Costain Limited · 1984 ·

ANNUAL REPORT

Costain Limited is a public real estate development company which builds and markets residential properties, develops land for retention or sale and acquires and develops commercial properties for long term investment.

The corporate office is located in Toronto and activities are directed through branches in Ontario, Alberta, Arizona, Florida and suburban Washington, D.C.

Costain was incorporated under federal charter in 1953 and the Company's shares are traded on The Toronto Stock Exchange.

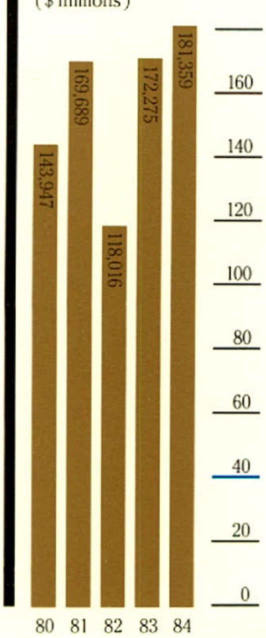
Contents

Financial Highlights

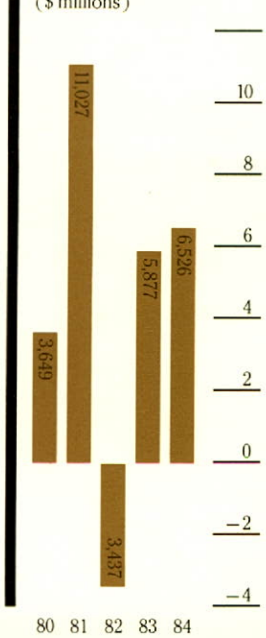
	1984	1983
Total revenues	$181,359,000	$172,275,000
Net earnings	$ 6,526,000	$ 5,877,000
Earnings per share	$ .88	$ 1.08
Cash flow per share	$ 1.20	$ 1.49
Total assets	$418,728,000	$396,541,000
Dividends per share	$ .18*	$ .10*
Shareholders' equity	$ 77,689,000	$ 58,314,000
Common shares outstanding	8,238,570	5,877,101
Weighted average common shares outstanding	7,415,072	5,454,184

*Stock dividend

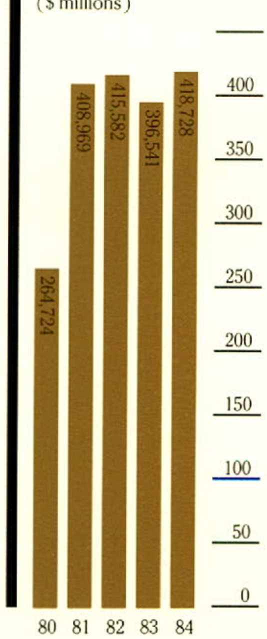
Total Revenues
($ millions)



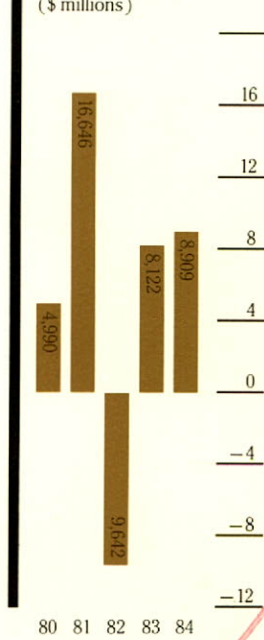
Net Earnings
($ millions)



Total Assets
($ millions)



Cash Flow
($ millions)



HOWARD ROSS LIBRARY OF MANAGEMENT
APR 22 1985
McGILL UNIVERSITY

Report to Shareholders

H. Keith Morley (right) and L. Ross Cullingworth in the sales pavilion of Muir Park, Costain's newest condominium residence on Yonge Street at Lawrence Avenue in Toronto.

After making a strong start in 1984, housing activity in North America slowed considerably in the second and third quarters and then only reluctantly began to recover as interest rates declined. At the end of the year consumers were still showing a hesitancy to enter the housing market.

In this environment the Company was able to achieve only slightly better revenues than in 1983. Net earnings were ten percent higher, at $6.5 million after recording write-downs of $2.3 million and foregoing the capitalization of $5.1 million of carrying costs. Earnings per share fell from $1.08 to 88 cents per share due to the increase in shares outstanding. On a fully diluted basis the earnings were down from 90 cents per share in 1983 to 85 cents.

Operations

Since the advent of very high interest rates during the last recession it has been the policy of the Company, and indeed the majority of builders, to operate mainly on a presale rather than a speculative basis. This keeps unsold inventories under better control but, on the other hand, it reduces the potential market by preventing the delivery of homes on short notice. It is now normal to allow approximately six months for building a house, with the result that few if any presales which are made in the second half can be expected to close before the year end. Thus, a slow selling second quarter has an adverse impact on the year's production which cannot be modified by third and fourth quarter sales. In 1984 housing demand began to fall off in April as interest rates rose, and sales for settlement in the fall declined noticeably. Accordingly, although the Company's performance was improved, it did not do as well as originally expected. A total of 764 houses were closed, as compared to 694 in 1983.

The sale of suites in the luxury condominium 70 Rosehill, in Toronto, was also slower than expected. However, interest in the project has not waned and selling activity is continuing. During the year 20 suites were closed, for a total revenue of approximately $11 million. Another large condominium project in Maryland was very active in 1984. This involved the conversion of existing medium priced apartments, which produced sales of $12 million in the year.

The land and lot sale market responded to the economic developments of 1984 earlier than the housing sector. As soon as mortgage rates began to fall builders reacted quickly by purchasing land for the expected upturn in 1985 housing demand. Accordingly, the Company was able to exceed its projected level of land sales, especially in the Scottsdale Ranch Partnership, Arizona, and the Waterways, Florida. The land revenue recorded for these two developments totalled $16.4 million and $18.8 million respectively.

Investment

Two commercial property investments were made in 1984 in the Toronto area. The first is a 50,000 square foot existing office building located adjacent to the downtown core of the city and having potential for expansion. The other is a new development with a major prelease commitment. It will comprise 60,000 square feet of office space in the Eglinton subway area.

Almost two-thirds of the Company's revenue and earnings are now generated in the United States, and the larger part of future growth is expected to be based there. Currently, 54 percent of total assets are invested in that market.

Financial

In May 1984 the Company undertook an equity distribution by selling to the public 1,100,000 units at $9.00 per unit. Each unit comprised one common share and one-quarter of a warrant to purchase a common share at $9.00.

Concurrently with the sale, the then principal shareholder, Costain Group PLC, exercised previously issued warrants to purchase 580,000 common shares and also subscribed to 520,000 units at $9.00 per unit by way of private placement. Proceeds of these issues were used to purchase share warrant entitlements from the Company's bank and to reduce bank debt.

As a consequence of these transactions and in recognition of the improvement to the balance sheet, the Dominion Bond Rating Service upgraded the Company's debentures to BB from BB low. Shareholders' equity has almost doubled to $78 million since December 31, 1982, and bank loans have been reduced from $116 million to $54 million. This latter change has been achieved partially by converting to project loan financing wherever feasible.

