

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.

Table of Contents

Financial Highlights	1
Directors and Officers of Canadian Foundation Company Ltd.	2
Directors' Report to Shareholders	3
Building Construction	4
Industrial Construction	5
Heavy and Marine Construction	6
International and Nuclear Construction	7
Special Report: Kiambere Hydroelectric Power Development, Kenya	8
Consolidated Financial Statements, December 31, 1985	10
Notes to Consolidated Financial Statements	14
Auditors' Report	16
Directory of Foundation Offices	



Cover

Large photo:
Surge chamber at the Kiambere hydroelectric project, Kenya

Small photos:
Woodbine Shopping Centre, Toronto
Penstock liner in the underground power station, Kiambere hydroelectric project, Kenya
Las Colinas Transit System, Dallas
Prince Rupert Grain Terminal, British Columbia



1985 marked the 75th anniversary of Foundation. To commemorate the occasion, a special anniversary book was printed, outlining the history of the company and highlighting many projects in Canada and overseas. A copy of this book is available upon request.

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

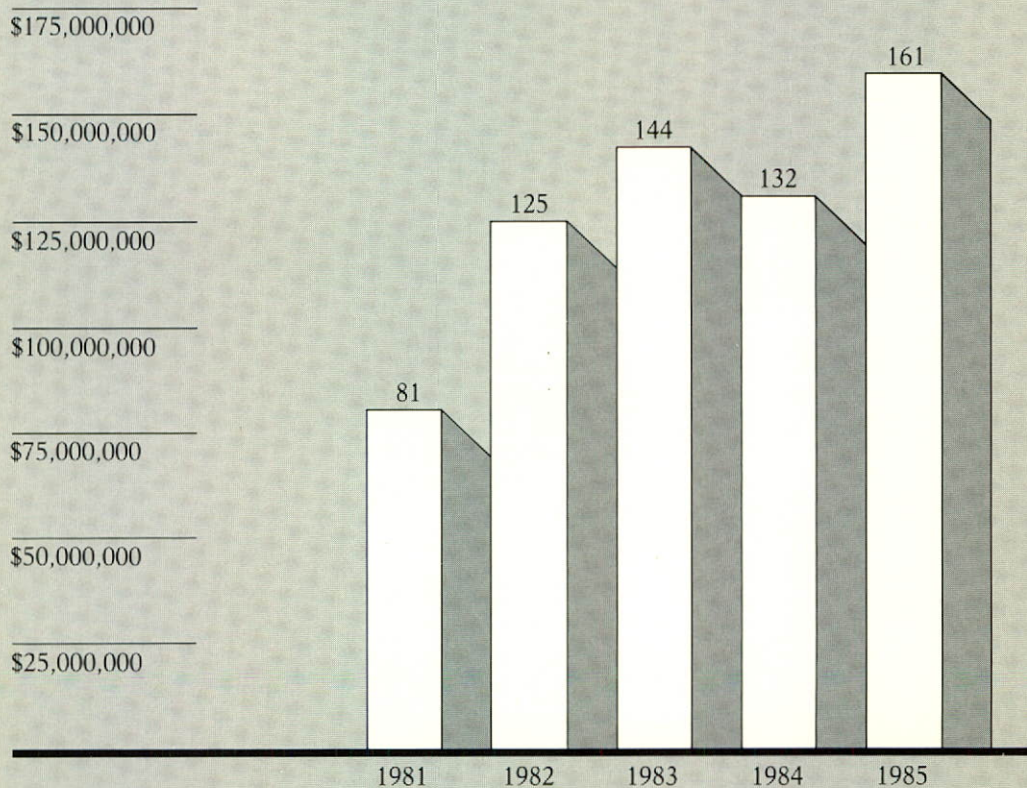
FINANCIAL HIGHLIGHTS

(as restated)

RESULTS IN BRIEF

(\$ in millions)	1985	1984	1983	1982	1981
Volume of Construction	160.6	132.1	143.9	125.2	81.2
Gross Operating Revenue	139.2	128.3	143.9	125.2	81.2
Gross Operating Profit	10.4	13.2	14.7	10.6	7.2
Profit From Operations	0.8	3.1	4.5	2.6	0.9
Profit Before Extraordinary Items	0.2	1.6	2.2	1.3	0.5
Extraordinary Items	—	—	0.5	3.6	0.9
Net Profit for the Year	0.2	1.6	2.7	4.9	1.4
Working Capital at End of Year	11.2	10.6	8.1	8.0	4.7
Shareholders' Equity	12.9	12.9	11.5	10.3	5.4
Per Common Share (\$)					
Shareholders' Equity	8.22	8.22	7.06	6.10	1.97
Profit Before Extraordinary Items	0.01	1.16	1.70	0.93	0.24
Extraordinary Items	—	—	0.37	3.04	0.75
Net Profit	0.01	1.16	2.07	3.97	0.99

VOLUME OF CONSTRUCTION 5 YEAR OVERVIEW



DIRECTORS

- *Rolf Kindbom,
President & Chief Executive Officer, Canadian Foundation Company Ltd.
- Hon. Leopold Langlois, Q.C.,
Gaudreau, Vaillancourt & St. Pierre
- K.A. Birger Lowhagen,
Director & President, Skanska AB
- *Robert I. Martin, Q.C.,
Partner, Hume, Martin & Timmins
- *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
- *Paul G. Opler, P.Eng.,
Vice-Chairman of the Board of Directors, Canadian Foundation Company Ltd.
- Howard A. Tanenbaum,
Business Executive
- *Lawrence M. Tanenbaum,
President, Kilmer Van Nostrand Co. Limited

