1,599	2.1	1,088	1.9	689	1.8	687	1.7	689	2.0
96,261	100.0	77,187	100.0	56,426	100.0	38,336	100.0	39,985	100.0	33,190	100.0
64,567	67.1	46,191	59.8	37,010	65.6	22,691	59.2	26,625	66.6	21,054	63.4
7,576	7.9	10,572	13.7	4,550	8.1	3,859	10.1	3,392	8.5	5,651	17.1
2,749	2.8	2,617	3.4	2,495	4.4	2,274	5.9	1,328	3.3	26	.1
2,685	2.8	1,911	2.5	1,101	1.9	747	2.0	583	1.4	583	1.7
5,060	5.2	4,032	5.2	3,079	5.5	2,434	6.3	2,148	5.4	1,621	4.9
82,637	85.8	65,323	84.6	48,235	85.5	32,005	83.5	34,076	85.2	28,935	87.2
13,624	14.2	11,864	15.4	8,191	14.5	6,331	16.5	5,909	14.8	4,255	12.8
5,274	5.5	2,252	2.9	812	1.4	1,595	4.2	1,815	4.5	441	1.3
1,349	1.4	3,612	4.7	3,040	5.4	1,544	4.0	1,397	3.5	1,875	5.7
6,623	6.9	5,864	7.6	3,852	6.8	3,139	8.2	3,212	8.0	2,316	7.0
7,001	7.3	6,000	7.8	4,339	7.7	3,192	8.3	2,697	6.8	1,939	5.8

1978	1977	1976	1975	1974	1973
178,529	148,136	111,646	92,625	79,852	74,313
27,650	21,776	17,076	13,143	10,486	8,115
56,335	46,534	24,170	18,826	11,394	16,700
75,086	60,399	54,157	46,985	43,701	31,772
15,854	15,925	16,031	16,134	16,128	14,118
4,445	3,813	3,614	3,582	3,710	3,442
1,071	784	814	498	724	674
468	837	323	358	391	651
17	41	7	–	–	66
4,234,161	4,202,669	4,053,591	4,037,988	4,035,033	4,028,991
1.65	1.43	1.07	.79	.67	.48
1.56	1.34	.96	.71	.60	.44
2.09	2.38	1.89	1.22	1.06	.97
.270	.183	.133	.133	.083	.083
6.53	5.15	4.16	3.25	2.60	2.01
9⅓-5	5⅞-2⅔	3½-2⅛	3¼-1⅞	3¼-1⅔	3⅛-1¾
28.3	30.9	28.7	27.0	29.0	26.6
7.3	7.8	7.7	8.3	6.8	5.8

Land Development Summary

	Sales		Purchases		Registrations	Inventory at December 31, 1982							
						Under Development				Future			
	Lots	Acres	Lots	Acres	Acres	Lots (Units)	Lots (Acres)	Multiple Residential	Commercial & Industrial	Preliminary Approval of Zones	Raw	Under Agreement or Option	Total
Canada													
Central Ontario	28	1	20	-		414	73	40	-	683	353	-	1,149
Ottawa	2	-	43	-		228	33	74	40	-	953	-	1,100
Edmonton	15	8	3	-		7	2	-	-	140	239	-	381
Calgary	11	3	-	-		275	46	-	14	42	162	-	264
	56	12	66	-	24	924	154	114	54	865	1,707	-	2,894
United States													
Florida	-	-	-	-	22	57	22	176	14	-	-	-	212
Virginia	3	-	-	-	-	425	99	-	108	195	-	-	402
Maryland	223	18	286	95	38	1,594	336	12	-	9	-	-	357
Arizona	-	55	-	-	19	303	104	199	160	408	-	-	871
Washington	12	1	-	1	10	95	30	-	-	210	-	-	240
Colorado	128	42	-	22	46	-	-	-	30	-	-	-	30
	336	116	286	118	135	2,474	591	387	312	822	-	-	2,112
Total	422	128	352	118	159	3,398	745	501	366	1,687	1,707	-	5,006

Note: All figures are in acres except lots, which are in units.

