BANISTER CONTINENTAL LTD.
1986 ANNUAL REPORT

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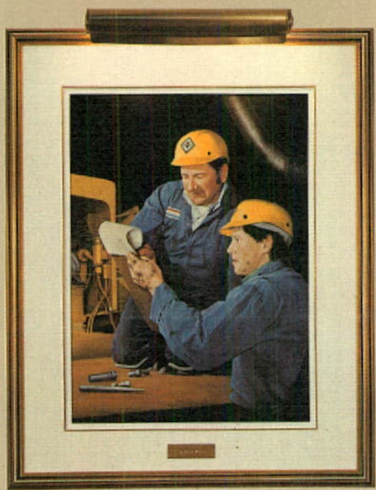


THE APPRENTICE

an original painting by Canadian artist Marla Wilson, depicts the training of a young apprentice, Rod Karlowsky, by an older and more experienced worker, Fred Jakowicki. This recent addition to the Banister Collection symbolizes our commitment to learning as an ongoing process for all Banister employees.

Rod is currently in his second year of a four-year apprenticeship to become a licensed heavy duty mechanic. The program calls for field training interspersed with classroom instruction at the Northern Alberta Institute of Technology in Edmonton.

The Banister Collection, begun in 1967, now includes more than thirty works by Canadian artists. The purpose of the Collection is to record the contribution made by the construction industry to our national growth, and to display the talents of gifted artists to the public. Reproduction prints are available upon request.

FOREWORD

Banister Continental Ltd. is a Canadian construction company specializing in civil, marine, pipeline, utility, and industrial construction. During more than forty years of operation, projects have been completed in Canada, the United States, and the Middle East.

Banister was founded in 1948 and became a public corporation in 1969. Banister shares are listed on the Toronto, Montreal, Alberta, and American Stock Exchanges.

CONTENTS

FORM 10-K REPORT

The Corporation's Form 10-K Annual Report to the Securities and Exchange Commission is available to shareholders, at no charge, upon written request to the Manager, Corporate Communications, Banister Continental Ltd., P.O. Box 2408, Edmonton, Alberta T5J 2R4.

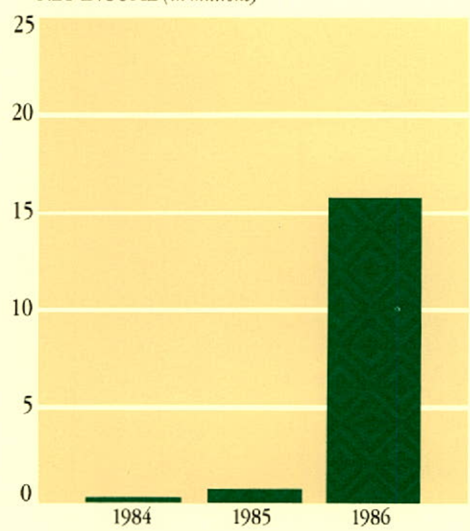
ANNUAL MEETING

The annual meeting of shareholders of Banister Continental Ltd. will be held in the Northcote Room of the Four Seasons Hotel, 10235-101 Street, Edmonton, Alberta, Canada at 9:00 a.m. on May 12, 1987.