HONORARY DIRECTOR

Emil Dinkla

OFFICERS

- Andrew G. McCaughey, C.A.,
Chairman of the Board of Directors
- Paul G. Opler, P.Eng.,
Vice-Chairman of the Board of Directors
- Rolf Kindbom,
President & Chief Executive Officer
- Alasdair R. Mackie,
Senior Vice-President
- Hans F. Jakobsen,
Vice-President, Finance & Administration
- William A. Atkinson, C.A.,
Treasurer
- Klaus H. Jacoby,
Secretary
- Gerald D. Hyman, Q.C.,
Assistant Secretary

Financial Results

In 1985 The Foundation Group generated gross operating revenue of \$139 million, compared with \$128 million in 1984. Our commitment to maintain full service capabilities both in Canada and internationally, despite lower gross revenues from a reduced volume in heavy construction business, resulted in only break-even profitability.

There was a net profit of \$190,000 for the year and, on a per share basis, a profit of \$0.01. The profit per share is calculated after allowing for \$183,000 in preferred share dividends.

Operating cash outflows and cash invested as working capital in the Selkirk Tunnel joint venture project were the major reasons for an \$11 million reduction during the year in cash and short-term deposits. This contributed to reduced interest income in 1985 to \$831,000 from \$1.3 million in 1984.

The company continued free of long-term debt during the year. A short-term utilization of funds at year end by a subsidiary resulted in a \$555,000 bank obligation, which has since been paid off.

Operating Results

The Building Construction division prospered in 1985 with an increase in revenue from \$51 million in 1984 to \$83 million in 1985. While this is the lower risk, lower margin aspect of the construction market, it provides a steady and reliable volume of work.

The Heavy and Marine Construction, Industrial Construction and International and Nuclear Construction divisions suffered from a reduction in major project opportunities throughout the year. As a result there was increased competition with more companies bidding on a smaller number of projects.

The major project market remains a key business area for Foundation. However, the costs associated with maintaining our expertise to position us to capital-

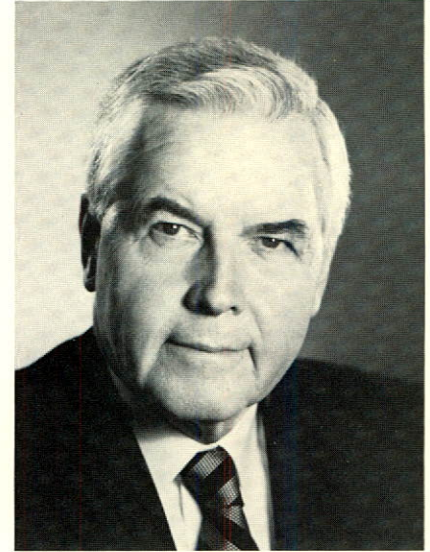


*Rolf Kindbom
President & Chief Executive Officer*

ize on a stronger future market are substantial. Costs will be contained and maximum efficiencies achieved through a rationalization of the Heavy and Marine Construction and International and Nuclear Construction resources into one Civil Construction division. The new division will be responsible for all global operations and will maintain construction specialists in appropriate geographical areas, as client needs require.

People

1985 has brought significant challenges to Foundation. It is thanks to our highly competent and dedicated staff in Canada and around the world that we can look forward to 1986 with renewed optimism. We appreciate everyone's contribution and would particularly commend Per Hofvander who becomes general manager of



*Andrew G. McCaughey
Chairman of the Board*

the new Civil Construction division, Ted Skodje, head of Industrial Construction division and Laurie McCloy who continues to lead our Building Construction division.

Outlook

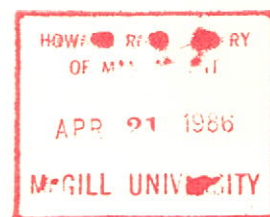
Although our current business mix indicates reduced profit margins in the short term, Foundation's future looks positive. We have created the structure and the team to give us maximum flexibility to fulfill market needs. The team is leaner but stronger.

We now have the ability to provide more responsive, cost-effective services across all facets of the market. Supported by the biggest building construction order backlog in the company's history, we are confident that we have a solid financial base for our future activity.

Rolf Kindbom
President &
Chief Executive Officer

Andrew G. McCaughey
Chairman of the Board

Toronto, March 7, 1986





Mississauga Civic Centre, Mississauga, Ontario

Foundation's Building Construction division in the east comprises The Jackson-Lewis Company, Limited, general contractors and Cunningham-Limp (1983) Inc., a design/build engineering firm specializing in 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.

Flexibility and market responsiveness have been the key to the success of the Building Construction division in 1985. Overall construction activity in Ontario remained high throughout 1985 and as a result The Jackson-Lewis Company, Limited increased its operating revenue by 42 per cent. With a strong track record in residential, commercial and retail construction the company has extended its capabilities to include restoration and renovation.

The Mississauga Civic Centre, a project where Jackson-Lewis is

both project director and construction manager, was 60 per cent complete at year's end, with a scheduled completion date set for December, 1986. An office building for Pensionfund Realty Limited (Morguard Investments Limited) in Ottawa was complete at the end of the year and a larger office building in Ottawa for the same client is now under construction. Woodbine Centre, a unique shopping mall co-owned by Cadillac Fairview in suburban Toronto, was officially opened in 1985. Work was started on two other shopping

centres also co-owned by Cadillac Fairview, The Promenade in the Township of Vaughan, Ontario and Portage Place, a substantial retail complex which is a major component of the redevelopment of downtown Winnipeg.