Review of Operations

The housing industry in North America in 1982 faced its worst year in several decades as interest rates in the 20 percent range failed to recede to levels acceptable to purchasers until the fourth quarter of 1982. Public confidence was further eroded by the length of the recession, which cost many individuals their jobs and gave others concern for their continued employment. In most areas prices continued to fall as a result of the large number of houses being offered for sale, some under distress conditions. Consequently, many prospective purchasers of middle and upper priced homes, being unable to sell their existing properties except at reduced prices and in some cases with discounted mortgages, compounded the difficulty in marketing new homes.

United States

National housing starts dropped to a 34 year low of 1,070,800. Consumers reacted negatively, not only to historically high interest rates, but also to the adjustable rate mortgages being proffered by the lenders. In most markets builders suffered severe losses from inventory reductions with the concomitant price reductions and interest rate buy-downs. The move-up market was the hardest hit because owners with existing low fixed-rate mortgages were not prepared to assume the more expensive mortgage facilities offered on new homes. However, as rates fell later in the year, a supply of long term fixed-rate mortgages, which had become scarce due to inflationary fears, reappeared and put many more consumers back in the housing market.

The Company's level of housing operations was well below expectations in all areas. A concentrated effort was made to reduce inventory and, through pricing concessions, remaining housing units were disposed of in Florida, Virginia and Maryland. On the other hand, prices in the Phoenix market remained reasonably stable. New home projects in Mesa and the Scottsdale Ranch were well received and resulted in a satisfactory level of closings during the year. In response to a noticeable improvement in market demand for lower priced housing, planning was begun on 490 low rise condominium units in the Florida Waterways project.

The 176-acre Waterways property on the Intracoastal Waterway in North Miami, Florida is divided into ten parcels for residential and commercial development.

The volume of land and lot sales achieved during 1982 was substantially lower than had been anticipated. Apart from the closing in March of a 495-unit multiple block in Maryland, little was accomplished until the fourth quarter. By this time the improving economy enabled the Company to complete two land sales in the Scottsdale Ranch partnership in Phoenix, as well as the sale of the Denver residential holding of 80 acres.

Condominium apartment conversion project Columbia, Maryland

In the United States, for the industry as a whole, starts are expected to improve by 30 to 40 percent to the 1.4 to 1.5 million range provided interest rates remain close to present levels and long term fixed-rate mortgages continue to be available. Should rates decline further, then housing starts could improve even more dramatically in 1983.

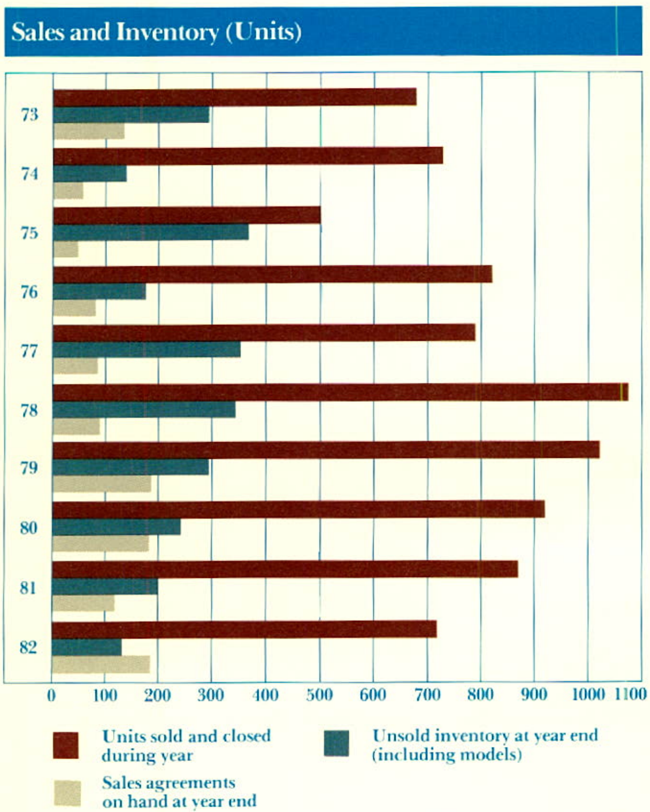
Under this scenario, increasing demand for mid-priced housing, for which most of the Company's land holdings are suited, may be expected. These developments are being readied for servicing and production as the market warrants. Negotiations for the sale in 1983 of a number of land holdings are underway and have already met with some success.

