

1986 Annual Report

**Canadian Foundation
Company Ltd.**



Canadian Foundation Company Ltd.

Directors

- *Rolf Kindbom,
President and Chief Executive Officer, Canadian Foundation Company Ltd.
- K. A. Birger Lowhagen,
Senior Adviser International Operations and former President, Skanska AB
- ▲*Robert I. Martin, Q.C.,
Partner, Hume, Martin & Timmins and Chairman of the Audit Committee
- ▲*Andrew G. McCaughey, C.A.,
Chairman of the Board of Directors and of the Executive Committee, Canadian Foundation Company Ltd., and President, North American Life Assurance Company
- *Paul G. Opler, P.Eng.,
President, Overseas Developments (Canada) Limited
- ▲Howard A. Tanenbaum,
Business Executive
- *Lawrence M. Tanenbaum,
President, Kilmer Van Nostrand Co. Limited

Honorary Director

Emil Dinkla

*Members of the Executive Committee

▲Members of the Audit Committee

Officers

- Andrew G. McCaughey, C.A.,
Chairman of the Board of Directors
- Rolf Kindbom,
President and Chief Executive Officer
- Hans F. Jakobsen,
Vice-President, Finance and Administration
- Jacob S. Oszlak, C.M.A.,
Treasurer
- Klaus H. Jacoby,
Secretary
- Gerald D. Hyman, Q.C.,
Assistant Secretary

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on June 29, 1987 in Toronto, Ontario.

*Si vous préférez recevoir le présent rapport en français, veuillez vous adresser au Secrétaire, La Compagnie Foundation Canadienne Ltée
1 Yonge Street
Toronto, Canada
M5E 1E8*



Front Cover: Concrete wall panels are tilted into place during the construction of a container freight facility for the Port of Seattle in Washington, United States.

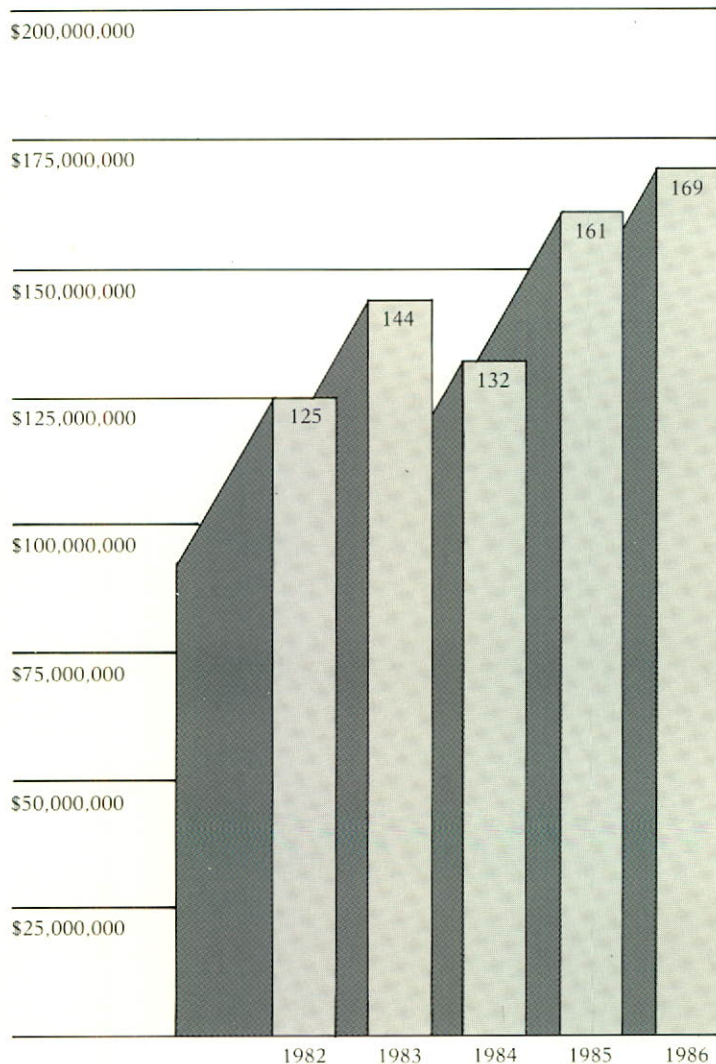
Back Cover: Workers erect wall panel forms for the structural concrete frame of the Biomedical Research Centre at the University of British Columbia in Vancouver, Canada.

1 Corporate Profile

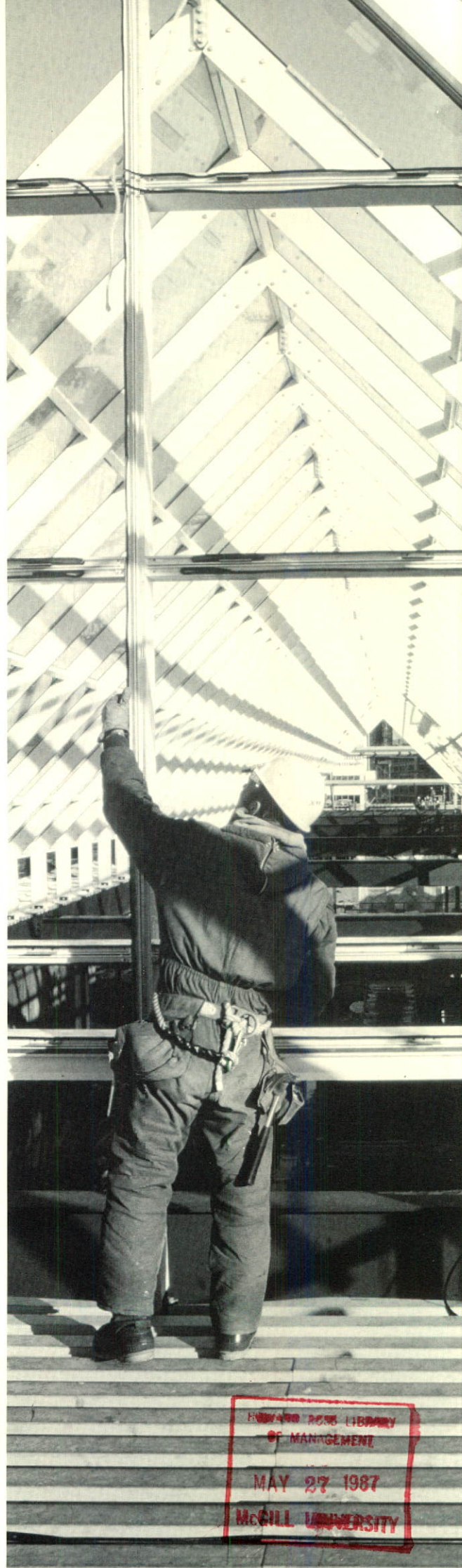
The Foundation Group of Companies, of which Canadian Foundation Company Ltd. is the parent, is a leading Canadian contractor and construction management group serving clients in the commercial, institutional, industrial, resource and transportation markets.