Jackson-Lewis' expanding capability in restoration and renovation is reflected in two projects completed in 1985, both in downtown Toronto. These are the office addition and renovation to the Redpath Sugars Refinery and the innovative renovation to Simpsons' downtown store, making it one of the most impressive stores in Canada.

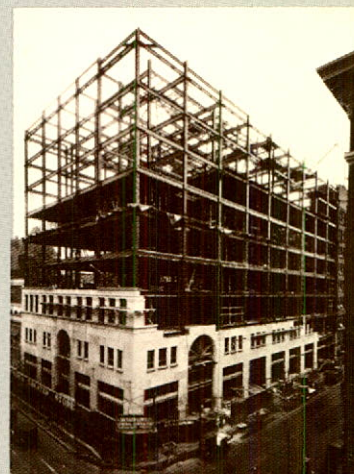
In the past year Cunningham-Limp undertook an expansion to the H. J. Heinz Company of Canada Ltd. food products manufacturing facility in Leamington, Ontario, scheduled for completion in May, 1986. The company also signed a contract with Becton Dickinson Canada Inc. to renovate and build an addition to a pharmaceutical plant in Mississauga.

In spite of British Columbia's depressed economy and competition from non-union contractors, Foundation's operating revenue in Western Canada increased.

Major projects included the complex and picturesque Ismaili Jamatkhana (House of Prayer) in Burnaby, B.C. which was inaugurated in August, 1985 by Prime Minister Brian Mulroney and Prince Karim Aga Khan.

Two large Vancouver projects, the Seaboard Fidelity Building and the Marco Polo Complex, were completed in 1985. Work started on the renovations and altera-

1928 — The Jackson-Lewis Company made additions to Simpsons' downtown store in 1923 and in 1928, and then renovated the store in 1985. Today it is one of Toronto's most exciting retail spaces and one of many Jackson-Lewis repeat clients.



tions to the Workers' Compensation Board's main office parking structure in Richmond, British Columbia.

Construction continues on the Lonsdale Quay Market in Vancouver, with anticipated completion during the spring of 1986.

The Frontier Construction Company, Inc. has re-established itself in Seattle and is now well positioned to undertake projects in the State of Washington. The company was recently awarded its first contract in the Seattle area, a retail shopping centre scheduled for completion in 1986.



Ship Loading Facility, Prince Rupert Grain Terminal, British Columbia

Overall activity in the Industrial Construction division was slow throughout 1985.

The Industrial Construction division's major accomplishment in 1985 was the completion, ahead of schedule, of North America's largest grain elevator, at Prince Rupert. Excellent planning and design carried out by Foundation's Vancouver office, as well as the fine efforts of site personnel, contributed to the completion of this project ahead of schedule.

To take advantage of improved economic conditions in Quebec, Foundation relocated its office in Montreal and added new staff experienced in the francophone market. During 1985 the company was awarded some early contracts at Domtar's major paper mill project in Windsor, Quebec.

The company is concentrating its efforts on tendering design/build projects in the eastern part of Canada in the increasingly active mining, power, cement, auto, and pulp and paper industries.

We are well positioned to fulfill the needs of the relatively new market of alternative energy sources. A typical example of our activity is the submission of a turnkey proposal for a 200 megawatt peat-fired power plant to be located in North Carolina.



1958 — Foundation built this mill for Thurso Pulp and Paper Company in Quebec in addition to many other pulp and paper industry projects across Canada for Abitibi, C.I.P., and E.B. Eddy. Currently Foundation is upgrading Domtar's plant in Windsor, Quebec.



photo: Tom Sandler

Spadina Pier, Toronto, Ontario

The year 1985 was characterized by a drop in major project investment. In spite of this the Heavy and Marine Construction division extended its activity into a broader range of projects. Unique assignments from our clients demonstrate the company's ability to effectively handle complex construction activity. In 1984, the company built foundations for the bobsleigh and luge track to be used for the 1988 Olympic Winter Games in Calgary. Early in 1985 Foundation was awarded the main contract for construction of the total project. In spite of the critical nature of the structural units, Foundation will have completed the project on time and within budget by May, 1986.

Construction continued on the eastern section of Canadian Pacific's Mount Macdonald Tunnel at Rogers Pass in the Rockies, using a Hard Rock Mole that burrows through the mountain. By the end of December it passed the halfway point, having tunneled 4,500 metres.

Scheduled completion is set for the fall of 1988.

In a joint venture with a long established, highly reputable Newfoundland contractor, Lundrigans Limited, Foundation completed the Cow Head Oil Rig Service Wharf and Building for Marystown Shipyard Limited in Newfoundland.

In Toronto, Foundation began construction of the Spadina Pier for the Harbourfront Corporation during 1985. The scheduled completion date is April, 1986, creating a new building site out of what

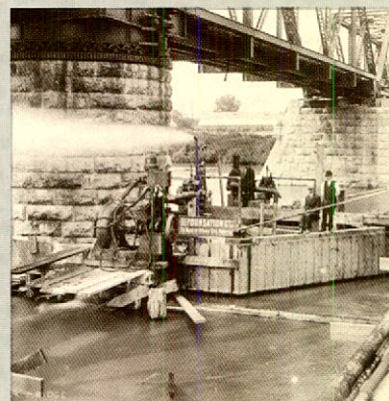
had previously been part of Toronto harbour.