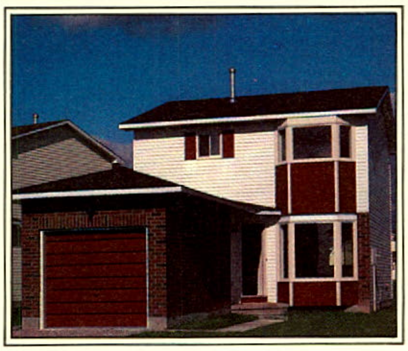
Housing Summary

	Closed	Inventory at December 31, 1982				Sales Carried Forward		
		Models	Unsold	Sold	Total	Started	Not Started	Total
Canada								
Central Ontario	78	-	29	7	36	7	30	37
Ottawa	300	5	3	15	23	15	69	84
Edmonton	54	-	-	-	-	-	-	-
Calgary	39	3	10	2	15	2	2	4
	471	8	42	24	74	24	101	125
United States								
Florida	34	-	-	-	-	-	-	-
Virginia	69	-	-	-	-	-	-	-
Maryland	42	2	37	38	77	38	-	38
Arizona	85	1	37	15	53	15	2	17
Washington	13	-	-	1	1	1	-	1
	243	3	74	54	131	54	2	56
Total	714	11	116	78	205	78	103	181

The Honourable Pauline M. McGibbon, former Lieutenant-Governor of Ontario, Donald W. McGibbon and H. Keith Morley at the "topping off" ceremony.

70 Rosehill Toronto





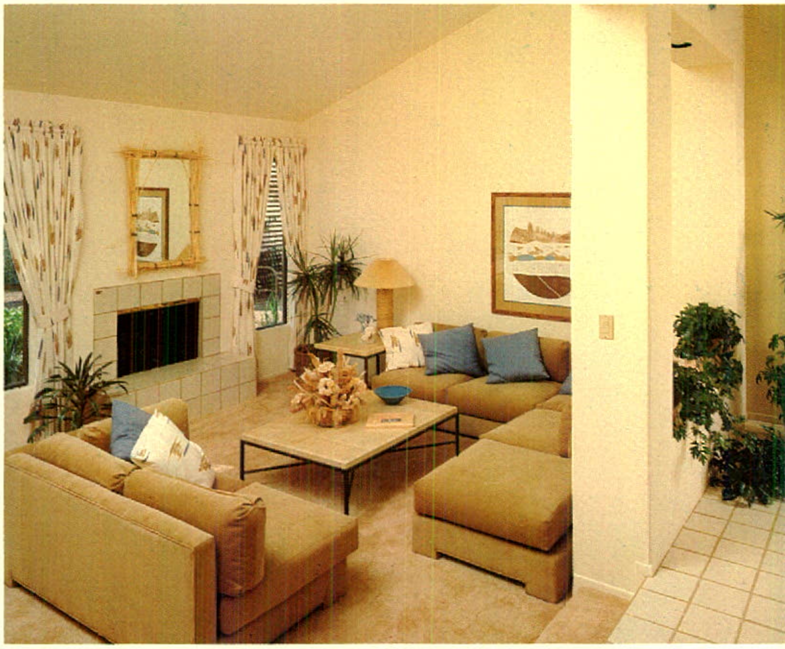
△ The now complete 1,100 - acre Convent Glen community in Orleans, along the south bank of the Ottawa River.

◁ Demand for smaller housing during 1982 was particularly strong in Ottawa.

Canada

Canadian housing starts fell to 125,860 units in 1982, a 32-year low and some 30 percent under the 1981 rate. In the first half of the year, except for the modest volume of apartment and town housing built under government subsidy or tax incentive programs, the level of detached house construction was very low. Subsequently, the introduction of new government programs involving grants, interest-free loans and interest subsidies, as well as falling interest rates in the fourth quarter, helped to increase the number of starts of lower priced single family homes.