Through technical excellence and the commitment of a dedicated staff, Foundation has established a reputation in Canada and overseas for completing tough jobs on time and within budget.

Volume of Construction 5 Year Overview



Portage Place, Winnipeg, Manitoba



HOWARD ROSE LIBRARY
OF MANAGEMENT
MAY 27 1987
MCGILL UNIVERSITY

Financial Results

On the strength of another successful year for our Building Construction division, The Foundation Group's gross operating revenue rose slightly to \$143 million in 1986 from \$139 million in 1985. The growth in building construction, however, was offset by reduced activity in the industrial, and international and heavy construction sectors.

The relatively low volume in our industrial, international and heavy construction activities adversely affected our profitability, contributing to a net loss in 1986 of \$1,194,000 compared with a net profit of \$190,000 in 1985. After deductions for preferred share dividends of \$183,000 in both years, the earnings per share were \$1.15 loss (1985 \$0.01 profit).

The utilization of cash to finance the pre-tax loss of \$3.5 million resulted in a reduction of net interest income in 1986 to \$49,000 from \$831,000 in 1985. The company continued to be free of long-term debt during the year. A short-term utilization of funds at year end by a subsidiary resulted in an \$88,000 bank obligation.

Operating Results

Volume of construction in 1986 rose 5 per cent to \$169 million from \$161 million in 1985. This includes gross operating revenue and the value of work directed by the company under management contracts.

The Building Construction division continued to prosper in 1986 with an increase in revenue from \$83 million in 1985 to \$87 million in 1986. From our strong base in the metropolitan Toronto building construction market, we expanded our operations in Seattle, Washington; Winnipeg, Manitoba; and Ottawa, Ontario. This activity provides a steady and reliable volume of work, however, it is in the lower risk, lower margin category.

The Industrial Construction division continued to experience a reduction in major project opportunities throughout 1986. Substantially lower capital budgets in the depressed global energy and mining industries were a significant factor accounting for the decline in projects.

North American activities in our Civil Construction division increased 6 per cent over 1985. This was offset, however, by reduced overseas activities.

The major heavy construction market remains a key business area for Foundation. We are optimistic we will secure business from some of the large international projects we are pursuing.

Several of these projects involve a "Team Canada" approach: a concentrated effort by a consortium of prominent Canadian companies, each bringing their special expertise to the projects in conjunction with the Canadian government. We

Financial Highlights**Results in Brief**

(\$ in millions)	1986	1985	1984	1983	1982
Volume of Construction	169.1	160.6	132.1	143.9	125.2
Gross Operating Revenue	143.2	139.2	128.3	143.9	125.2
Gross Operating Profit	6.4	10.4	13.2	14.7	10.6
Profit (Loss) From Operations	(3.5)	0.8	3.1	4.5	2.6
Profit (Loss) Before Extraordinary Items	(1.2)	0.2	1.6	2.2	1.3
Extraordinary Items	—	—	—	0.5	3.6
Net Profit (Loss) for the Year	(1.2)	0.2	1.6	2.7	4.9
Working Capital at end of Year	9.4	11.2	10.6	8.1	8.0
Shareholders' Equity	11.5	12.9	12.9	11.5	10.3
Per Common Share (\$)					
Shareholders' Equity	7.08	8.22	8.22	7.06	6.10
Profit (Loss) Before Extraordinary Items	(1.15)	0.01	1.16	1.70	0.93
Extraordinary Items	—	—	—	0.37	3.04
Net Profit (Loss)	(1.15)	0.01	1.16	2.07	3.97

regard maintaining our expertise to capitalize on a stronger future market in this area as an important long-term investment. We have reduced the costs, however, by combining activities into one division, responsible for global operations within The Foundation Company of Canada Limited.

People

Foundation employs its highly competent staff in many tasks and in many countries. During 1986, our people were working in China, Republic of Korea, Sri Lanka, Kenya, Ivory Coast, Romania, Peru, United States and, of course, throughout Canada. We recognize their skills and appreciate their dedication.

Senator Leopold Langlois, Q.C., who has served this company well since 1971, did not stand for re-election to the Board, having reached the mandatory age of retirement for directors. We are grateful for his counsel and the advice he has given over the past 15 years.

Outlook

Our building construction business is well established, successful, and should continue to prosper.

Our civil and industrial construction capabilities remain strong. We must await a return to more normal levels of activity in Canada pending recoveries in the energy and resource industries, to be able to make use of these capabilities.

In all, The Foundation Group of Companies finished 1986 with a backlog of business amounting to \$155.9 million. Foundation intends to continue its vigorous pursuit of major projects, sharing the effort with various joint venture partners. We expect a reasonable volume of business and are looking forward to a return to profitability in 1987.