Foundation is proud to have been one of the final four consortia to compete for the \$200 million Toronto Dome Stadium contract. The bid required massive effort on the part of the Heavy and Marine Construction division and indicates Foundation's capability to handle major innovative construction projects.

A five-span steel girder bridge over the North Saskatchewan River near the small town of Elk Point, Alberta was completed in 1985. The substructure, built at a time when temperatures sometimes dipped below -30°C , involved the construction of earth cofferdams used to build three river piers. After the structural steel was erected from ice bridges, the deck was completed in three months.

In 1985 Foundation's extensive experience in turnkey transit systems and other special projects led to the award of three more projects in connection with Calgary's Light Rapid Transit System. The company was also awarded a contract to build a Transit System Guideway in Las Colinas (Dallas), Texas, linking parking areas via rapid transit to an innovative retail-commercial complex designed without conventional automobile traffic routes.

1913 — The Red River Bridge near Winnipeg was one of many works constructed by Foundation for CPR's transcontinental line modernization. Today Foundation is tunneling into Mount Macdonald, part of CP Rail's Rogers Pass, B.C., expansion project.



Complex international projects encompassing hydroelectric, nuclear, commercial and health care facilities have been the mainstay for Foundation's International and Nuclear Construction division. Although fewer capital investment projects were initiated by international developers in 1985, Foundation continued to be active on four continents.

Success for this division means more than technical expertise. It means having the ability to master the complexities of local climate and labour conditions as well as unique financing and governmental conditions, often in association with the government of Canada.

In Peru a major portion of the huge Majes Irrigation Project was inaugurated in 1985. The only remaining portion of the job — the Condorama Dam — is now being built at 4,200 metres above sea level. This portion of the project is expected to be complete by 1986 and culminates a ten-year effort by Foundation in joint venture with four international contractors to divert water westward from the Andes to the arid Pacific plain.

In Ivory Coast in January, 1985 the Polyclinique SICOMED, a 215-bed hospital in Abidjan, was opened. The project undertaken by Foundation in co-operation with the Canadian Commercial Corporation was financed by the Export Development Corporation and was completed on schedule.

In January, 1985 the Department of External Affairs awarded Foundation the contract to supply Canadian building materials and equipment for the construction of the new Canadian Embassy in Beijing, People's Republic of China. The first shipment of building materials left in February, 1986 and a larger shipment is scheduled to leave Canada this summer. Construction will begin in China early in 1986, with a scheduled 1988 completion date.

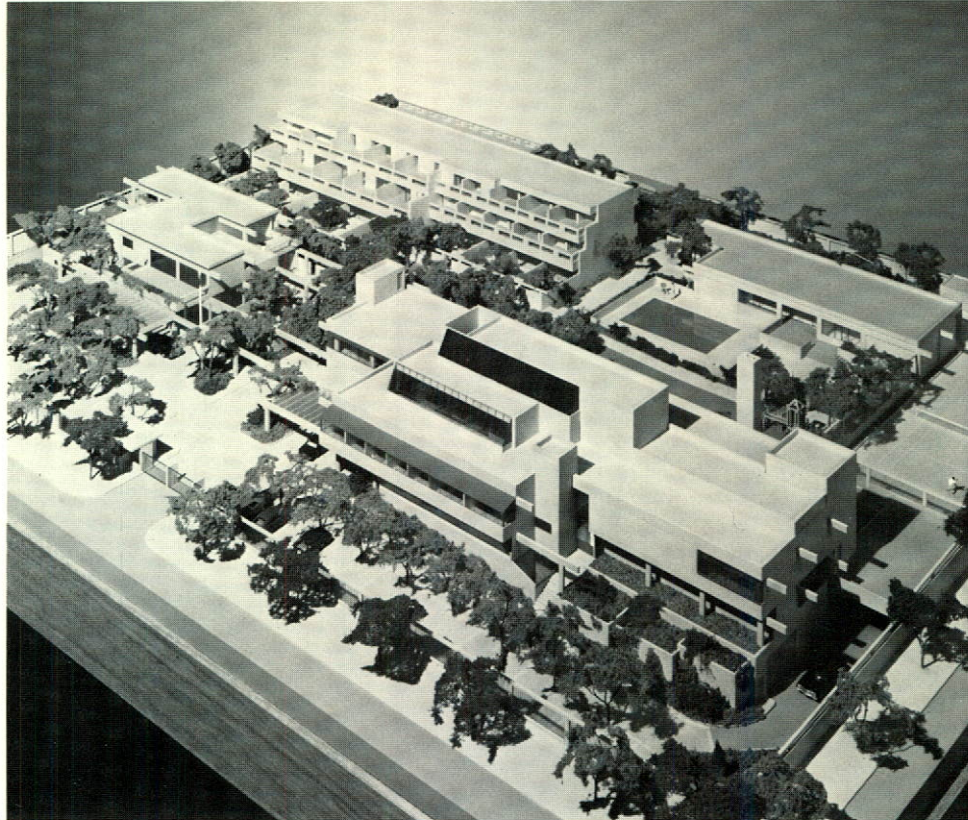


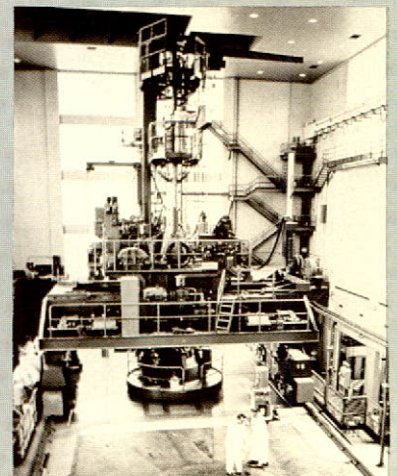
photo: Lenscape Inc.