In Western Canada, as world oil prices turned down and major energy projects were cancelled, Alberta's economy faltered, leading to a very rapid deterioration in residential markets. The Company's housing inventory in Edmonton was sold off during the year and housing programs terminated. The Company's Alberta operational base has been consolidated in Calgary.



Ontario markets were not so severely affected. Ottawa, probably the only market in North America insulated from the economic recession, was the scene of the Company's most profitable activity. In Orleans and Kanata, 300 house closings took place during the year. This was achieved largely as a result of the Company's ability to adapt rapidly to the small house market fostered by the Ontario programs. In Toronto, good progress was made with the construction of the prominent 70 Rosehill condominium development, although it was stalled temporarily by an industry strike and a period of market review. Selling is proceeding well, with occupancies starting in the Fall.

The economy in Canada in 1983 is forecast to pick up at a very slow rate. However, the improvement in consumer spending is expected by most economists to focus on housing, supported by a reduction in interest rates and the $3,000 Federal Government subsidy plan on new housing, which remains in effect for starts made before April 30, 1983.

All of the Company's housing operations, in Toronto and Ottawa in particular, are expected to benefit from the recovery, because in both areas there has been an improvement in resales over the past few months, with only moderate build-up of new single family housing inventories.

Model home
Mesa,
Arizona

Scottsdale
Ranch
Phoenix,
Arizona

The prospects for Alberta are less satisfactory due to the continuing oversupply of resale homes and serviced lots. However, the Company has been successful in entering the smaller house market in Calgary.

Suburban office
building in Denver
Colorado

Commercial

The business climate for undertaking commercial real estate projects was generally poor in 1982. Demand for space decreased significantly in major markets throughout North America as two years of unabated building, in many cases without commitments of major tenants or of long-term financing, oversupplied the market. The Company substantially completed a 76,000 square foot office building in Denver late in the year, but leasing has so far been slow to materialize. During the year the Company sought aggressively to reduce certain of its inventory, and sales were completed in Toronto, Ontario and Seattle.

With some prospect of a continuing stabilization in the suburban Washington, D.C. market, the Company expects, in 1983, to commence marketing Lakewood Centre, a 1.75 million square foot office park located in Fairfax County at the junction of Route 50 and the Beltway.

Corporate Information

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Chairman and
Chief Executive Officer
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Arne R. Nielsen
Chairman and
Chief Executive Officer
Canadian Superior Oil Ltd.
Calgary, Alberta

James W. Westaway
Chairman of the Board
Barbecon Inc.
Toronto, Ontario

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Vice-President
Development and Leasing

Richard C. Benmore
Vice-President and
Chief Financial Officer

L. Ross Cullingworth
President and
Chief Operating Officer

John DeGroot
Vice-President
U.S. Operations

Marcel Lalande
Vice-President and Manager
Ottawa Branch

R. Michael Martin
Secretary

Meier Miller
Vice-President, Controller

H. Keith Morley
Chairman and
Chief Executive Officer

Leslie Parker
Vice-President
Internal Audit

Michael A. Pittana
Vice-President
Commercial Division

Alan J. Scott
Senior Vice-President
Canadian Operations

David V. Spillenaar
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Principal Wholly-Owned Operating Subsidiaries

Costain Inc.
Costain Arizona Inc.
Costain Florida Inc.
Costain Maryland Inc.
Costain Seattle Inc.
Costain Washington Inc.
Costain Waterways Inc.

Associated Companies 50% Owned

Torva Holdings Limited
Woburn Gate Limited

Transfer Agent and Registrar

Canada Permanent Trust Company

Trustee for Debentures

National Trust Company, Limited

Banker

The Toronto-Dominion Bank

Incorporation

Under the Canada Business Corporations Act

Stock Exchange Listings

Toronto and Montreal (Symbol COT)

Annual Meeting

May 25, 1983
The Westin Hotel
Toronto, Ontario

Printed in Canada