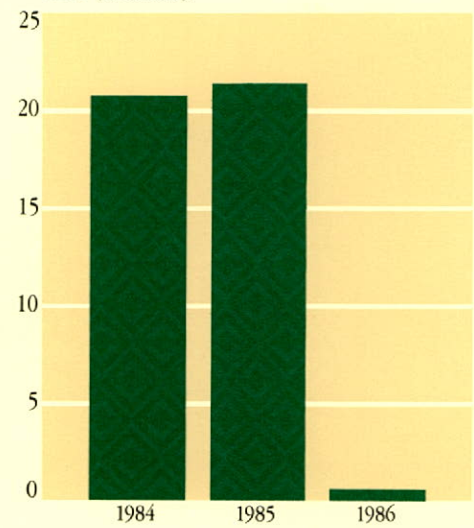
FINANCIAL REVIEW

	Year Ended December 31, 1986	Percentage Change 86 from 85	Year Ended December 31, 1985	Year Ended December 31, 1984
REVENUE	$132,674,000	+ 16	$114,298,000	$106,233,000
NET INCOME	$ 15,735,000	+1930	$ 775,000	$ 239,000
EARNINGS PER SHARE	$ 3.12	+1980	$ .15	$ .05
COMMON SHARES OUTSTANDING	5,038,023	0	5,038,023	5,038,023
CASH AND SHORT-TERM DEPOSITS	$ 15,875,000	0	$ 15,872,000	$ 13,192,000
BANK AND SIMILAR INDEBTEDNESS	$ 385,000	− 98	$ 21,221,000	$ 20,760,000
TOTAL SHAREHOLDERS' EQUITY	$ 58,705,000	+ 37	$ 42,970,000	$ 42,195,000
TOTAL ASSETS	$ 92,331,000	+ 1	$ 91,595,000	$ 87,205,000
TOTAL BACKLOG	$ 75,162,000	+ 47	$ 51,300,000	$ 52,400,000
AFTER-TAX RETURN ON EQUITY	26.8%	+1389	1.8%	0.6%

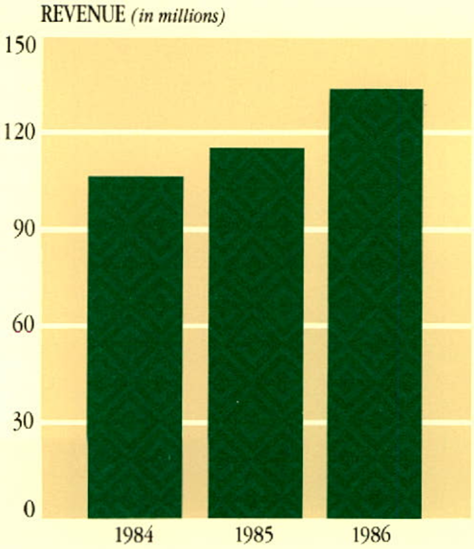
NET INCOME *(in millions)*



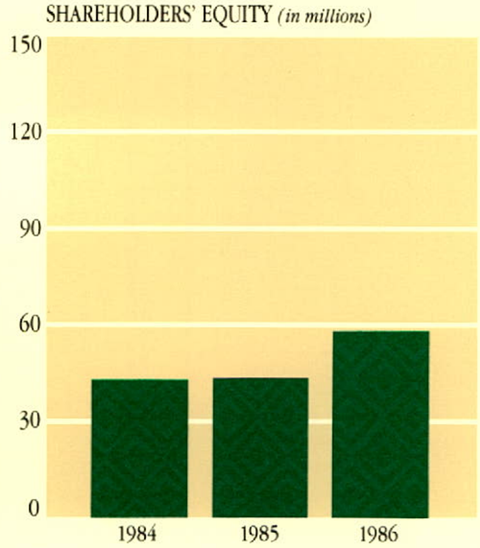
DEBT *(in millions)*



REVENUE *(in millions)*



SHAREHOLDERS' EQUITY *(in millions)*



TO OUR SHAREHOLDERS

R.K. Banister (right), chairman and chief executive officer, and R. MacTavish (left), president, chief operating officer, and chief financial officer.

1986 was a good year for Banister Continental Ltd. Record net income of $15,735,000 on revenues of $132,674,000 was a sharp increase over the previous period. The Corporation's balance sheet is strong. We have cash reserves of $15,875,000 or $3.15 per share and bank debt of only $385,000 or 8 cents per share. Working capital increased by $17.0 million to a total of $23.2 million. Shareholders' equity increased by 36.6% from $43.0 million to $58.7 million.