Model of the new Canadian Embassy, Beijing, China

In Romania work is proceeding on the construction of the Candu nuclear power generating installation at Cernavoda. Foundation is providing technical assistance to Atomic Energy of Canada Limited on the project through Nuclear Construction Managers joint venture. Foundation is also actively pursuing management assignments with AECL on nuclear power developments in several countries through its part ownership in Nuclear Project Managers (Canada) Inc..

In Kenya the Kiambere hydroelectric project, highlighted in this report, is progressing at good speed and is well ahead of schedule.

1956 — Foundation constructed Canada's first atomic research reactor facility at Chalk River, Ontario. Today, the company plays a major role in exporting nuclear technology relying on its experience from Canadian and international construction and management assignments.

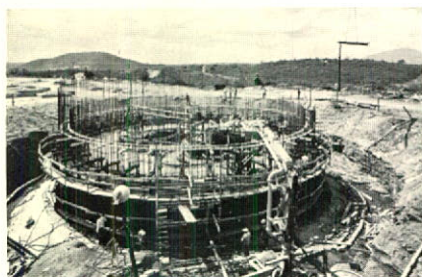


Canadian Engineering Expertise Powers a Developing Kenya

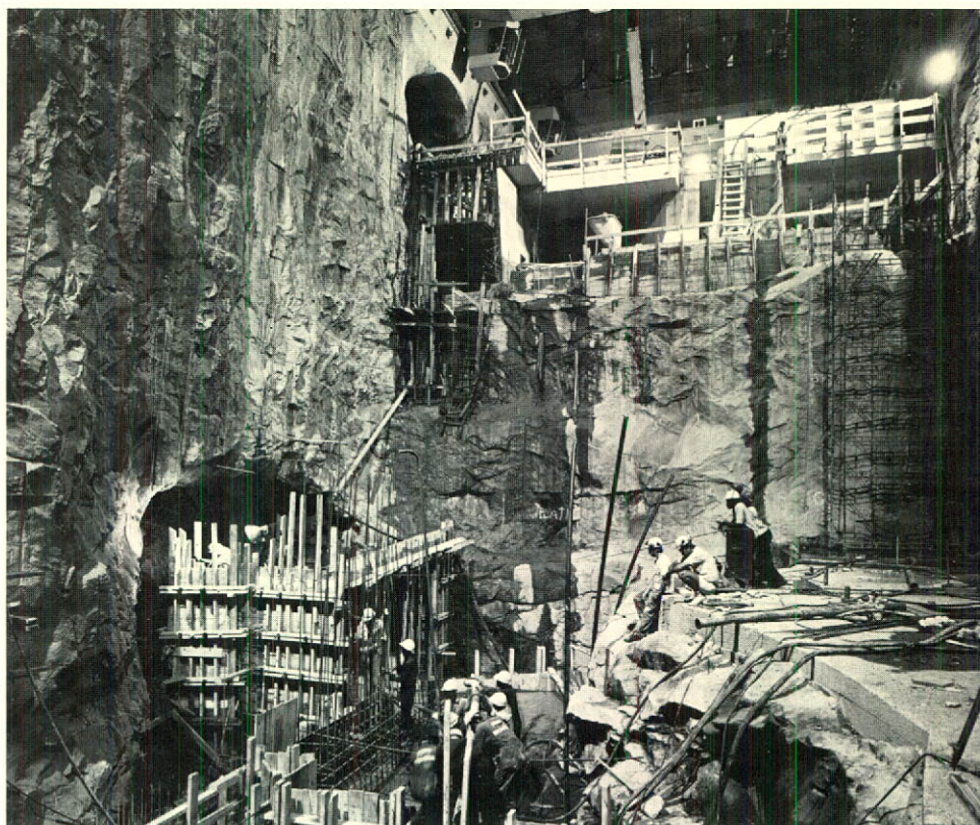
As the Tana River follows its winding course around Mount Kenya to the Indian Ocean, Foundation engineers are working to build Kenya's future. The Tana, Kenya's largest river, carries water collected mostly from rainfall during the April-May and November-December wet seasons; it is the lifeblood of the Kenyan people and a major source of hydroelectric power.

In 1974, the Kenyan government, recognizing the Tana as a great source of hydroelectric power, formed the Tana and Athi Rivers Development Authority (TARDA) to plan and co-ordinate hydroelectric development along the rivers. The country needed financial assistance and proven engineering expertise to harness the potential electric power of its natural resources.

Canada, through the Canadian International Development Agency (CIDA), agreed to finance sections of the \$200 million Kiambere hydroelectric project, one of five hydroelectric projects along the Tana. The Kiambere civil works were split into five contracts. Three, totalling \$60 million, went to Kimco. Kimco is a joint venture of The Foundation Company of Canada Limited and Skanska of Sweden. The joint venture arrangement effects economies of scale in the provision of support services resulting in a more competitively priced and cost-effective project. Both companies have demonstrated engineering and management expertise in building similar complex projects in other countries.



Surge chamber



Powerhouse cavern

Foundation is set apart from other Canadian contracting groups by its depth of experience in planning, co-ordinating, organizing and implementing complicated, large-sized projects in foreign countries. For jobs as sophisticated as Kiambere, international construction firms often find it necessary to join forces to limit the inherent risks. Large projects require a skilled management team to utilize the latest construction techniques and equipment and provide on-the-job training to the local work force; Foundation drew upon its experience in other major international projects.