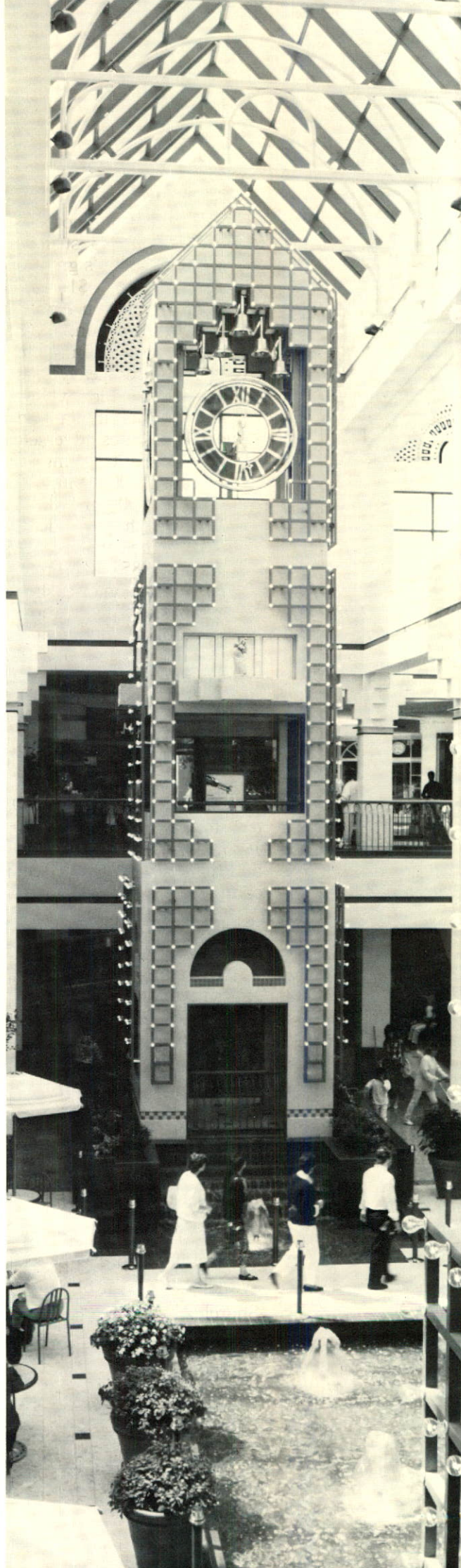


Rolf Kindbom
President and
Chief Executive Officer



Andrew G. McCaughey
Chairman of the Board

Toronto, March 24, 1987



1986 was a difficult year overall for Canadian Foundation Company Ltd., due mainly to declines in international, civil and heavy construction, but there were many bright spots. Further, the company maintained its core capabilities and is well positioned to capitalize on spending recoveries in these areas. Entering 1987, The Foundation Group of Companies had a backlog of work amounting to \$155.9 million.

Building Construction

The Building Construction division was Foundation's strongest performer in 1986. Increased building construction activity, in Winnipeg, Manitoba and Seattle, Washington, enabled the division to increase its volume of construction by 8 per cent over the previous year.

In Eastern Canada, building construction is carried out by The Jackson-Lewis Company, Limited, general contractors and construction managers, and Cunningham-Limp (1983) Inc., an engineering firm experienced in the design and construction of commercial and light industrial projects. In the west, the division is represented by The Foundation Company of Canada Limited's office in Vancouver and the Frontier Construction Company, Inc. in Seattle, Washington.

Jackson-Lewis, a 75 per cent owned subsidiary, extended the reputation it has established for its ability to meet the needs and often tight deadlines of its retail and commercial clients. Jackson-Lewis completed The Promenade shopping centre in the Township of Vaughan, Ontario in a record 15 months. The Mississauga Civic Centre, a distinctive public building where Jackson-Lewis is both project director and construction manager, was substantially complete, as scheduled, at year end. Mississauga plans an official opening for 1987. New projects started during the year include an office building for Canadian Eye Services Inc. in North York and an addition and renovation to Hillcrest Mall in Richmond Hill.

The company continued work on a 14-storey office building in Ottawa for Pensionfund Realty Limited (Morguard Investments Limited). This is the second Ottawa office building that Morguard has awarded to Jackson-Lewis.

Portage Place, being built for Cadillac Fairview, part of a major revitalization program for Winnipeg, Manitoba was on

schedule at year end. It is Jackson-Lewis' first project west of Ontario.

During the year, Cunningham-Limp completed the expansion of a food products manufacturing facility for H. J. Heinz Company of Canada Ltd. in Leamington, Ontario. By year end, Cunningham-Limp had substantially completed renovation and additions to Becton Dickinson Canada Inc.'s pharmaceutical plant in Mississauga. New projects started in Ontario during the year include a manufacturing plant for Humpty Dumpty Foods Ltd. in Brampton, an addition to Select Food Products Limited's manufacturing plant in North York, and a new office building in Bramalea for one of Cunningham-Limp's major clients, Northern Telecom Canada Limited.

In Western Canada, Foundation completed the Lonsdale Quay Market in Vancouver, British Columbia in time to open for Expo 86. As well, Foundation completed the main office parking structure for the Workers' Compensation Board in Richmond, B.C. and began an important new project, the Biomedical Research Centre for the University of British Columbia. The Centre will be used for cancer research when completed in 1987.

In Seattle, Frontier Construction Company, Inc. increased its revenue by successfully marketing its abilities in building commercial, retail, institutional and light industrial projects. The company won its biggest contract yet — a high school in Sultan District of Washington, scheduled for completion in December, 1987. Frontier also completed several retail and commercial centres, a container freight warehouse for the Port of Seattle, and won a tender to construct a super Safeway retail store.

Civil Construction

The Civil Construction division increased its activity in Canada, in spite of postponement or cancellation of many projects. Our success on a broad range of unique assignments, often under rigorous conditions, demonstrates the company's ability and effectiveness in managing complex projects.