Two factors are responsible for the improved financial results. In June, after lengthy arbitration, we settled our claim against British Columbia Hydro relating to construction of the Revelstoke dam and powerhouse. Banister's share of the claim was $6.1 million. Although we believed the award was inequitable, we followed legal advice and settled out of court. The final settlement resulted in Pitts taking a huge loss of over $40 million on the project. However, it is important to remember that, except for the Revelstoke Project, Pitts has never lost money on a hydro project and retains its ability to construct massive energy developments.

In August we received $17.7 million as a final out-of-court settlement from Northwest Pipeline Corporation relating to the Pan Alberta Pipeline Project in Oregon. The final settlement resulted in the project breaking even. Settling these two claims is a relief and will allow us to focus on future business opportunities.

In the third quarter the Corporation took approximately $3.4 million in write-offs. These were nonrecurring and related to obsolete equipment and goodwill associated with the 1978 acquisition of Pitts Engineering Construction.

These write-offs give the Corporation resiliency because the assets listed on our balance sheet, in total, have an estimated market value higher than book value.

In 1986 the Corporation sold 49% of the marine construction fleet to Dredging International of Belgium. Pitts International Inc., Dredging and Marine Construction is the name of the new company. Pitts has expertise in marine construction including dredging with dippers, clam shells, and draglines. Dredging International has extensive worldwide experience in marine construction including hydraulic dredging, an area in which we have little experience. Aside from the technological advantage we have gained from our association with Dredging International, we are hopeful that efforts to market our marine services internationally will be enhanced.

Only two of the Corporation's six units recorded operating profits in 1986. One-hundred-percent-owned Cliffside and Nicholls-Radtke, our recently acquired fifty-percent-owned affiliate, had excellent results in 1986. These good results were more than offset by operating losses in Pitts Engineering Construction, Pitts International, Banister Pipelines, and Bantrel. The good news is that the Corporation's operating units, as a group, are forecasting profitable operations in 1987.

On a national basis, the entire construction industry is forecasting gains in 1987. Although the gains will not be evenly distributed, the Corporation is firmly entrenched in Central Canada where high levels of construction activity will continue.

Although we are not forecasting dramatically increased petroleum prices, this would create additional construction activity. So would a renewed national commitment to security of supply. In the interim, our diversification into other areas of the economy allows us to weather the downturn in the petroleum industry. We believe the issue is not if a recovery will occur, simply when. The Banister Construction Group is uniquely suited to respond to many of the construction challenges that will be triggered by either oil price increases or policy shifts.

Banister Continental Ltd. is one of the few contractors in Canada capable of operating from coast to coast. In the immediate future we are concentrating on two objectives.

The first goal is to continue to improve the technological capabilities of the Corporation. The theme of this year's annual report focuses on the importance of educating our staff to successfully cope with tomorrow's construction challenges. Indeed, the painting on the cover, *The Apprentice,* is a symbol of our corporate commitment to this goal. Providing our clients with the best value for their construction dollars is extremely important to our mutual success.

The second goal is to improve our domestic and international marketing skills. Selling our services to a wider client base in larger markets will help stabilize future earnings.

Management believes that the Corporation's future financial performance will be more stable than past results. Long-term shareholders will recall that just nine years ago we had only one business, pipeline construction. Our comparatively recent diversification in the construction field via acquisitions has given us more stability.

The Corporation is now blessed with a strong balance sheet with cash that is surplus to the financial requirements of our ongoing construction activities. Management is now analyzing further expansion and diversification in construction and non-construction areas.

In 1987 we are unlikely to repeat the excellent financial returns of 1986. However, we enter the year with a stronger balance sheet and a larger backlog than the previous year and are confident that 1987 will be profitable. Most important, we enter 1987 with an organization dedicated to improving our capabilities to give enhanced value to clients and shareholders alike.

Respectfully submitted on behalf of the Board,

R.K. Banister

R.K. BANISTER
Chairman and Chief Executive Officer

R. MacTAVISH
President, Chief Operating Officer & Chief Financial Officer

February 24, 1987

BANISTER LOOKS FOR IMPROVEMENT IN THE PIPELINE CONSTRUCTION INDUSTRY


Banister sidebooms lower in concrete-coated pipe for a river crossing on the Consumers' Gas project.