At the beginning of 1984, Foundation selected equipment for the specific tasks ahead. The company arranged for shipping and insurance of the equipment and liaised with customs and ports officials. Fuels, lubricants, and spare parts were purchased to keep equipment running from its first day on the site to project completion. To meet CIDA conditions, all equipment and materials, supplied by Foundation had to

fulfill rigid Canadian content requirements, contributing to economic growth in Canada.

Once equipment and materials arrived in Kenya, the first phase of construction began. Foundation and Skanska were responsible for excavating an access tunnel to a depth of 160 metres and building a power station in a powerhouse cavern. Kimco is constructing a 73 metre high surge chamber, pressure shafts, penstock valve gallery, and a 1.4 kilometre long tailrace tunnel. As well, the contracts include construction of a tailrace surge tunnel, 325 and 420 metre long service access tunnels, a three-storey 56 metre long control building, and a main switchyard. In total, a vast array of massive elements fitting together to form the heart of the total project.

Water is led from a large earth dam through a headrace tunnel to two 56 metre long steel lined pressure shafts into the underground power station. In the power station, water enters two large turbines, generating 140 megawatts of electricity. The water

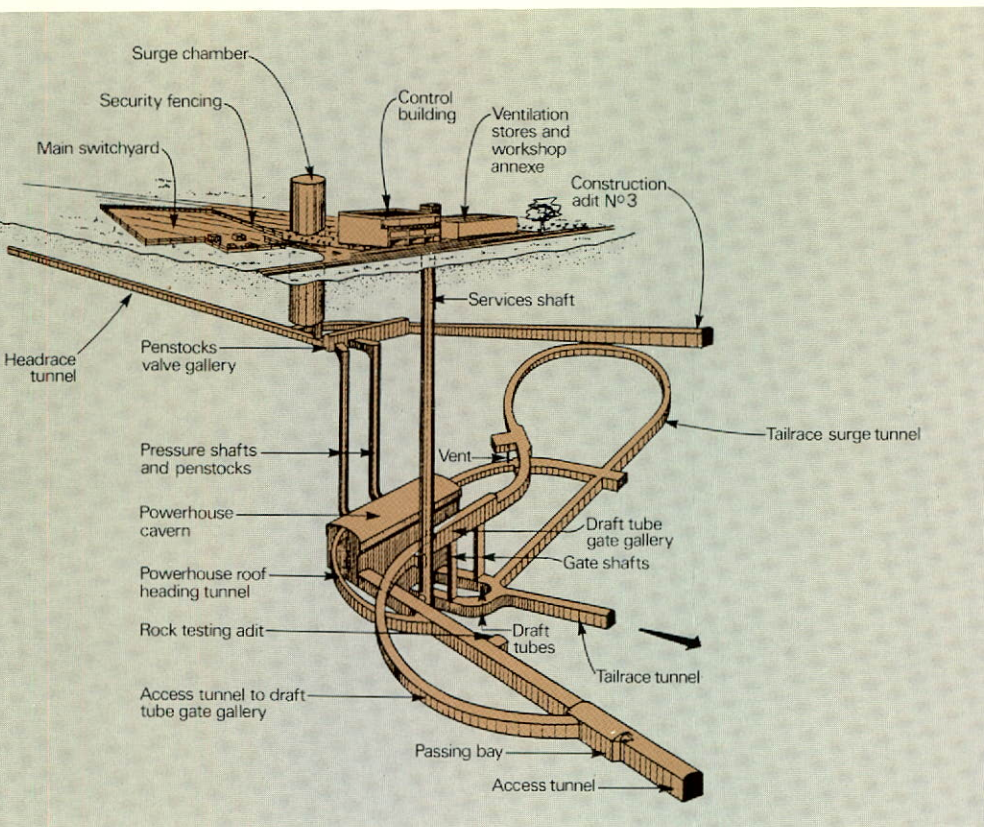


diagram: courtesy of Construction News Magazine, London

Extent of Kimco work



Reinforcement in draft tube

exits into the tailrace tunnel to its final destination, the Tana River, six kilometres downstream from the main dam.

To accommodate surging water in case of closure of the valves downstream, the engineers designed a tailrace surge tunnel and a surge chamber. The Kiambere plant also has access tunnels for constructing and running the power station. Construction equipment included fleets of tractors, mobile cranes and a tower crane, bulldozers, shotcrete spraying robots, a crawler drill and rockdrills.

Foundation sent 12 staff com-

prising supervisors, engineers and accountants and their families to Kenya to work with the Skanska staff to form a highly experienced integrated management team of Canadians and Swedes.

The employees are assigned comfortable living quarters at a work camp on a mountain plateau, overlooking the vast Kenyan landscape. The camp, built ten years ago for another power development, is only a two and a half hour drive from the large, modern capital city of Nairobi.

An employee's safety is always a primary company concern, particularly for overseas projects. Before leaving for Kenya the



Switchyard

travellers were given medical examinations and immunized against all kinds of diseases. Children who came to Kenya with their parents, attend a fully equipped school set up by Foundation and staffed with a Canadian teacher.

Although the Kiambere project's work camp is almost luxurious compared to previous Foundation work sites in the mountains of Peru, the jungles of Guatemala or the tropical heat of West Africa, the psychological impact of living in a work camp, its confining atmosphere, the differences in culture and climate and the long distance from home make it a challenging way of life. Foundation recognizes and appreciates the contribution of the employees' families to the success of its overseas projects.