A prime example is the Mount Macdonald Tunnel project in the Rockies, due for completion in 1988. Selkirk Tunnel Constructors, a Foundation-sponsored joint venture, is constructing approximately 60 per cent of the 14.6 kilometre long tunnel with the help of a hard rock tunnel boring machine. The project, profiled on page

seven, is part of CP Rail's \$600 million program to improve rail transportation through the Rogers Pass area. It represents a major technical achievement.

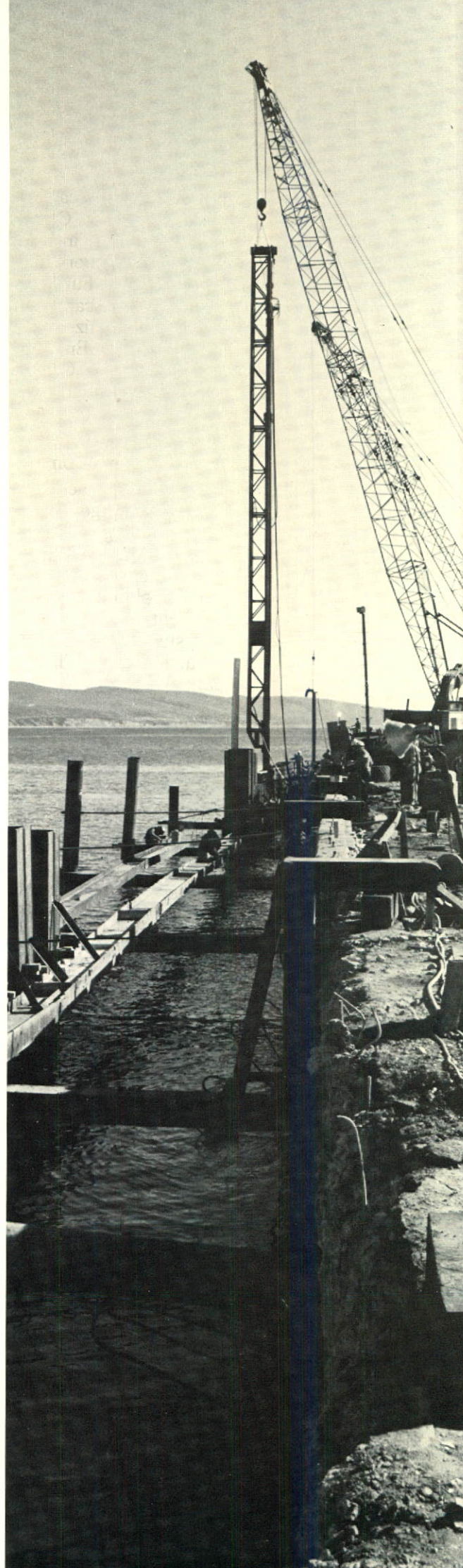
The bobsleigh and luge track for the 1988 Olympic Winter Games in Calgary, Alberta is another example of the highly specialized work in which Foundation excels. This project, along with site works relating to the ski jumps, was successfully completed in time for pre-Olympic trials. Also in Calgary, Foundation was awarded contracts for the construction of a pumping station for the Bearspaw Water Treatment Plant and extensions and repairs to the Bearspaw Dam on the Bow River.

Foundation continued to add to its extensive expertise and experience in transportation construction, particularly Light Rapid Transit (LRT) projects. Three projects were completed for Calgary's LRT System during the year, and in Vancouver, the company obtained a contract for the New Westminster Guideway and Fourth Street Station segment of the Greater Vancouver SkyTrain System. Further south, Foundation completed a Transit System Guideway in Las Colinas (Dallas), Texas. To the east, the company was retained to conduct a feasibility study for a monorail system in Boston.

In Seattle, a substantial contract for bridge, tunnel and road construction was received at year end. This is a joint venture project with a local Seattle company which will begin in 1987.

Foundation was also active in marine construction projects. The Cow Head Oil Rig Service Wharf and Building for Marys-town Shipyard Limited in Newfoundland and the Woodside Wharf extension in Dartmouth, Nova Scotia were completed. A major reconstruction project of the Sandy Beach Wharf for Public Works Canada in Gaspé, Quebec was started during the year and is scheduled for completion in 1987. As a member of one of two prequalified consortia, Foundation was preparing to bid on the Hibernia project. However, due to uncertain price levels in the energy field, the project did not proceed in 1986.

In Toronto, Foundation completed the Spadina Pier for the Harbourfront Corporation, creating a new building site within the Toronto harbour. The company also began repairs to the North Pier at the west entrance to the harbour and constructed the safety barrier walls for the first Molson Indy Auto Race held in the city in July.



Industrial Construction

Industrial construction activity in Quebec increased in 1986. Foundation completed a radar tower for Transport Canada at Dorval International Airport in Montreal and was involved in several projects for clients in the pulp and paper industry including Domtar Fine Papers, Donohue, Inc. and James Maclaren Industries Inc.

Across Canada, particularly in the west, construction activity in the industrial sector was slow despite increased marketing efforts. To effect cost savings, we merged the Industrial Construction division and the Civil Construction division, still allowing Foundation to maintain its capability in the industrial field.

International and Nuclear Construction

For decades, Foundation has managed complex irrigation, hydroelectric, nuclear, commercial and institutional projects around the world. While in 1986, construction activity on international projects was 20 per cent lower than in 1985, Foundation continued to be active on four continents.

In joint venture with other Canadian companies, Foundation prepared the turn-key proposal for the Canadian-financed New Esna Barrage and Power Project in Egypt. Although we do not yet know the outcome of this project, we believe this "Team Canada" approach in pursuing international work must be continued if Canada is to maintain its market share in international capital projects construction.

Work proceeded on the Kiambere hydroelectric power development in Kenya which Foundation is constructing in joint venture with Skanska of Sweden. The timely and economical progress of the work resulted in the joint venture being awarded additional contracts for access roads to enhance overall infrastructure development in the area.