During 1986 pipeline construction activity continued to decline in Canada. Total mileage completed during the year was the lowest in a decade and the limited amount of work available was predominantly small-diameter lines. **In spite of current trends, Banister is optimistic about the future of the pipeline construction industry.**

Due to low volumes and extreme competition, Banister Pipelines was limited to one major project in 1986. Construction of 27 kilometres (17 miles) of 914 millimetre (36-inch) pipeline for Consumers' Gas was completed in November. The project was located on the outskirts of Metropolitan Toronto and construction took place in a congested environment.

The most troublesome obstacle, however, was the weather. In the wettest summer in 143 years, the Toronto area received 574 mm (23 inches) of rain in two months. Downpours occurred almost every day and turned the project into a lengthy and difficult undertaking. Completion was delayed a month by poor ground conditions and, as a result, Banister Pipelines suffered a loss on the project.

Foreseeing that the pipeline industry was likely to remain depressed for some time, Banister Pipelines has taken steps during the past two years to reduce administrative costs. These measures

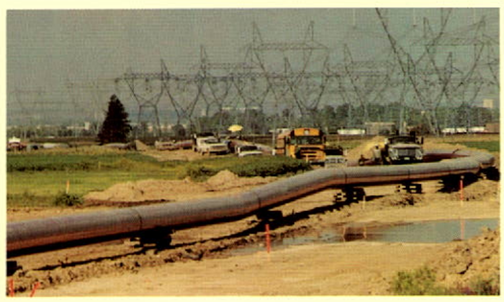

Heavy rains over a two-month period turned the pipeline right-of-way into a sea of mud.

helped to lessen the impact of the operating loss suffered by the division in 1986.

Banister has seen a lot of bad years — and many more good ones — since it was founded in 1948. One of the pioneers of the Canadian pipeline construction industry, Banister has the resources, the know-how, and the perseverance to make the best of current conditions and remain optimistic for the future.

Excavator and sidebooms standing by for a crossing of the Credit River, one of six river crossings completed on the project.

Welding 914 mm (36-inch) pipe on one of the few sunny days enjoyed by the Toronto area during the summer of 1986.



The Consumers' Gas line was constructed in a utility corridor on the outskirts of Metropolitan Toronto.

For 1987, the total dollar volume of pipeline work in Canada is forecast to be even lower than in 1986. It is expected that there will be more contracts available for tender, but the contracts will be smaller. Although a larger number of projects will improve the chances of bidding successfully, competition will remain intense, particularly from open-shop contractors.

Banister Pipelines is confident of obtaining a share of the work available and hopes to realize a modest profit in 1987. The division is also interested in pursuing work outside of Canada on a joint-venture basis. Unfortunately, the recent decline in oil prices has produced a worldwide state of uncertainty for the pipeline industry. Oil prices recovered somewhat in the latter part of 1986 and, if this recovery continues, international opportunities could improve dramatically.

Banister Pipelines continues to follow its long-standing policy of requiring a potential for profit which is comparable to the risks involved in any work it undertakes. With nearly forty years experience on all types and sizes of pipeline projects, no one understands these risks and rewards more thoroughly. While present conditions persist, the division will carry out work which can be obtained at a reasonable price and cut overhead costs wherever possible.

Although the short term promises little improvement, there is tremendous future potential for the Canadian pipeline construction industry. The return of a flourishing economy will be accompanied by rapidly increasing demands for energy. When that time comes, Banister Pipelines will be there, and will be ready, to meet the challenge.