Of the 405,000 warrants issued in May 1984, 402,775 were exercised by the expiry date, February 15, 1985, increasing the number of shares now outstanding to 8,641,345.

In order to maintain "legal for life" status for the Company, whereby certain Canadian institutions may invest in its shares, a stock dividend of two shares for each 100 held was made on December 28, 1984. The timing of the reinstatement of cash dividends is now under review by the Board.

Outlook

The number of active housing projects in operation by the Company is increasing. Compared to 16 at the beginning of 1984, there were 23 developments going into 1985 and more will be added in subsequent months, providing for a broadened market penetration. An opportunity for additional sales volume will also be provided by a partial return to building on speculation. The anticipated growth in housing revenues resulting from these measures will reduce the reliance on land sales. However, land development will remain an important activity and a strong contributor to earnings.

New land purchases will continue to be limited to properties which can be developed in the short term and, in some locations, fully serviced lots will also be acquired to provide for increased housebuilding activity.

The Company will maintain a concentration on the six market areas where branch operations have been established. Five of these have the potential to be able to undertake an annual building volume of 500 housing units with little additional overhead costs. For 1985 however, it is expected that they will produce approximately 1,250 units in total, while the Alberta branch remains relatively inactive.

Earnings in the first quarter of 1985 will follow the Company's historical pattern and reflect the decline in activity during that period. For 1985 as a whole, an improvement over last year's results is achievable, subject to no more than moderate increases in the level of interest rates.

New Major Shareholder

In order to obtain greater flexibility in the development of its business, in December 1984 Costain Group PLC of London, England sold its 49 percent share in the Company to Carena-Bancorp Inc. of Toronto. Thus ended an association lasting more than thirty years, during which time the Group has guided the Company from very modest beginnings to the achievement of a leading role in the North American housebuilding industry.

Because of its long experience in operating businesses in many parts of the world, the Group was able to offer meaningful support and guidance to the growing company, while giving ample scope to its local officers. In 1969 it agreed to reduce its interest in the Company from 100 percent to less than half, and continued to play an effective role with due regard to the interests of the minority shareholders.

The contribution made by successive directors provided by the Group must be acknowledged, especially that of the recent incumbent, Peter J. Costain, who was supported in the last few months by Gordon R. Haworth.

Upon the sale of the Group's interest, Messrs. Costain and Haworth tendered their resignations from the Board of Directors. The vacancies were filled by David W. Kerr, Executive Vice-President and Chief Operating Officer, Hees International Corporation, Toronto, and Gordon E. Arnell, Executive Vice-President Corporate Development, Trizec Corporation Ltd., Calgary. We extend a warm welcome to these new directors.

The Company has already benefited from its affiliation with Carena-Bancorp and associates, especially in the area of financial services. It is clear that the strength of this alignment will be of great assistance as we move forward.

H. Keith Morley
Chairman and
Chief Executive Officer

L. Ross Cullingworth
President and
Chief Operating Officer

March 6, 1985

Industry Commentary

Throughout 1984 the housing industry in North America was still emerging from the recent recession, but by the end of the year it was beginning to exhibit considerable strength and stability.

Of all the economic changes in the last two years, the decline in inflation was the most notable, because of the impact it has had on mortgage interest rates. Although the rates have not varied proportionately, they have fallen sufficiently to allow significantly more housebuyers to qualify for loans. Many people who have been excluded from the market in recent years by the unusually high rates are now beginning to find that a house is within their reach. Others who already own a house can afford to move up to a larger one to accommodate their growing families.

On the other hand, declining inflation tends to lessen demand. Some of the motivation to invest in a new home in recent years has been provided by the expectation that it would continue to increase in value and thus act as an inflation hedge. In today's more stable market, however, with inflation under some control, housing demand is chiefly a function of the need for shelter.

In North America today the fastest growing age group of the population is between 35 and 44 years, composed mainly of repeat buyers. This group, as with all others, was hampered by recently high mortgage rates but as these fall, housing demand from such second and third-time buyers will increase. A trend has already developed from the first-time buyer to the repeat buyer.

The market for starter homes has been particularly strong since 1982, accounting for approximately 50 percent of all housing in the United States for example. More recently this proportion has dropped to 40 percent and seems likely to fall further to a more normal historical level of 30 percent.

The emerging market for the next few years will therefore show an emphasis on single family housing and speculation should not be an important factor. This type of demand is encouraging the development of the more stable elements in the housing industry and will reward the established builder. The buyer is demanding quality, value and service — good accommodation, well designed, easy to run and maintain.

Canada

In Canada, political developments are considered to be favourable for the industry. The election of a Progressive Conservative government in Ottawa with a strong majority boosted industry confidence. There will however be a continuing concern until effective measures are taken to work the budgetary deficit down.

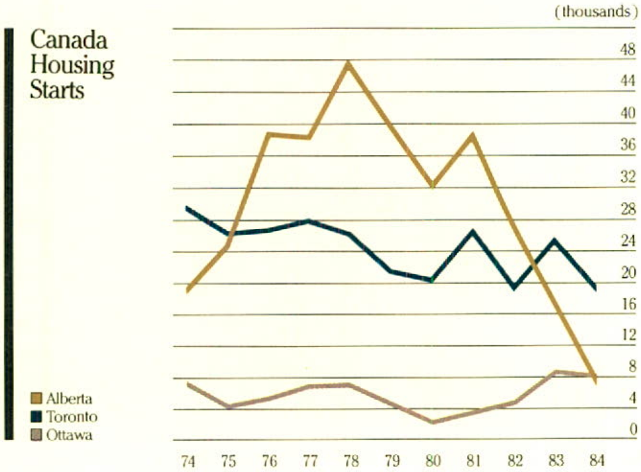
Economic factors were also beneficial and, although real interest rates remain very high, the improved inflation figures allowed nominal interest rates to weaken measurably, especially in the final quarter of 1984. The prime lending rate finished the year at 11¼ percent after reaching a peak of 13½ percent in July. Similarly, five-year mortgage interest rates fell to 12¾ percent after reaching 15½ percent.

The full effect of these developments was not felt in 1984, and Canadian housing starts totalled only 134,900, compared to 162,645 for the previous year. After a strong first quarter, activity fell off under the pressure of rising interest rates. But later on as these began to decline again, housing demand showed some improvement especially in the move-up market.

Three market areas of particular interest to the Company are Ottawa, Toronto and Alberta. Ottawa experienced a noticeable decline in demand, as civil servants weighed the effects of a change in government. The reverses suffered by some high-tech companies also affected sales and because builders were slow to detect these changes, unsold inventory accumulated.

In Toronto, the strong housing demand of the first quarter was dampened by the mid-year surge in interest rates, and competition increased. The luxury condominium market, already weak, deteriorated even further. On the other hand, the Kitchener-Waterloo area demonstrated increasing demand for housing, stimulated mainly by the resurgence of the auto-parts industry and the growth of high-tech activity.