In another joint venture, Foundation, with four international contractors, is constructing the Majes Irrigation Project in Peru to divert water westward from the Andes to the arid Pacific plain. This ten-year project is nearing successful completion and Foundation is finalizing negotiations for an additional canal section to be built in 1987.

Foundation, as a member and part owner of Nuclear Project Managers (Canada) Inc., together with Atomic Energy of Canada Limited, is pursuing further national and international nuclear construction work relating to Canadian Candu nuclear technology. The Candu system is widely recognized as one of the safest and most efficient nuclear energy systems available.

In China, Foundation is supplying Canadian building materials and equipment for the new Canadian Embassy in Beijing. Construction is being carried out by local workers and is expected to be completed in 1988.

Foundation Carves its Way into Railway History

On a spring day in April, 1986, after 24 hours of non-stop activity, Selkirk Tunnel Constructors set a world record. The Foundation-sponsored joint venture had succeeded in tunnelling through 62.78 metres (205.98 feet) of solid rock in one day! The instrument of their success was a 302 tonne tunnel boring machine, nicknamed the Mole.

Foundation's use of this advanced technology led to the Mole carving its way through more than eight kilometres of the Selkirk Mountains in eastern British Columbia to help complete North America's longest railway tunnel.

The 14.6 kilometre Mount Macdonald Tunnel, named after Canada's first prime minister, Sir John A. Macdonald, is the centrepiece of CP Rail's \$600 million program to improve its train route through the Rogers Pass area. It is CP Rail's single largest project since the completion of the transcontinental railway in 1885.

The tunnel contracts were awarded to two different contractor groups who each proposed to use a different tunnelling technique. Selkirk Tunnel Constructors, comprised of three prominent constructors: The Foundation Company of Canada Limited, Atlas Construction Inc. and S. A. Healy Company, chose the hard rock

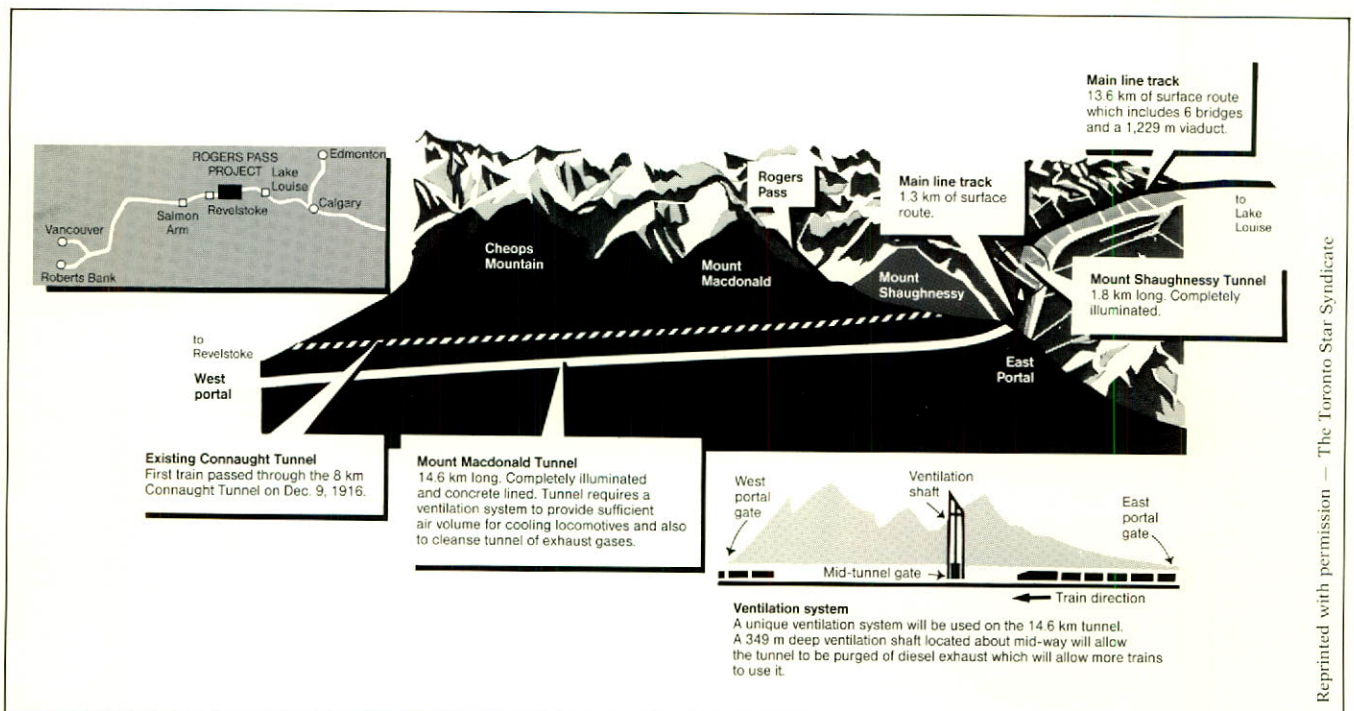
tunnel boring machine to carve the eastern section which makes up approximately 60 per cent of the tunnel's length. A Canadian-Japanese joint venture used the traditional drill-and-blast method to construct the western portion.

Foundation first began to work for the Canadian Pacific Railway in 1910 when the company was hired to sink 300 caissons for the substructures of Windsor Station in Montreal. Since then, Foundation has completed over 32 major projects for Canadian Pacific, further exemplifying Foundation's strong presence and performance in the Canadian construction scene.

The Challenge

Mount Macdonald Tunnel is one of the toughest challenges Foundation has faced in its construction history. Not only do workers have to labour under severe environmental constraints and stringent national park regulations, they also had to overcome the technical difficulties posed by their own sophisticated tunnelling machine in order to complete phase one of the project on schedule.