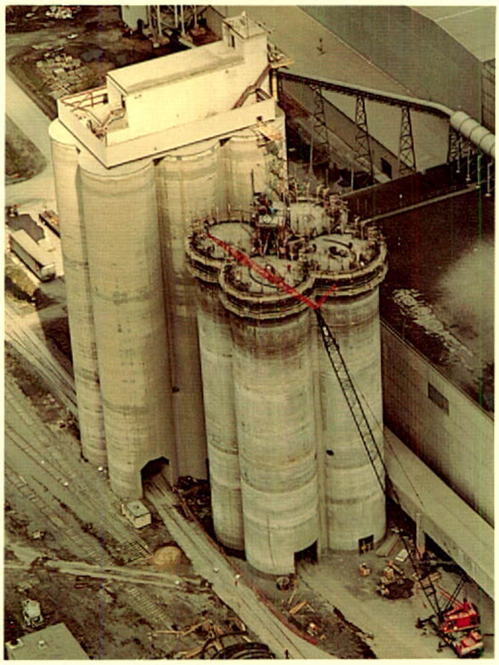
PITTS ENGINEERING CONSTRUCTION SEEKING WORK IN NEW AREAS

1986 was a difficult year for Pitts, marked by fierce competition for a reduced volume of civil work. Although a number of projects were under construction, Pitts suffered an operating loss for the year. **With no significant market improvement expected in 1987, Pitts is investigating construction opportunities outside the areas in which it has traditionally operated.**

Meanwhile work continues on a number of contracts awarded in 1986 and prior years. The largest project is a 2.3 kilometre (1.5 mile) section of the surface route for CP Rail's upgrading project in Rogers Pass, near Revelstoke, British Columbia. Pitts' contract includes a 214 metre (700 ft) bridge, a 1229 m (4032 ft) viaduct, 1092 m (3582 ft) of retaining walls, and the east portal of the Shaughnessy Tunnel.

Awarded in 1984, this project has proved a constant challenge due to the increased scope of work, rugged terrain, limited access, short construction season, and environmental restrictions. In fact, the surface route is regarded by CP Rail as the most difficult part of the $600 million upgrading program. By the end of the year, Pitts had successfully completed 90% of its contract, with remaining work to be finished by mid-1987.

During 1986 Pitts completed a series of contracts with a total value of approximately $17 million for the Regional Municipality of Ottawa-Carleton. This two-year project included bridges, retaining walls, and transit stations for Ottawa's expanded bus system. Pitts intends to bid on similar contracts, to be tendered in 1987, for extension of the existing line.



Four 55-metre (180 ft) concrete silos completed by Pitts for Canada Cement Lafarge at Bath, Ontario.

Work is continuing on two joint venture projects for construction of concrete-lined sewer tunnels, one in Milwaukee, Wisconsin and the other in Montreal, Quebec. Pitts has a 35% interest in the first, which is valued at US $9.2 million, and a 22.5% interest in the second, a $32 million (Cdn) contract. Tunnelling will be completed in Milwaukee in April and the tunnel boring machine will be transported to Montreal to begin work there. Completion of the Milwaukee tunnel is scheduled for the end of 1987, with the Montreal tunnel to be completed late in 1988.

Several smaller contracts were obtained by Pitts during 1986. A $4 million project awarded by Canada Cement Lafarge for construction of concrete silos at Bath, Ontario was substantially complete at year-end. Also nearing completion is a $1.5 million contract for widening the Hurdman Bridge in Ottawa for the Ontario Ministry of Transportation and Communications. Subsequent to year-end, Pitts was awarded an additional $1.6 million contract by the latter client for replacing a bridge on Highway 401 near Milton, Ontario.

Pitts is also at work on a $2 million contract for replacement of a 2.5 m (8 ft) diameter steel penstock at Thorold, Ontario. This project is the follow-up to emergency repairs carried out by Pitts in the fall of 1985, when the west wall of Lock 7 collapsed, closing the Welland Canal for over three weeks. Work will be completed by the end of March, 1987 in time for the spring navigation season.

In spite of the variety of contracts in progress, Pitts' backlog of work declined during 1986 and its resources continue to be underutilized. Obtaining more work has become the number one priority. Opportunities both in Canada and abroad are being explored and Pitts is investigating new types of work which are related to its existing operations.