The Alberta market was very slow in 1984, with housing starts down more than 50 percent from the previous year. There has been substantial migration out of the province, although in this regard Calgary was not as badly affected as Edmonton. Foreclosures of approximately 8,000 housing units, more than twice the 1983 figures, were recorded,



Source: Canada Mortgage and Housing Corporation prompting the mortgage lending community to introduce measures to stabilize the market. It seems unlikely now that housing demand will deteriorate any further. There are stirrings in the oil industry and expectations of a favourable outcome to negotiations with the Federal Government on energy.

United States

The political environment in the United States was strongly supportive of the housing industry, as in the case of Canada. The re-election of the Reagan Administration is expected to provide further encouragement of growth and a minimum of interference with the private sector. The industry is fully capable of meeting the demands placed on it, but a prudently managed economy is a prerequisite.

Housing became more affordable as interest rates fell during the latter part of 1984. The prime lending rate fell from 13 percent mid-year to 10¾ percent at the close, while long term mortgage rates declined from 15 percent to 12¾ percent. Nevertheless, consumers failed to respond to these favourable trends as much as the industry expected, perhaps due partially to a belief that rates would fall still further.

National housing starts numbered 1,744,700 in 1984, compared to 1,703,000 in the previous year. However, quarterly figures recorded a consistent decline from a rate of two million units in the first quarter to 1.6 million in the third and fourth. There was emphasis on the starter home market in many areas, but as this need was progressively met and as interest rates moved up in the early summer the demand fell off. Construction of rental units was strong, shored up by favourable tax incentives.

The unexpectedly high level of activity in the first quarter was fuelled by the ready availability of Adjustable Rate Mortgages (ARMs) on very attractive, if unrealistic, terms. But rising interest rates reduced the advantages of ARMs, and their use was also inhibited by the introduction of more appropriate controls. Gradually the traditional long term fixed interest loan began to re-emerge on the mortgage market and the popularity of the ARMs waned further.

The specific market areas that are of interest to the Company are Southeast Florida, Washington, D.C. and Phoenix. Florida enjoyed a strong market in 1984 and Miami in particular gained favour with both investors and tourists. Compared to a national average of less than one percent, population growth in the southeast counties of Florida increased 2.4 percent. Employment grew by more than 3.5 percent.

In suburban Washington, D.C. housing starts continued at a high pace as the population grew by over 40,000 and employment increased 5.5 percent. The land market strengthened as a result of the strong housing demand.

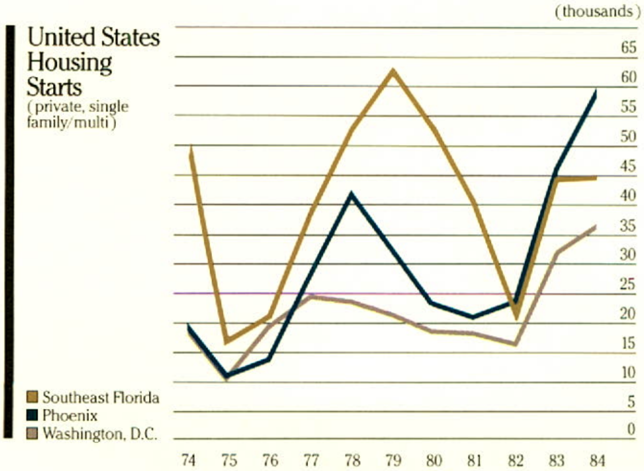
The economy was strong in Phoenix and employment increased 12.5 percent. Population growth was 2.8 percent. The demand for housing grew accordingly and the number of starts made in 1984 reached a total of 58,678. Of these, well over half were in multi-family projects, stimulated by tax incentives. A shortage of serviceable land resulted from the sharply increased housing activity.

Outlook

It is widely held that the prospects for the housing industry in North America in 1985 are good, with inflation well down and interest rates at reasonable levels. The supply of mortgage funds is expected to remain adequate and consumer confidence will gradually improve if a moderate economic recovery materializes as forecast. However, failure on the part of governments, especially in the United States, to make real progress in the reduction of deficits would lead to high interest rates and have a detrimental effect on housing demand.

Canadian starts will most likely exceed the 1984 total particularly in the single family housing sector. Locally, however, Ottawa will probably not maintain the same level of activity it has enjoyed in recent years and Alberta will experience at least one more slow year before beginning a noticeable recovery. There will, however, be growing opportunity for the industry in the very large market area of Toronto and Central Ontario.

It is unlikely that housing activity in the United States will be as great as in 1984. However, single family starts will account for a larger proportion of the whole and particularly strong demand can be expected in the regions served by the Company.



Source: Chase Econometrics

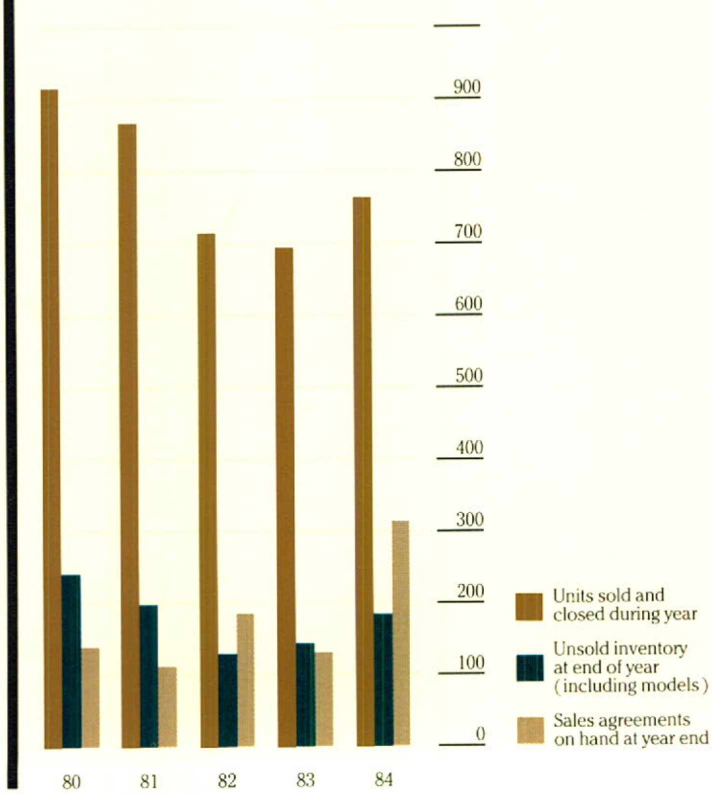
Central Ontario experienced a buoyant market early in 1984; however sales activity declined in the second quarter. The branch concluded the year with closings of 203 housing units. In the latter part of the year an improvement in demand resulted in a carry forward of 115 sales into 1985. With this impetus and the expectation of three additional housing projects being added to the eight existing locations, a significant increase in closings for the coming year seems assured.

In addition to this housing activity, sales to other builders of 233 lots were completed. During 1984, registrations were achieved on three land developments in the Central Ontario Branch, producing 380 lots. Furthermore, in 1985 final planning approval is anticipated in three new locations for approximately 400 units.

An official opening for the 292-acre Whitby development, which comprises 1,200 units, was held in November. The significant industrial expansion enjoyed by this community will sustain an ongoing housing and lot sale program.