The Selkirk Mountains have been a challenge to the railway for more than 100 years with their steep grades and frequent avalanches. In recent years, because of increasing westbound rail traffic, use of the existing Connaught Tunnel has been taxed



to the limit. Trains struggling up the steep incline are forced to take on extra locomotives. This delay, combined with the time needed for the ascent, adds significantly to each trip and contributes to major bottlenecks.

To rectify the situation, CP Rail decided to construct a new tunnel at a lower elevation with an access ramp less than half as steep as the one leading to the 70-year-old Connaught Tunnel. The new Mount Macdonald Tunnel could be used by heavily laden westbound traffic, while light eastbound trains could return via the Connaught Tunnel.

The Tunnel Work Begins

In 1982, a Foundation-sponsored joint venture began constructing the east and west portals for the new tunnel. Two years later, Selkirk Tunnel Constructors, with up to 140 people working three 8-hour shifts per day, began the first phase of excavating the 8.3 kilometre eastern portion.

The group took an innovative approach to the project by using a 6.8 metre diameter tunnel boring machine to mine the top three-quarters of the tunnel face. The Mole, which is similar to a horizontal drill, has 51 cutters which carve the rock into chips and leave behind a smooth wall. When the job is completed in 1988, nearly 458,760 cubic metres of rock will have been removed from the eastern section of the tunnel.

Selkirk Tunnel Constructors was committed to completing phase one of the project on time. With teamwork and determination the joint venture managed to pull together and overcome a serious mechanical breakdown that held up production for 10 weeks in 1985.

Despite the difficulties, the Mole operations in the assigned eastern section of the tunnel were finished ahead of schedule in just 17 months and 10 days. Foundation once again demonstrated its versatility and ability to conquer problems no matter how difficult.

On October 24, 1986 at a special breakthrough ceremony that attracted national media attention, R. S. Allison, President of CP Rail, detonated a blast which removed the last 100 cubic metre wall of rock separating east from west. After two years of gruelling work by hundreds of employees using sophisticated engineering techniques, the two contracting groups had created what would become the longest railway tunnel in North America.

Battling the Elements

Along with the difficult technical challenges, there are many environmental obligations Selkirk Tunnel Constructors has to meet. Because they are working in Glacier National Park, the joint venture must adhere to strict park regulations.

Part of Foundation's contract called for installation of a \$1.5 million water treatment plant. This ensured that water removed from the tunnel was cleansed of all silt and residue.

The safety and well-being of the employees is always a prime concern for Foundation — especially in a project like this. Nature's dangers are inherent in the area with 300 avalanches each year and an annual snowfall of over 10 metres.

A vast reforestation project was integrated to minimize any environmental damage resulting from the construction. By the end of the project, over 600,000 trees and shrubs will be planted. Special ecological units were also installed to remove cooking odors from the kitchens so bears and other animals wouldn't enter the camps.

In order to handle emergency situations, 24 volunteers from the work crew were organized into four mine rescue teams. The teams were put through intensive practical and theoretical courses designed to prepare them for any situation. "Ongoing monthly drills and practices are a major part of the mine rescue program," says Desmond Burke, Project Manager, Selkirk Tunnel Constructors. "Because only a small percentage of rescuers are ever called upon to use their skills, practices are essential to learn how to work together and develop confidence as a team."

During the project our workers stayed in CP Rail work camps and were provided with their own rooms, a cafeteria, pool room, movies and excellent meals.

The Next Stage

With the major portion of construction finished, phase two of the project is currently underway. It involves benching, which is the removal of an additional 2.4 metres of material from the bottom of the tunnel to create the square tunnel floor. This phase, scheduled for completion by the summer of 1987, includes the cleaning of the tunnel floor, placement of drain pipes and concreting of the rock surface.

The last phase of the project will involve lining the arched roof and the

tunnel wall with concrete and placing a reinforced concrete base slab. This will be a “round-the-clock, five days per week” operation of continuous concrete pouring.

The tunnel will be illuminated and has been designed to accommodate electrification, should it become necessary in future to replace diesel locomotives with electric locomotives. A specialized ventilation system, located near the midpoint of the tunnel, will be installed to supply cooling air for the locomotives and to purge exhaust fumes from the tunnel. This will permit one train to pass through every 30 minutes.

The Progress Continues

Foundation was one of the first construction companies in Canada to use a tunnel boring machine in the 1950s. As a result of Foundation’s superior work with the Mole on the Mount Macdonald Tunnel, the company will use this technology again on appropriate future projects.

“The company had to overcome many technical, mechanical and environmental challenges to succeed in the first and most critical phase of the project — and succeed they did,” says Peter Gerber, Foundation’s Vice-President and Regional Manager. Mr. Gerber has been overseeing the project from the start. The Mount Macdonald Tunnel project truly exemplifies the traits, talents and spirit of Foundation. With the company’s expertise and the tremendous efforts of workers, the obstacles were overcome and Foundation helped create “this milestone in railway history”.



Tunnel Boring Machine, Rogers Pass, British Columbia

Consolidated Balance Sheet

ASSETS

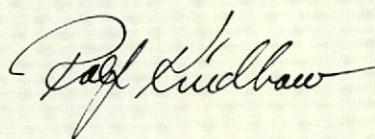
December 31	1986	1985
Current Assets		
Cash and short-term deposits	\$ 2,186,000	\$ 4,074,000
Trade accounts receivable	19,561,000	28,553,000
Investments in joint ventures (Note 2)	6,270,000	7,259,000
Prepaid expenses, deposits and other assets	1,042,000	695,000
Recoverable income taxes	1,603,000	—
Deferred income taxes recoverable	254,000	—
	30,916,000	40,581,000
Fixed Assets		
Land	106,000	106,000
Buildings and improvements	174,000	174,000
Leasehold improvements	199,000	156,000
Furniture and fixtures	1,071,000	995,000
Construction equipment	4,265,000	3,563,000
Other equipment	76,000	72,000
	5,891,000	5,066,000
Accumulated depreciation and amortization	3,938,000	3,702,000
	1,953,000	1,364,000
Goodwill	356,000	579,000
	\$ 33,225,000	\$ 42,524,000