During the past two years, Pitts has studied the feasibility of designing, constructing, and operating small hydroelectric power plants, with the output sold to utility commissions or private industry under long-term contracts. Three sites in Ontario are currently being considered and the long-term outlook for such projects is promising.

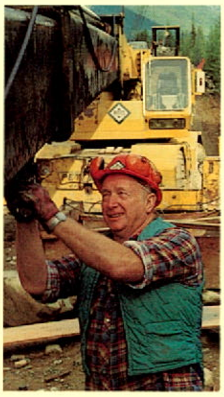
The rapidly growing population of Metropolitan Toronto is straining the city's

Pitts' work for CP Rail includes retaining walls and the Stoney Creek Bridge, shown here, as well as a viaduct and tunnel portal.

Rugged terrain, steep slopes, and restricted access made the surface route the most challenging part of CP Rail's upgrading project in Rogers Pass, British Columbia.

transportation facilities to the limit. Within the next two years a major freeway and subway construction program will be undertaken. This will open up a new market for construction services in an area in which Pitts has extensive experience.

With competition for civil construction work steadily increasing, Pitts is endeavouring to enlarge its field of operations by expanding existing capabilities. This will be Pitts' major challenge in 1987. Pitts has met many challenges in the past and expects its forty-fifth year of operations to be a successful one.



LEFT: At Thorold, Ontario, Pitts is replacing a penstock in Lock 7 of the Welland Canal for the St. Lawrence Seaway Authority.

Operator Glen Makus greasing the boom of a 35-ton crane at the Rogers Pass jobsite.

PITTS INTERNATIONAL INC. JOINS FORCES WITH WORLD-RENOWNED DREDGING FIRM

Bucket dredge (centre) unloads into barges on each side.

In August, 1986, Pitts' marine assets were sold to Pitts International Inc., Dredging and Marine Construction. A 49% interest in the new company was subsequently acquired by Dredging International N.V. of Antwerp, Belgium. **The formation of this new operating unit has greatly increased Pitts' capabilities and created an avenue to international markets.**

Dredging International's largest cutter suction dredge, the AMAZONE.

Pitts International Inc. has been awarded a contract by Public Works Canada for harbour dredging at Collingwood, Ontario.

Pitts has been active in dredging and marine construction since 1955. Projects have included construction of docks, wharves, and terminals, dredging and harbour improvements, installation of marine intake and discharge structures, and restoration of locks and canals. Pitts has worked across Canada on the Atlantic, Pacific, and Arctic coasts and throughout the Great Lakes and St. Lawrence Seaway.

Dredging International, one of the world's largest dredging companies, has been in business for more than a century. Operations include large-scale dredging for harbours, canals, rivers, navigation channels, and underwater tunnels, as well as land reclamation, construction of artificial islands, and removal of shipwrecks. Dredging International's worldwide experience includes projects in North and South America, Europe, Africa, Asia, China, and Australia.

Pitts International Inc. is currently carrying out harbour dredging at Collingwood, Ontario. The contract was awarded late in 1986 by Public Works Canada and is scheduled for completion by mid-year. **With the combined capabilities and experience of its owner companies, Pitts International Inc. hopes to increase its range of operations in Canada and pursue international work during 1987.**

CLIFFSIDE UTILITY CONTRACTORS ENJOYS ANOTHER RECORD YEAR

Cliffside crew installing water and sewer lines for a new housing development in Toronto.

In 1986 Cliffside continued to grow and increase the scope of its successful operations. **Aided by a housing boom in Ontario, Cliffside achieved record revenues in 1986 and finished the year with a record backlog of contracts for 1987.**

Two of Cliffside's operating units increased their share of total work volume in 1986: Bell and Hydro, which installs telephone, electrical, and cable television lines, and water and sewer, specializing in watermains, storm drains, and sewers. Cliffside also has a gas distribution division which installs natural gas services and constructs small-diameter oil and gas pipelines.

In addition, Cliffside's operations include a manufacturing unit and a boring division. Footage Tools, a manufacturer of custom-designed tools for underground utility construction, expanded its product line and market area during 1986 and increased both revenues and profitability.