In early December, preselling of the Muir Park condominium units commenced and initial interest has been substantial. A construction start is expected in June, with closings anticipated in the latter part of 1986.

Housing Sales and Inventory
(Units)



Fallingbrook is a new community under development by Costain in the Town of Whitby, twenty miles east of Toronto. The 292-acre project will produce over 1,200 residential units.

Ottawa suffered from a declining market as the year progressed. The branch had fewer active projects and a low inventory of building lots at the start of 1984. As a result, house closings, at 149 for the year, were down considerably from 1983. Although the Ottawa market is not expected to demonstrate any noticeable improvement in 1985, an increase in activity for the Company is anticipated with the commencement of two additional housing developments.

During 1984, registrations for 220 lots were achieved on two land development projects. Moreover, two new properties are expected to come on stream, producing approximately 440 lots, which will augment the housing program in the coming year.

Alberta continued to have an oversupply of new and resale houses, primarily as a result of the number of units that came back into the market from mortgage foreclosures. In this environment, the branch had a low level of housing and land sales activity. Overhead costs have been further reduced and the construction of housing units is being undertaken only on a presale basis.

It is unlikely that demand for housing in Alberta will strengthen in the near term, and prices will continue to be depressed throughout 1985. Therefore, little change is anticipated in sales activity for the ensuing year. Although on three parcels the Company has processed the land to a stage that would permit development, investment in infrastructure is being deferred until the market shows sufficient improvement to justify the new expenditure. However, Alberta's economic outlook is becoming more positive and the advancement of these projects might be warranted in the latter part of the year.

This Canadiana series home was built by Costain in Convent Glen, a community developed by the Company east of Ottawa. More than 3,300 housing units have been produced here by Costain and other builders.

A successful cooperative housing project built under contract by Costain in Kanata, Ottawa.

Suites in the second tower of 70 Rosehill, Costain's luxury condominium in Toronto, are now being marketed.

Southeast Florida markets experienced considerable strength in 1984, particularly in the medium and lower-priced housing products. The Company was able to benefit from this improvement with the sale of serviced land in the Waterways development. Residential parcels for 702 housing units were sold to three builders and the sale of 9.2 acres of commercial property was completed.

During 1984, the development of the Waterways project was significantly advanced. The entrance and roadway into the project were constructed and the underground utilities installed for most of the parcels. An information centre was completed and the construction of the marina commenced. In order to maintain a quality development, the Company is undertaking the marketing of residential units for other builders. Total sales were in excess of 200 units, although the selling program for most builders commenced late in the year.

Moreover, Costain successfully marketed its first housing project on the Waterways and all the units in the development were presold by the end of the second quarter. Construction commenced in the summer and 8 units were closed by year end, with delivery of the remaining 86 units to be completed in early 1985. Marketing now underway in the second phase will produce closings in the latter part of the year. In addition, three new projects in Southeast Florida, other than the Waterways development, are expected to supplement house closings in 1985, providing a meaningful contribution to earnings.

Waterways town villas built by Costain.

The information and sales pavilion, fronting on the 21-acre, deep-water harbour at the Waterways, will eventually be converted into a restaurant.

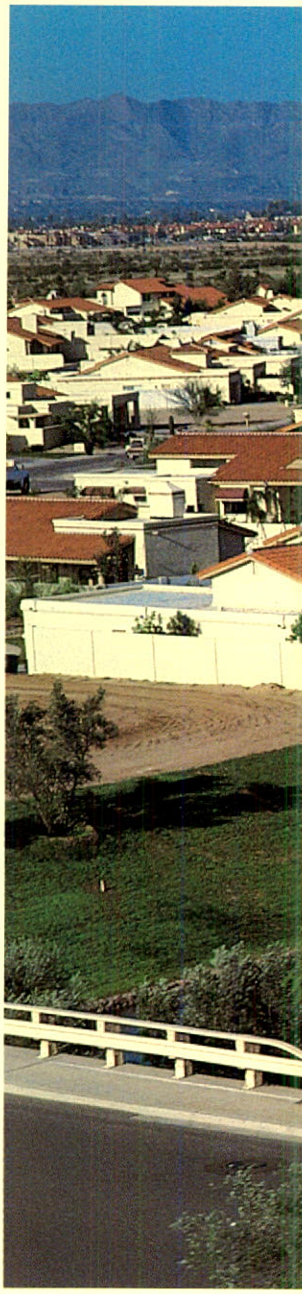
A view of the first residential project at the Waterways, a planned community being developed by Costain in Dade County, Florida. In the foreground are town villas built by the Company. Also shown are garden condominiums by another builder. All marketing and sales programs at the Waterways are undertaken by Costain.

Phoenix benefited from a particularly vigorous market and in this environment 232 acres of land were sold. Transactions were concluded involving 140 acres zoned for industrial and residential uses in Southeast Phoenix, while the Company's share of serviced residential and commercial land sales in the Scottsdale Ranch Partnership amounted to 92 acres. With the underlying strength in the market, sales in the Scottsdale Ranch are expected to continue throughout 1985.

House closings for 1984 totalled 118 units. Slow sales on two of the four housing projects in the branch led to the introduction of new product lines during the year. These changes, combined with the commencement of three new developments, should provide for a significant increase in housing activity for the ensuing year.

Washington, D.C. enjoyed a vibrant market throughout 1984, and the branch closed 270 housing units. Particularly active was a condominium conversion project, in which sales to syndicators were also realized. Although this development is approaching completion and will not achieve the same number of closings for the current year, it is expected that three new housing projects will provide for a replacement.

With builders anticipating a strong housing market in 1985 in the Washington area, land and lot sales were brisk. Residential parcels and lots for 577 housing units were marketed in seven locations. This activity was supported by the registration of 445 units during the year. In addition, five new plan approvals are expected in 1985 to provide a continuing land sales program.



A house built by Costain in the Phoenix area.

One of Costain's residential projects – Haciendas del Lago on the Scottsdale Ranch in Phoenix. The 1,100-acre community is being developed in partnership with a subsidiary of Markborough Properties Limited.

North Americans typified by these Costain purchasers, continue to attach great importance to homeownership.

Costain responds as it has for over thirty years, with a consistently high standard of workmanship and reliable after-sales service. The Company also recognizes the need to create good neighbourhoods and communities and to ensure the integrity of each home it builds.

Satisfied owners are always ready to speak about how efficiently the Company carries out these responsibilities.

Mike and Mary Sloane
with son Casey
Scottsdale Ranch
Phoenix, Arizona

When the Sloanes arrived in Phoenix from Missouri over a year ago, they began their search for a home with the Arizona sun in mind. Scottsdale Ranch was suggested by the realtor as being the up and coming place to live and a very good investment. Once on the Ranch, Costain's Haciendas del Lago project was the Sloanes first choice.

"The La Brisa plan had everything we were looking for. Many of the features in our home would be custom upgrades in a house in Kansas City".

Ken and Lydia Wright
Beacon Hill
Burlington, Ontario

The Wrights spent a considerable amount of time researching builders and visiting housing projects after deciding to move from the apartment they had lived in for thirteen years.