At its peak, the Kiambere project will employ 500 local and 40 expatriate workers. The local labour force has become quite skilled in working on hydroelectric power plant developments. In the past ten years, most of the local workers have been employed on other hydroelectric projects in the area such as the Kindaruma, Kamburu, Gitaru, and Masinga developments.

All international projects are demanding and Kiambere is no exception. Drawing upon its project planning and engineering expertise, its highly experienced management with its skill in working with foreign governments, Foundation's portion of the project continues on schedule.

Excavation of the penstocks and tailrace tunnel is expected to be completed by March, 1986, and the first power to be generated in early 1988. When the power plant is fully operational in May, 1988, Kenya will have finally harnessed its greatest natural resource, the Tana River.

Thanks to the commitment and dedication of its employees the project truly typifies Foundation's spirit of adventure, its ability to build the tough projects, on time, on budget.

CONSOLIDATED BALANCE SHEET

ASSETS

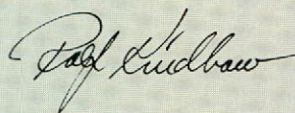
December 31	1985	1984
Current Assets		
Cash and short-term deposits	\$ 4,074,000	\$15,252,000
Trade accounts receivable	28,553,000	17,253,000
Investments in joint ventures (Note 2)	7,259,000	6,579,000
Prepaid expenses, deposits and other assets	695,000	720,000
	40,581,000	39,804,000
Fixed Assets		
Land	106,000	106,000
Buildings and improvements	174,000	174,000
Leasehold improvements	156,000	149,000
Furniture and fixtures	995,000	916,000
Construction equipment	3,563,000	3,529,000
Other equipment	72,000	236,000
	5,066,000	5,110,000
Accumulated depreciation and amortization	3,702,000	3,658,000
	1,364,000	1,452,000
Goodwill	579,000	801,000
	\$42,524,000	\$42,057,000

CONSOLIDATED BALANCE SHEET


LIABILITIES

December 31	1985	1984
Current Liabilities		
Bank loan	\$ 555,000	\$ —
Accounts payable and accrued liabilities	23,346,000	18,860,000
Progress billings on contracts, less costs, net	3,130,000	4,959,000
Income taxes payable (Note 3)	1,431,000	2,989,000
Deferred income taxes	961,000	2,363,000
	29,423,000	29,171,000
Minority interest (Note 7(c))	180,000	(28,000)
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: 152,824 3/4 shares	3,057,000	3,057,000
Common shares		
Authorized: unlimited number of shares		
Issued: 1,199,616 shares	6,092,000	6,092,000
Retained earnings (Note 3)	3,772,000	3,765,000
	12,921,000	12,914,000
Contingent liabilities (Note 7(a) and (b))		
	\$42,524,000	\$42,057,000

Approved by the Board



R. Kindbom, Director



A.G. McCaughey, Director

Year ended December 31	1985	1984
Volume of Operations Under Management Contracts (Note 4)	\$21,346,000	\$3,769,000
Gross Operating Revenue		
Joint ventures' construction contracts (Note 2)	\$ 24,897,000	\$ 33,285,000
Other construction contracts and operations	114,313,000	95,004,000
	\$139,210,000	\$128,289,000
Gross profit	\$10,425,000	\$13,184,000
Less:		
Operating and administrative expenses before the following items	9,763,000	10,879,000
Depreciation and amortization	661,000	551,000
Interest income (net)	(831,000)	(1,301,000)
	9,593,000	10,129,000
Profit before income tax provision and minority interest	832,000	3,055,000
Income tax provision	434,000	1,513,000
Profit before minority interest	398,000	1,542,000
Minority interest	208,000	(28,000)
Net Profit for the Year	190,000	1,570,000
Retained earnings at beginning of year, as restated (Note 3)	3,765,000	2,378,000
Preferred dividends (Note 5)	(183,000)	(183,000)
Retained earnings at end of year	\$ 3,772,000	\$ 3,765,000
Net Profit Per Common Share (calculated after deduction of preferred dividends)	\$0.01	\$1.16

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31	1985	1984
Financial Resources were provided by		
Operations		
Profit before minority interest	\$ 398,000	\$ 1,542,000
Item not affecting working capital		
Depreciation and amortization	661,000	551,000
	1,059,000	2,093,000
Disposals of fixed assets	198,000	824,000
	1,257,000	2,917,000
Financial Resources were used for		
Preferred dividends	183,000	183,000
Additions to fixed assets	549,000	175,000
	732,000	358,000
Increase in working capital	525,000	2,559,000
Working capital at beginning of year, as restated	10,633,000	8,074,000
Working capital at end of year	\$11,158,000	\$10,633,000
Working Capital at End of Year is Represented by		
Current assets	\$40,581,000	\$39,804,000
Less: Current liabilities, as restated	29,423,000	29,171,000
	\$11,158,000	\$10,633,000

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 of construction equipment is based on the greater of 80% of rental income earned by the equipment and 30% of net book value. Depreciation on other fixed assets is provided on the diminishing-balance method, generally at 20% per annum. Leasehold improvements are amortized over the life of the related lease.

(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.