Cliffside's boring division offers specialized boring services to outside clients as well as providing invaluable support to Cliffside's operations.

Cliffside entered the Quebec market in 1985 to pursue natural gas distribution and Bell and Hydro contracts. **In 1986 the company continued to expand its horizons and now operates from a total of nine locations in southern Ontario and Quebec.** Cliffside is also developing its main location of 5.5 hectares (13.5 acres) in Metropolitan Toronto. A five-storey office building planned for this valuable site is scheduled for completion by the beginning of 1988.

A flourishing economy in Central Canada during the past two years has contributed to Cliffside's successful and expanding operations. **With favourable conditions expected to continue in 1987, Cliffside looks forward to another outstanding year.**

Cliffside's gas division at work on a 610 mm (24-inch) natural gas distribution line in west Toronto.

The KUBOTA KH-35, smallest hydraulic excavator in Cliffside's fleet, is ideal for work in crowded urban areas.

NICHOLLS-RADTKE EXPANDS ITS ROLE IN THE AUTOMOTIVE INDUSTRY

Nicholls-Radtke reworked and relocated all of the conveyor systems in this part of Ford's automotive assembly plant.

For Nicholls-Radtke, 1986 was a busy and successful year in which the company significantly increased its activity in the automotive industry. A mechanical-electrical contractor, Nicholls-Radtke has served the automotive industry for many years, and in 1986 worked at most of the auto assembly plants in Ontario.

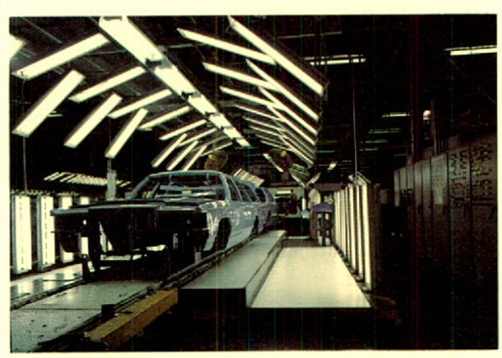
It was a good year for all of Nicholls-Radtke's operations, with both sales revenue and profitability substantially increasing. Mechanical and electrical installations were completed for clients in a wide variety of industries: automotive, pulp and paper, steel, chemicals and petro-chemicals, pipelines and gas storage, breweries and distilleries, nuclear power generation, and foundries and metals processing.

Located approximately 100 km (60 miles) west of Metropolitan Toronto, Nicholls-Radtke provides piping, electrical, and machinery relocation and installation services to industries across Canada. A fire protection division offers complete design, installation, and servicing of sprinkler systems for commercial and industrial buildings.

Nicholls-Radtke's operations are supported by a 7900 square metre (85,000 sq ft) fabrication facility where piping, ironwork, and sprinkler fabrication are carried out. Inhouse design-drafting and quality departments enable Nicholls-Radtke to offer comprehensive services for many types of construction requirements. **Equipment and techniques are continually updated to meet clients' needs for safe, timely, and cost-effective construction services.**

With increasing activity in construction and upgrading of assembly plants in Ontario, Nicholls-Radtke's work in the automotive industry has become an important part of its business. The company installs all types of conveying, painting, and assembly systems and has experience with sophisticated control and robotics systems. Nicholls-Radtke also provides services to many of the major suppliers to the automotive industry.

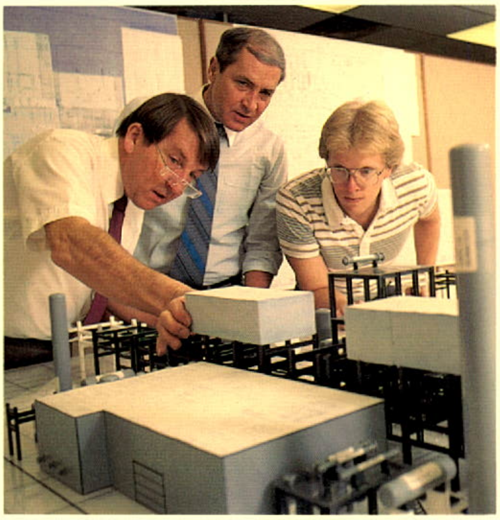
Efficient operations, a good backlog of work, and continuing demand for industrial services should enable Nicholls-Radtke to equal or exceed its 1986 performance during the coming year. Banister has a 50% interest in this successful and growing company.