"Costain was clearly our first choice. We liked the traditional tudor-style, and the layout of the house seemed to be planned perfectly for our furnishings. But more importantly, the company has been in business for years and has an excellent reputation".

Paul and Cathy McSweeny
Burleigh Manor
Ellicott City, Maryland

The McSweeny's large colonial home suggests a gracious, comfortable and secure lifestyle that revolves around the activities of their five children.

"This is the first non-custom-designed home we've owned, so we knew exactly what we wanted when we moved here three years ago. Each home in our neighbourhood has its own character because Costain pays so much attention to an owner's particular needs".

Brian and Judy Harding
with their youngest child Lindsay
Forest Heights
Kitchener, Ontario

When the Hardings bought their first Costain home five years ago, they did so because they liked the layout and workmanship. But their need for more space for a growing family precipitated them into moving to a larger house.

"We decided to move only two blocks away because we were so satisfied with our first house and the Costain community of Forest Heights".

Land Development Summary

	1984 Activity					Inventory as at December 31, 1984							
	Sales[1]		Purchases[1]		Registered	Acres under development				Acres for future development			
	Lots[2]	Acres	Lots[2]	Acres	Acres[3]	Residential (Units)[4]		Multiple Residential	Commercial/ Industrial	Preliminary Approval or Zoned	Raw	Total Acres	
Canada													
Central Ontario	233	4	220	—	121	(568)	97	60	1	442	378	978	
Ottawa	79	13	230	4	39	(295)	62	—	25	—	663	750	
Alberta	15	—	—	—	—	(231)	38	—	13	182	402	635	
	327	17	450	4	160	(1,094)	197	60	39	624	1,443	2,363	
United States													
Florida	702	9	—	12	—	(327)	22	86	25	—	—	133	
Washington, D.C.	577	1	229	65	—	(965)	190	27	—	12	—	229	
Arizona	6	232	111	19	—	(460)	104	119	—	—	—	223	
Other	35	—	—	—	10	(307)	184	30	24	—	—	238	
	1,320	242	340	96	10	(2,059)	500	262	49	12	—	823	
Total	1,647	259	790	100	170	(3,153)	697	322	88	636	1,443	3,186	

1. Represents sales and purchases during 1984 of lots and of acres of land.
2. For the purpose of this table, a lot is property on which may be built one housing unit of any type.
3. Represents acres registered during 1984 under plans of subdivision.
4. Represents the number of housing units approved to be built on such acreage.

Housing Summary

	1984 Closings	Under Construction as at December 31, 1984				Sales Carried Forward as at December 31, 1984		
		Models	Unsold	Sold	Total	Under Construction	Not Started	Total
Canada								
Central Ontario	203	10	43	56	109	56	59	115
Ottawa	149	11	12	18	41	18	6	24
Alberta	16	2	—	—	2	—	—	—
	368	23	55	74	152	74	65	139
United States								
Florida	8	2	—	86	88	86	14	100
Washington, D.C.	270	7	65	25	97	25	10	35
Arizona	118	10	16	23	49	23	15	38
	396	19	81	134	234	134	39	173
Total	764	42	136	208	386	208	104	312

Distribution of Revenues

($ millions)	1984		1983		1982		1981		1980	
Canada										
Central Ontario	37.6	20.7%	37.1	21.5	16.8	14.2	43.2	25.4	37.6	26.1
Ottawa	20.6	11.4	38.9	22.6	30.1	25.5	27.9	16.5	17.1	11.9
Alberta	2.3	1.3	6.9	4.0	15.3	13.0	47.4	27.9	46.7	32.5
	60.5	33.4	82.9	48.1	62.2	52.7	118.5	69.8	101.4	70.5
United States										
Florida	20.2	11.1	1.6	0.9	5.8	4.9	7.5	4.4	11.5	8.0
Washington, D.C.	40.8	22.5	47.4	27.5	22.6	19.2	27.4	16.2	26.9	18.7
Arizona	55.2	30.5	39.0	22.7	18.9	16.0	13.7	8.1	4.1	2.8
Other	4.6	2.5	1.4	0.8	8.5	7.2	2.6	1.5	–	–
	120.8	66.6	89.4	51.9	55.8	47.3	51.2	30.2	42.5	29.5
Total	181.3	100.0	172.3	100.0	118.0	100.0	169.7	100.0	143.9	100.0

Distribution of Real Estate Assets

($ millions)	1984		1983		1982		1981		1980	
Housing and Land										
Canada										
Central Ontario	82.5	25.9%	74.2	24.9	72.4	21.0	67.0	21.1	49.4	26.2
Ottawa	21.8	6.9	15.8	5.3	22.5	6.5	22.1	7.0	22.8	12.0
Alberta	58.1	18.2	54.8	18.4	54.2	15.7	51.7	16.3	37.4	19.8
	162.4	51.0	144.8	48.6	149.1	43.2	140.8	44.4	109.6	58.0
United States										
Florida	81.3	25.5	60.6	20.4	53.9	15.6	49.2	15.5	9.4	5.0
Washington, D.C.	27.5	8.6	30.1	10.1	55.8	16.2	53.6	16.9	25.3	13.4
Arizona	23.8	7.5	40.1	13.4	48.4	14.0	41.6	13.2	21.7	11.5
Other	19.0	6.0	22.3	7.5	19.7	5.7	18.0	5.6	5.7	3.0
	151.6	47.6	153.1	51.4	177.8	51.5	162.4	51.2	62.1	32.9
Rental Properties	4.6	1.4	–	–	18.5	5.3	13.9	4.4	17.2	9.1
Total	318.6	100.0	297.9	100.0	345.4	100.0	317.1	100.0	188.9	100.0

Partnerships and Joint Ventures

	Asset	Interest
Delorme Ottawa, Ontario	34 acres	17 acres (50%)
Orleans Ottawa, Ontario	34 acres	24 acres (70%)
Twin Brooks Edmonton, Alberta	280 acres	140 acres (50%)
Millrise Calgary, Alberta	291 acres	145 acres (50%)
Scottsdale Ranch Phoenix, Arizona	413 acres	207 acres (50%)

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

	Notes	1984	1983
Revenues:			
Housing		89,323	74,465
Land		82,527	89,252
Interest and other		9,509	8,558
Total revenues		181,359	172,275
Expenses:			
Housing		83,158	70,894
Land		70,938	75,759
Interest	4	9,879	10,267
General and administrative		8,660	8,137
Total expenses		172,635	165,057
Earnings Before Income Taxes		8,724	7,218
Income Taxes:	13		
Current		698	156
Deferred		1,500	1,185
Total income taxes		2,198	1,341
Net Earnings		6,526	5,877
Earnings Per Share:			
Basic	12	.88	1.08
Fully diluted		.85	.90