11 **Consolidated Balance Sheet**

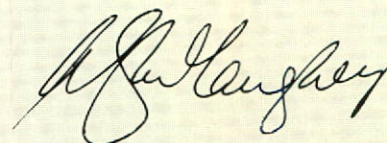
LIABILITIES

December 31	1986	1985
Current Liabilities		
Bank loan	\$ 88,000	\$ 555,000
Accounts payable and accrued liabilities	19,142,000	23,346,000
Progress billings on contracts, less costs, net	1,742,000	3,130,000
Income taxes payable	527,000	1,431,000
Deferred income taxes	—	961,000
	21,499,000	29,423,000
Minority Interest (Note 6 (c))	185,000	180,000
Shareholders' Equity		
Capital stock		
Preferred shares		
Authorized: 310,000 preference shares redeemable at not more than \$20 per share with cumulative dividends at the rate of \$1.20 per share per annum		
Issued: 152,518 3/4 (1985 — 152,824 3/4) shares	3,051,000	3,057,000
Common shares		
Authorized: unlimited number of shares		
Issued: 1,199,616 shares	6,092,000	6,092,000
Retained earnings	2,398,000	3,772,000
	11,541,000	12,921,000
Contingent liabilities (Note 6 (a) and (b))	\$ 33,225,000	\$ 42,524,000

Approved by the Board



R. Kindbom, Director



A. G. McCaughey, Director

12 **Consolidated Statement of Income and Retained Earnings**

Year ended December 31	1986	1985
Volume of Operations Under Management Contracts (Note 1 (g))	\$ 25,909,000	\$ 21,346,000
Gross Operating Revenue		
Joint ventures' construction contracts (Note 2)	\$ 16,678,000	\$ 24,897,000
Other construction contracts and operations	126,545,000	114,313,000
	\$143,223,000	\$139,210,000
Gross profit	\$6,356,000	\$10,425,000
Less:		
Operating and administrative expenses before the following items	9,294,000	9,763,000
Depreciation and amortization	627,000	661,000
Interest income	(385,000)	(836,000)
Interest expense	336,000	5,000
	9,872,000	9,593,000
Profit (Loss) before income taxes and minority interest	(3,516,000)	832,000
Income tax provision (recovery) (Note 3)	(2,327,000)	434,000
Profit (Loss) before minority interest	(1,189,000)	398,000
Minority interest	5,000	208,000
Net Profit (Loss) for the Year	(1,194,000)	190,000
Retained earnings, at beginning of year	3,772,000	3,765,000
Preferred dividends (Note 4)	(183,000)	(183,000)
Excess of carrying value over cost of preferred shares purchased and cancelled	3,000	—
Retained earnings, at end of year	\$ 2,398,000	\$ 3,772,000
Net Profit (Loss) Per Common Share (calculated after deduction of preferred dividends)	\$(1.15)	\$0.01

Consolidated Statement of Changes in Cash Resources

Year ended December 31	1986	1985
Cash resources provided by (used in) operating activities		
Net income (loss)	\$ (1,194,000)	\$ 190,000
Adjustment for charges (income) not involving a current cash payment (receipt)		
Depreciation and amortization	627,000	661,000
Minority interest	5,000	208,000
(Profit) Loss on disposal of fixed assets	(449,000)	96,000
	(1,011,000)	1,155,000
Changes in non-cash working capital components		
Accounts receivable	8,992,000	(11,300,000)
Investment in joint ventures	989,000	(680,000)
Prepaid expenses, deposits and other assets	(347,000)	25,000
Accounts payable and accrued liabilities	(4,204,000)	4,486,000
Progress billings on contracts, less costs, net	(1,388,000)	(1,829,000)
Income taxes payable	(2,507,000)	(1,558,000)
Deferred income taxes	(1,215,000)	(1,402,000)
	320,000	(12,258,000)
Cash resources used in operating activities	(691,000)	(11,103,000)
Cash resources provided by (used in) investment activities		
Purchase of fixed assets	(1,212,000)	(549,000)
Proceeds from disposal of fixed assets	668,000	102,000
Cash resources used in investment activities	(544,000)	(447,000)
Cash resources provided by (used in) financing activities		
Preferred dividends	(183,000)	(183,000)
Cost of preferred shares repurchased	(3,000)	—
Cash resources used in financing activities	(186,000)	(183,000)
Net increase (decrease) in cash resources during the year	(1,421,000)	(11,733,000)
Cash resources, at beginning of year	3,519,000	15,252,000
Cash resources, at end of year	\$ 2,098,000	\$ 3,519,000
Comprised of:		
Cash and short-term deposits	\$ 2,186,000	\$ 4,074,000
Bank loan	(88,000)	(555,000)
	\$ 2,098,000	\$ 3,519,000

1. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The significant accounting policies followed by the Company are:

(a) Basis of consolidation

The accompanying financial statements include the accounts of Canadian Foundation Company Ltd. and all its subsidiary companies.

(b) Goodwill

Goodwill representing the excess of cost of investment in subsidiary over the net tangible assets at date of acquisition is being amortized over a five year period.

(c) Recording of contract profits

- (i) Firm price contracts: percentage of completion method.
- (ii) Management and cost plus fee contracts: services and/or work performed.
- (iii) Claim recoveries, if any, arising on contracts are recognized when accepted.
- (iv) Potential losses are provided for in full as soon as they become evident.

(d) Joint ventures

Joint ventures are accounted for on the "equity" basis. Profits are recorded on the same bases as (c) above. The normal operating cycle of a joint venture is considered to be the life of the venture; accordingly, the Company's investment in joint ventures is shown as a current asset.