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
Foundation-Lundrigans	55%	Canada
Foundation-Skanska joint venture	50%	Canada
Hochtief-Foundation joint venture	25%	Guatemala
Kimco joint venture	33%	Kenya
Majes Consortium	15.8%	Peru
Selkirk Tunnel Constructors — joint venture	40%	Canada
Wolverine Tunnel Constructors — joint venture	20%	Canada

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

December 31	1985	1984
Assets		
Cash and short-term investments	\$ 8,559,000	\$14,103,000
Accounts receivable, advances and other assets	12,105,000	26,996,000
	<u>\$20,664,000</u>	<u>\$41,099,000</u>
Liabilities		
Accounts payable, accrued liabilities and advances	\$13,405,000	\$34,520,000
Equity in joint ventures	7,259,000	6,579,000
	<u>\$20,664,000</u>	<u>\$41,099,000</u>
Gross operating revenue	\$24,897,000	\$33,285,000
Profit from operations	\$4,504,000	\$10,567,000

A portion of the operating and administrative expenses of \$9,763,000 (1984 — \$10,879,000), shown in the consolidated statement of income, is attributable to joint ventures.

3. PRIOR PERIOD ADJUSTMENT

The Company received notices of reassessment in 1985, whereby the Department of National Revenue indicated that they will tax the option payments received in 1981, 1982 and 1983 as income rather than as capital gains. The Company has paid the amounts reassessed but has filed a Notice of Objection and will pursue arguments for the payment of tax as originally filed. The additional taxes and interest of \$1,475,000 has been recorded as a prior period adjustment to retained earnings.

4. VOLUME OF OPERATIONS UNDER MANAGEMENT CONTRACTS

An increasing number of contracts are now being carried out on a management basis with the result that the Company's fee only is included in gross operating revenue and not the total value of the work being performed. To realistically indicate the dollar volume of work under our direction this information has been included in these financial statements.

5. DIVIDENDS

During 1985, preferred dividends of \$1.20 per share were declared including the dividend of \$0.30 per share for the quarter ended January 1, 1986.

6. 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 \$15,715 which is included in trade accounts payable in the consolidated balance sheet.

7. CONTINGENT LIABILITIES 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 \$6 million was provided to secure a client's mortgage financing. In 1985 a Certificate of Substantial Completion was received which enabled the Company to apply for a reduction of the Letter of Credit to \$3 million. However, the lender has not consented to this

reduction. The Letter of Credit is no longer required when leasing meets mortgage interest coverage covenants. The Company holds security to protect against any call on this Letter of Credit.

- (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.

8. 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.

9. COMPARATIVE FIGURES

Certain comparative figures 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, 1985 and the consolidated statements of income and 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, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Prue Watson

Chartered Accountants
Toronto, March 6, 1986

**CANADIAN FOUNDATION
COMPANY LTD.**

1 Yonge Street
Toronto, Ontario M5E 1E8

Telephone: (416) 361-4611
Telex: 065-24213

**THE FOUNDATION COMPANY
OF CANADA LIMITED**

(Main Operating Company)

Toronto (Head Office)
1 Yonge Street, Suite 1200
Toronto, Ontario M5E 1E8
Telephone: (416) 361-4611
Telecopier: (416) 361-4667
Telex: 065-24213
Cable: Foundation

Vancouver
620 West 8th Avenue
Suite 205
Vancouver, British Columbia
V5Z 1C8
Telephone: (604) 879-9461
Telex: 045-3327

601 West Broadway
Suite 300
Vancouver, British Columbia
V5Z 4C2
Telephone: (604) 879-9461
Telex: 045-3327

Calgary
1935 - 32nd Avenue N.E.
Suite 144
Calgary, Alberta T2E 7C8
Telephone: (403) 250-7811
Telex: 038-27893

Edmonton
9415 - 45th Avenue
Edmonton, Alberta T6E 6B9
Telephone: (403) 438-5016
Telex: 037-2176

Montreal
90 Montée de Liesse
Ville St. Laurent, Québec
H4T 1N4
Telephone: (514) 737-9211
Telex: 058-24772

Halifax
1387 Eastern Passage Highway
P.O. Box 280
Eastern Passage, Nova Scotia
B0J 1L0
Telephone: (902) 429-9341
Telex: 019-21845

SUBSIDIARY COMPANIES

**La Compagnie
Foundation
Limitée**
90 Montée de Liesse
Ville St. Laurent, Québec
H4T 1N4
Telephone: (514) 737-9211
Telex: 058-24772

**The Jackson-Lewis
Company, Limited**
10 St. Mary Street
Toronto, Ontario M4Y 1P9
Telephone: (416) 964-1154
Telecopier: (416) 964-8865

Cunningham-Limp (1983) Inc.
1 Yonge Street
Suite 1306
Toronto, Ontario M5E 1E8
Telephone: (416) 361-4812

The Foundation Company Inc.
511 East John W. Carpenter
Freeway
Suite 404
Irving, Texas 75062
Telephone: (214) 556-2884

**Frontier Construction
Company, Inc.**
4211 - 200th Street S.W., Suite 205
Lynnwood, Washington 98036
Telephone: (206) 774-2945
Telex: 045-3327

**Atlantic Tug and Equipment
Company, Inc.**

**Construction Equipment
Company Limited**

**Foundation Construction
Services Ltd.**

Foundation Overseas Ltd.

KVN-Roberts, Inc.

**Frontier Construction of
Michigan, Inc.**

AFFILIATED COMPANY

**Energy Engineers &
Constructors, Inc. (EEC)**
490 Red Lion Road
Philadelphia, Pennsylvania 19115
Telephone: (215) 698-8800
Telecopier: (215) 969-5114