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

Assets	Notes	1984	1983
Real estate assets:			
Housing and land under development	1	234,834	200,459
Land for future development	2	79,177	97,492
Rental properties under development		4,592	–
Cash and short term deposits		3,594	2,544
Mortgages and other secured receivables	6	83,931	82,512
Accounts receivable		4,334	8,387
Income taxes recoverable		2,937	310
Other assets	7	5,329	4,837
		418,728	396,541
Liabilities			
Bank loans	8	54,019	85,649
Mortgages and other secured payables	9	167,940	143,628
Debentures payable	10	59,803	60,996
Accounts payable and accruals		30,504	25,581
Deferred income taxes		28,773	22,373
		341,039	338,227
Shareholders' Equity			
Capital stock	12	33,610	16,694
Retained earnings		43,131	41,620
Equity adjustment from foreign currency translation		948	–
		77,689	58,314
		418,728	396,541

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)

	1984	1983
Retained earnings, beginning of year	41,620	36,318
Payment in lieu of share warrant entitlement	(3,561)	–
Net earnings	6,526	5,877
	44,585	42,195
Less dividends:		
Cash	1	43
Stock	1,453	532
Retained earnings, end of year	43,131	41,620

Consolidated Statement of Changes in Financial Position
for the year ended December 31 ($000s)

	Notes	1984	1983
Financial resources were provided by:			
Net earnings		6,526	5,877
Add non-cash items:			
Income taxes deferred		1,500	1,185
Depreciation and amortization		883	1,060
Cash flow from operations*		8,909	8,122
Increase in mortgages and other secured payables		24,312	–
Issue of additional capital stock		15,463	10,005
Increase in deferred taxes	13	4,900	–
Increase in equity due to foreign currency translation		948	–
Net reduction in real estate assets		–	47,455
Net change in other assets and liabilities		2,505	9,624
		57,037	75,206
Financial resources were used for:			
Decrease in bank indebtedness		31,630	30,386
Net increase in real estate assets		20,652	–
Payment in lieu of share warrant entitlement		3,561	–
Redemption of debentures		1,193	2,582
Cash dividends		1	43
Increase in receivables		–	30,000
Decrease in mortgages and other secured payables		–	12,195
		57,037	75,206
*Cash flow per share – Basic	12	1.20	1.49

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 self-sustaining foreign operations are translated into Canadian dollars using the current rate method whereby all assets and liabilities denominated in foreign currencies have been translated at the exchange rate prevailing at the end of the year and revenues and expenses at the weighted average rates of exchange during the year. Gains or losses on translation are included in a separate component of shareholders' equity. Gains or losses on foreign currency transactions that are designated as hedges of the Company's net investment in foreign operations are accounted for in the same manner as translation adjustments.

All other assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the exchange rate prevailing at the end of the year and revenues and expenses at the weighted average during the year. Gains or losses resulting therefrom are included in the Consolidated Statement of Earnings.

Auditors' Report to Shareholders

We have examined the consolidated balance sheet of Costain Limited as at December 31, 1984 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, 1984 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 which, except for the change in the method of accounting for foreign currency translation as explained in note 16, with which we concur, have been applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants
Toronto, Canada
March 1, 1985

Notes to Consolidated Financial Statements
(Refer to Summary of Significant Accounting Policies)

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

	1984	1983
Housing, including related lots	66,912	44,280
Land under development	167,922	156,179
	234,834	200,459

2. Land for Future Development ($000s)

	1984	1983
Balance, beginning of year	97,492	161,635
Acquisitions	1,133	–
Costs capitalized:		
Interest	2,771	3,037
Real estate taxes	154	374
Salaries and expenses	174	176
Preliminary development costs	424	1,346
	102,148	166,568
Transfers to land under development or charged to expense	22,971	68,759
Reduction in inventory values from cost to net realizable value	–	317
Balance, end of year	79,177	97,492

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

	1984	1983
Interest:		
On housing and land under development	6,459	11,848
On land for future development	2,771	3,037
Real estate taxes	786	2,137
Salaries and expenses	1,005	1,526
	11,021	18,548
Capitalized costs previously incurred, charged to expense:		
Housing and land under development	8,464	10,787
Land for future development	–	1,031
Net increase in capitalized costs	2,557	6,730

4. Interest ($000s)

	1984	1983
Interest charges were incurred on:		
Mortgages	16,551	16,275
Debentures	6,989	7,167
Bank loans	8,320	9,328
	31,860	32,770
Interest was allocated to:		
Housing and land under development	6,459	11,848
Land for future development	2,771	3,037
Expense:		
Housing and land	12,751	7,618
Interest*	9,879	10,267
	31,860	32,770

*Including $5,145,000 interest not capitalized (1983 – $6,397,000), 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:

	1984	1983
Housing and land under development	2,941	5,936
Land for future development	4,477	5,363
	7,418	11,299
Comprised of:		
Interest not capitalized	5,145	6,397
Reduction in inventory values from cost to net realizable value	2,025	4,532
Other costs not capitalized	248	370
	7,418	11,299

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

These amounts bear interest at rates from 9% to 14%, with a weighted average of 10.75% and mature as follows:

	1984	1983
1984	–	27,959
1985	20,868	12,433
1986	13,172	14,595
1987	16,528	9,005
1988	21,113	16,273
1989	10,244	311
Subsequent to 1989	2,006	1,936
	83,931	82,512

7. Other Assets ($000s)

	1984	1983
Fixed assets — at cost, less accumulated depreciation of $1,984,000 (1983 — $1,775,000)	1,590	1,472
Unamortized portion of deferred financing costs	2,071	2,169
Loans to officers under share purchase plan	734	765
Prepaid expenses and sundry assets	934	431
	5,329	4,837

8. Bank Loans

Advances under bank lines of credit mature on April 30, 1985 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 bank security ranks ahead of the security for the sinking fund debentures.

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:

	1984	1983
Housing and land under development:		
Housing (interim financing)	28,215	27,556
Land under development	98,391	79,028
Land for future development	22,107	28,723
Rental properties under development	2,742	—
Mortgages receivable	16,485	8,321
	167,940	143,628

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 development	Land for future development	Rental properties under development	Mortgages receivable	Total
Range of rates	7.00%-13.00%	10.25%-12.25%	11.25%-12.00%	11.50%-11.70%	7.00%-13.00%
Weighted average	11.58%	11.31%	11.36%	11.61%	11.53%
Principal due ($000s):					
1985	21,267	5,389	22	—	26,678
1986	69,772	12,296	24	9,516	91,608
1987	3,505	1,035	2,696	3,464	10,700
1988	664	1,046	—	3,505	5,215
1989	3,103	2,341	—	—	5,444
Subsequent to 1989	80	—	—	—	80
	98,391	22,107	2,742	16,485	139,725

10. Debentures Payable ($000s)

	1984	1983
9¾% Sinking Fund Debentures Series A maturing May 15, 1991	2,446	2,796
12% Sinking Fund Debentures Series B maturing February 12, 1990	5,458	5,525
11¼% Sinking Fund Debentures Series D maturing June 15, 1997	11,744	11,836
11⅜% Sinking Fund Debentures Series E maturing November 1, 1998	21,935	22,450
12% Sinking Fund Debentures Series F maturing October 15, 1999	18,220	18,389
	59,803	60,996

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; and
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 1984 as a result of sinking and purchase fund requirements amounted to $1,193,000 (1983 — $2,582,000).