(e) Fixed assets

Fixed assets are stated at cost. Expenditures on major replacements and improvements are capitalized while costs of regular maintenance and repairs are expensed as incurred. Depreciation on fixed assets is provided on the diminishing-balance method, at 30% per annum for construction equipment and generally at 20% per annum for other fixed assets. Leasehold improvements are amortized over the life of the related lease. Prior to 1986, depreciation of construction equipment was based on the greater of 80% of rental income earned by the equipment and 30% of the net book value. The effect of this change in accounting policy is minor and therefore depreciation expense of prior periods has not been adjusted.

(f) Translation of foreign currencies

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate at the time of the transaction, while assets and liabilities in foreign currencies, including offshore joint ventures, are translated at the rates prevailing at December 31.

(g) Volume of operations under management contracts

Certain contracts are carried out on a management basis with the result that only the Company's fee is included in gross operating revenue. The volume of operations under management contracts has been disclosed to indicate the total dollar volume of work under the Company's direction.

2. INVESTMENTS IN JOINT VENTURES

The Company is involved in a number of Canadian and foreign construction joint ventures, the more significant of which are:

<u>Name</u>	<u>Participation</u>	<u>Country</u>
FAFJ Consortium	40%	Sri Lanka
Fitzpatrick-Foundation Association	50%	Canada
Foundation-Lundrigans	55%	Canada
Foundation-Skanska joint venture	50%	Canada
Kimco joint venture	28%	Kenya
Majes Consortium	15.8%	Peru
Selkirk Tunnel Constructors — joint venture	40%	Canada
Wolverine Tunnel Constructors — joint venture	20%	Canada

Notes to Consolidated Financial Statements

December 31, 1986

The Company's proportionate share of the assets, liabilities, revenues and profits of all joint ventures is:

December 31	1986	1985
Assets		
Cash and short-term investments	\$ 7,801,000	\$ 8,559,000
Accounts receivable, advances and other assets	8,779,000	12,105,000
	\$16,580,000	\$20,664,000
Liabilities		
Accounts payable, accrued liabilities and advances	\$10,310,000	\$13,405,000
Equity in joint ventures	6,270,000	7,259,000
	\$16,580,000	\$20,664,000
Gross operating revenue	\$16,678,000	\$24,897,000
Profit from operations	\$1,371,000	\$4,504,000

A portion of the operating and administrative expenses of \$9,294,000 (1985 — \$9,763,000), shown in the consolidated statement of income, is attributable to joint ventures.

The Company is contingently liable for their co-venturers' share of obligations incurred in the normal course of business through joint venture projects. The assets of the joint ventures are available for the purpose of satisfying such obligations.

3. INCOME TAXES

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

	1986	1985
Combined basic Canadian Federal and Provincial income tax rate — (recovery) provision	(51.5%)	51.0%
Effect on the income tax rate resulting from:		
Federal income surtax	(1.8)	0.9
Tax exempt portion of capital gains	(3.8)	(9.4)
Rate reduction for recovery of prior years' taxes	2.9	—
Non-deductibility of amortization of goodwill	3.3	13.9
Non-deductible expenses	1.8	—
Miscellaneous	(1.0)	(5.1)
	(50.1)	51.3
Adjustment to provision in prior years	(16.1)	0.9
Effective rate of (recovery) provision for income taxes	(66.2%)	52.2%

4. DIVIDENDS

During 1986, preferred dividends of \$1.20 per share were declared including the dividend of \$0.30 per share for the quarter ended January 1, 1987.

5. RELATED PARTY TRANSACTIONS

Skanska International AB holds 48% of the common shares of the Company; accordingly, all companies in the Skanska Group (Skanska) are related parties. The

Company is involved with Skanska in joint venture contracts in the normal course of business. Other than the amounts due to these joint ventures referred to in Note 2, the net amount payable by the Company and its subsidiaries to Skanska was \$729,924 which is included in trade accounts payable in the consolidated balance sheet.

Notes to Consolidated Financial Statements

December 31, 1986

6. CONTINGENCIES AND COMMITMENTS

- (a) The Company and its subsidiaries are engaged in a number of claims and litigation matters resulting from construction and consulting contracts. Management is of the opinion, after assessing available information, that appropriate recognition has been made in the accounts for potential liabilities and that the net outcome of these matters is not expected to require a material adjustment in the accounts of the Company or its subsidiaries.
- (b) A Letter of Credit for \$3 million was outstanding at December 31, 1986 to secure a client's mortgage financing. Subsequently, on February 6, 1987 this Letter of Credit was returned and cancelled.
- (c) In 1983, the Company acquired 75% of the outstanding shares of The Jackson-Lewis Company, Limited, an Ontario building construction company. Under the terms of the purchase agreement, the Company has the right to acquire and may be required to

purchase the balance of the outstanding shares during 1987 and 1988.

- (d) The Company was reassessed in 1985 for additional income taxes and interest of \$1,475,000 on option payments received in 1981, 1982 and 1983. The Company has paid the reassessments but has filed Notices of Objection and will pursue arguments for the payment of tax as originally filed. If successful, the Company will recover the amount paid together with interest thereon.

7. SEGMENTED INFORMATION

The Company operates in the construction industry as general contractors on large building and engineering projects; a substantial part of its operations being carried out through joint ventures as summarized in Note 2.

8. COMPARATIVE FIGURES

The comparative figures in the Consolidated Statement of Changes in Cash Resources have been restated to conform with the presentation adopted in the current year.

Auditors' Report

To the Shareholders of
Canadian Foundation Company Ltd.:

We have examined the consolidated balance sheet of Canadian Foundation Company Ltd. as at December 31, 1986 and the consolidated statements of income and retained earnings and changes in cash resources 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, 1986 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants
Toronto, March 11, 1987

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Company, Inc.**

**Construction Equipment
Company, Limited**

**Foundation Construction
Services Ltd.**

The Foundation Company Inc.

Foundation Overseas Ltd.

KVN-Roberts, Inc.

**Frontier Construction of
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AFFILIATED COMPANY

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