11. Lease Commitments

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 $727,000 payable within the next four years.

Pursuant to a master lease agreement relating to a rental property that was sold in 1983, the Company has a net lease obligation of approximately $5,246,000 to 1988. This obligation will be reduced to the extent of sublease performance.

12. Capital Stock

Authorized:

12,000,000 common shares (1983 – 12,000,000)
Unlimited number of preferred shares issuable in series

Issued and Outstanding:	1984		1983	
	Shares	($000s)	Shares	($000s)
Common shares outstanding, beginning of year	5,877,101	16,694	4,645,696	6,157
Stock options exercised	–	–	17,550	114
Common shares issued for cash, net of issue expenses	2,200,000	15,463	1,160,000	9,891
Stock dividends paid	161,469	1,453	53,855	532
Common shares outstanding, end of year	8,238,570	33,610	5,877,101	16,694

No preferred shares have been issued.

At December 31, 1984, 8,400 shares were reserved for future issuance under the 1981 Employee Stock Purchase Plan which expires in 1986. At December 31, 1984, options to an officer for 25,000 shares were outstanding having an exercise price of $8.10 per share expiring on September 16, 1988.

During 1984, 405,000 warrants each carrying the right to purchase one common share at $9.00 per share, were issued and remained outstanding as at December 31, 1984. The warrants were issued in May 1984 as part of an offering of 1,620,000 units, which consisted of one common share and a quarter of a warrant to purchase a common share at $9.00. As at February 15, 1985, the expiry date of the warrants, 402,775 of these warrants had been exercised.

For purposes of calculating basic earnings per share and cash flow per share, the weighted average number of shares outstanding during the year was 7,415,072 (1983 as restated for 1984 stock dividend – 5,454,184).

13. Income Taxes ($000s)

The Company's income tax provision is made up as follows:

	1984	1983
Provision for income taxes based on combined basic Canadian Federal and Provincial tax rate	4,449	3,630
Increase (decrease) in income tax arising from:		
Lower effective tax rate on earnings of foreign subsidiaries	(2,070)	(1,730)
Lower effective tax rate on capital gains	(274)	(458)
Miscellaneous	93	(101)
Income tax provision	2,198	1,341

During 1984 certain expenditures that were previously capitalized for accounting purposes and in computing the income tax provision were determined to be deductible for tax purposes as incurred. This resulted in a recovery of income taxes paid in earlier years of $4,900,000 and an increase in deferred taxes of the same amount.

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:

	1984	1983
Assets:		
Real estate assets	31,718	34,536
Miscellaneous assets	9,263	13,800
Total assets	40,981	48,336
Liabilities:		
Mortgages payable	7,722	10,424
Other liabilities	2,630	2,593
Deferred income taxes	301	249
Total liabilities	10,653	13,266
Investment in real estate joint ventures	30,328	35,070
Total liabilities and investment	40,981	48,336
Revenues	22,312	32,286
Expenses	13,470	21,197
Share of joint venture trading profits	8,842	11,089

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	
	1984	1983	1984	1983	1984	1983
Operations:						
Total revenues	61,033	82,883	120,326	89,392	181,359	172,275
Trading profit	7,382	12,267	19,881	13,355	27,263	25,622
Interest expense					9,879	10,267
General and administrative					8,660	8,137
Income taxes					2,198	1,341
Net earnings					6,526	5,877
Assets:						
Real estate assets:						
Housing and land under development	84,097	63,735	150,737	136,724	234,834	200,459
Land for future development	78,318	81,096	859	16,396	79,177	97,492
Rental properties under development	4,592	–	–	–	4,592	–
	167,007	144,831	151,596	153,120	318,603	297,951
Other assets	25,073	37,826	75,052	60,764	100,125	98,590
Total assets	192,080	182,657	226,648	213,884	418,728	396,541

16. Accounting Change

Effective January 1, 1984, the Company adopted, on a prospective basis, the foreign currency translation recommendations of the Canadian Institute of Chartered Accountants. The Company has determined that its foreign operations meet the criteria of self-sustaining operations. Accordingly such operations are translated using the current rate method instead of the method previously used which was temporal, except for cost of housing and land sold which was translated at the historic weighted average rate.

The effect of this change is not material to the current year's consolidated statement of earnings.

Eleven Year Review

Year ended December 31 In thousands of dollars unless otherwise noted	1984		1983		1982		1981	
Revenues:								
Housing	89,323	49.3%	74,465	43.2	85,461	72.4	93,872	55.3
Land	82,527	45.5	89,252	51.8	24,257	20.6	64,878	38.2
Interest and other	9,509	5.2	8,558	5.0	8,298	7.0	10,939	6.5
Total revenues	181,359	100.0	172,275	100.0	118,016	100.0	169,689	100.0
Expenses:								
Housing	83,158	45.8	70,894	41.2	85,475	72.4	85,806	50.6
Land	70,938	39.2	75,759	44.0	22,606	19.2	43,835	25.8
Interest	9,879	5.4	10,267	5.9	12,648	10.7	10,481	6.2
General and administrative	8,660	4.8	8,137	4.7	8,962	7.6	9,668	5.7
Total expenses	172,635	95.2	165,057	95.8	129,691	109.9	149,790	88.3
Earnings (loss) before income taxes	8,724	4.8	7,218	4.2	(11,675)	(9.9)	19,899	11.7
Income taxes:								
Current (recovery)	698	.4	156	.1	(1,275)	(1.1)	3,938	2.3
Deferred (reduction)	1,500	.8	1,185	.7	(6,963)	(5.9)	4,934	2.9
Total income taxes	2,198	1.2	1,341	.8	(8,238)	(7.0)	8,872	5.2
Net earnings (loss)	6,526	3.6	5,877	3.4	(3,437)	(2.9)	11,027	6.5
Total assets		418,728		396,541		415,582		408,969
Shareholders' equity		77,689		58,314		42,475		46,917
Real estate assets:								
Housing and land under development		234,834		200,459		165,232		94,038
Land for future development		79,177		97,492		161,635		209,160
Rental properties		4,592		—		18,539		13,853
Inventory of land holdings (acres)		3,186		3,592		5,006		5,362
Sales:								
Houses closed (units)		764		694		714		868
Lots (units)		1,647		1,412		422		601
Land (acres)		259		767		128		290
Average number of shares outstanding		7,415,072		5,454,184(1)		4,642,552		4,559,689
Per common share(2):								
Earnings (loss)		$ .88		1.08		(.74)		2.42
Fully diluted earnings (loss)		$ .85		.90		(.74)		2.37
Cash flow		$ 1.20		1.49		(2.08)		3.65
Dividends		$ .18(3)		.10(3)		.25		.41
Shareholders' equity		$10.48		10.69		9.15		10.29
Stock price range		$10¾-7⅝		10¾-6½		9¼-3.85		15-8¼
After tax return on:								
Average shareholders' equity		9.6%		11.7		(7.7)		26.8
Revenues		3.6%		3.4		(2.9)		6.5
Debt to equity ratio		2.93:1		3.91:1		5.53:1		4.45:1

(1) Average number of shares is restated to reflect 1984 stock dividend.
(2) Per share figures are adjusted for stock splits in 1977 (2 for 1) and 1979 (3 for 2).
(3) Stock dividend.

1980		1979		1978		1977		1976		1975		1974	
93,569	65.0	89,729	62.9	77,212	80.2	54,183	70.2	44,423	78.7	28,713	74.9	33,350	83.4
41,460	28.8	48,231	33.8	14,432	15.0	18,983	24.6	8,734	15.5	6,865	17.9	4,799	12.0
8,918	6.2	4,699	3.3	4,617	4.8	4,021	5.2	3,269	5.8	2,758	7.2	1,836	4.6
43,947	100.0	142,659	100.0	96,261	100.0	77,187	100.0	56,426	100.0	38,336	100.0	39,985	100.0
36,499	60.1	82,853	58.1	64,567	67.1	46,191	59.8	37,010	65.6	22,691	59.2	26,625	66.6
34,550	24.0	33,804	23.7	10,325	10.7	13,189	17.1	7,045	12.5	6,133	16.0	4,720	11.8
7,797	5.4	4,801	3.3	2,685	2.8	1,911	2.5	1,101	1.9	747	2.0	583	1.4
8,096	5.6	7,389	5.2	5,060	5.2	4,032	5.2	3,079	5.5	2,434	6.3	2,148	5.4
36,942	95.1	128,847	90.3	82,637	85.8	65,323	84.6	48,235	85.5	32,005	83.5	34,076	85.2
7,005	4.9	13,812	9.7	13,624	14.2	11,864	15.4	8,191	14.5	6,331	16.5	5,909	14.8
2,698	1.9	(1,116)	(.7)	5,274	5.5	2,252	2.9	812	1.4	1,595	4.2	1,815	4.5
658	.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
3,356	2.4	6,635	4.7	6,623	6.9	5,864	7.6	3,852	6.8	3,139	8.2	3,212	8.0
3,649	2.5	7,177	5.0	7,001	7.3	6,000	7.8	4,339	7.7	3,192	8.3	2,697	6.8
264,724		242,445		178,529		148,136		111,646		92,625		79,852	
35,446		33,315		27,650		21,776		17,076		13,143		10,486	
80,713		72,330		56,335		46,534		24,170		18,826		11,394	
91,047		94,629		75,086		60,399		54,157		46,985		43,701	
17,214		18,118		15,854		15,925		16,031		16,134		16,128	
4,894		4,603		4,445		3,813		3,614		3,582		3,710	
913		1,018		1,071		784		814		498		724	
447		926		468		837		323		358		391	
389		388		17		41		7		—		—	
4,247,691		4,238,400		4,234,161		4,202,669		4,053,591		4,037,988		4,035,033	
.86		1.69		1.65		1.43		1.07		.79		.67	
.83		1.60		1.56		1.34		.96		.71		.60	
1.17		3.68		2.09		2.38		1.89		1.22		1.06	
.38		.36		.27		.18		.13		.13		.08	
8.30		7.86		6.53		5.15		4.16		3.25		2.60	
11⅜-6½		11½-6½		9⅓-5		5⅞-2⅔		3½-2⅛		3¼-1⅞		3¼-1⅔	
10.6		23.5		28.3		30.9		28.7		27.0		29.0	
2.5		5.0		7.3		7.8		7.7		8.3		6.8	
2.94:1		3.22:1		4.03:1		2.74:1		2.66:1		3.04:1		3.48:1	

Corporate Directory

Directors	**Gordon E. Arnell** Executive Vice-President Corporate Development Trizec Corporation Ltd. Calgary, Alberta **J. Allan Boyle** Director The Toronto-Dominion Bank Toronto, Ontario **Jack L. Cockwell*** Executive Vice-President and Chief Operating Officer Brascan Limited Toronto, Ontario **L. Ross Cullingworth** President and Chief Operating Officer Costain Limited Toronto, Ontario **Robert A. Ferchat** President Northern Telecom International Limited Mississauga, Ontario	**David W. Kerr** Executive Vice-President and Chief Operating Officer Hees International Corporation Toronto, Ontario **Willard J. L'Heureux*** President Carena-Bancorp Inc. Toronto, Ontario **H. Keith Morley** Chairman and Chief Executive Officer Costain Limited Toronto, Ontario **Arne R. Nielsen** Chairman and Chief Executive Officer Canadian Superior Oil Ltd. Calgary, Alberta *Director Nominee
Officers	**H. Keith Morley** Chairman and Chief Executive Officer **L. Ross Cullingworth** President and Chief Operating Officer **Richard C. Benmore** Senior Vice-President and Chief Financial Officer and Secretary **John DeGroot** Senior Vice-President, U.S. Operations **Alan J. Scott** Senior Vice-President Canadian Operations **David D. Arthur** Vice-President	**Marcel Lalande** Vice-President **Meier Miller** Vice-President and Treasurer **Leslie Parker** Vice-President, Internal Audit **Samuel Wilson** Vice-President **Marcia K. Perks** Controller **Derrick C. Tay** Osler, Hoskin & Harcourt Assistant Secretary
Corporate Office	**Costain Limited** 2 First Canadian Place, Suite 2200, Box 428 Toronto, Ontario M5X 1H9 (416) 369-8200	
Canadian Operations	**Alberta** Costain Limited 5920-1A Street S.W. Calgary, Alberta T2H 0G3 (403) 259-2611 Peter E. Nesbitt, Manager, Alberta **Central Ontario** Costain Limited 2 First Canadian Place, Suite 2200, Box 428 Toronto, Ontario M5X 1H9 (416) 369-8200 Samuel Wilson, Vice-President	**Ottawa** Costain Limited 1811 St. Joseph Boulevard, Box 558, R.R. #2 Gloucester, Ontario K1C 1T1 (613) 824-5000 Marcel Lalande, Vice-President **Commercial Division** Costain Limited 2 First Canadian Place, Suite 2200, Box 428 Toronto, Ontario M5X 1H9 (416) 369-8200 David D. Arthur, Vice-President
U.S. Subsidiaries	**Costain Arizona Inc.** 2150 East Highland Phoenix, Arizona 85016 (602) 957-8338 Richard S. Coffman, President **Costain Washington Inc.** 1200 Equitable Bank Center Columbia, Maryland 21044 (301) 992-0590 David B. Adler, President	**Costain Florida Inc.** 3601 N.E. 207 Street North Miami Beach Florida 33180 (305) 935-1292 James E. MacKenzie, President
Transfer Agent	Canada Permanent Trust Company	
Trustee for Debentures	National Trust Company, Limited	
Stock Exchange Listing	Toronto (Symbol COT)	

The Annual and Special Meeting of Shareholders will take place at 11:00 a.m., Tuesday, May 14, 1985 in Commerce Hall, Commerce Court (Concourse Level), Toronto, Ontario.

Costain Limited
2 First Canadian Place
Suite 2200, Box 428
Toronto, Ontario
M5X 1H9

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