Newly-painted automobile bodies emerge from the bake oven. Nicholls-Radtke installed the conveyor, platform, and lighting system in this area.

Nicholls-Radtke's headquarters in Cambridge, Ontario.

BANTREL GROUP ENGINEERS FOCUSING ON SPECIAL SERVICES



A scale model assists Bantrel employees in project planning.

Declining oil prices in 1986 had a major effect on the demand for services provided by Bantrel Group Engineers Ltd. Many large-scale projects in the petroleum sector have been cancelled or postponed until world prices improve. While still pursuing EPC (engineering, procurement, construction) contracts, Bantrel is focusing on specialized engineering and consulting services for a variety of clients.

Bantrel's CADD system provides computerized engineering design capability.

During the year Bantrel was at work on engineering studies for several major oil companies, including Petro-Canada, Esso, Dome Petroleum, Canterra Energy, and Gane Energy, and for the Syncrude and Suncor tarsands plants. A contract awarded in 1985 for design and preliminary engineering for Husky Oil's proposed heavy oil upgrader at Lloydminster, Alberta is now nearing completion. Bantrel has also completed preliminary engineering for BP Canada's planned heavy oil extraction plant at Wolf Lake, Alberta.

In Toronto Bantrel performed detailed engineering and procurement for a revamp of Petro-Canada's Trafalgar refinery. At the end of the year, Bantrel was awarded a contract for engineering, procurement, and construction management of the repair work at Petro-Canada's Montreal refinery following a fire in December.

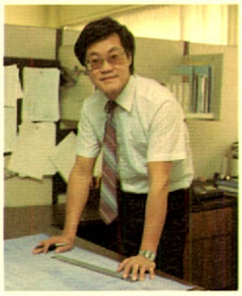
Competition continues to be high for a very limited number of engineering design and construction contracts in the petroleum sector. Although Bantrel has several projects under way, the company is working at far less than capacity and was unable to realize a profit on the reduced volume of work in 1986.

The outlook for 1987 is that EPC contracts will continue to be scarce. **Bantrel's strategy will be to concentrate on specialized services, such as CADD (computer aided design and drafting), mapping, efficiency studies, and real estate services, for current and additional clients.** Bantrel is uniquely qualified to take advantage of opportunities in this area and forecasts a break-even year in 1987.

Through its shareholder companies, Bantrel has access to world-class technology, an experience base unequalled in Canada, and over 40,000 trained employees. Bantrel's shareholders are Bechtel Canada Engineers Limited (40%), Banister Continental Ltd. (20%), Trimac Limited (20%), Bond Architects and Engineers Limited (10%), and Scotia Energy Services Limited (10%). These shareholders have confidence in the medium and long-term viability of Bantrel Group.

TRAINING OUR EMPLOYEES IS AN INVESTMENT IN THE FUTURE

Banister Continental Ltd. is striving to become the best construction company in Canada. Our philosophy that people are the Corporation's most valuable asset is an integral part of our strategy for achieving this goal of overall corporate excellence. Training our employees is essential to prepare them, and to prepare the Corporation, for the opportunities and challenges of the future. Only through constant improvement of our skills and abilities can we offer the highest quality services to our clients and provide maximum benefits for our shareholders.



Francis Chan is studying "Computer-Aided Structural Engineering," the latest engineering course he has taken at the University of Toronto. Francis has a Bachelor of Science degree in Civil Engineering and has been with Pitts since 1984 as design engineer.

Training is carried out in every division and at many levels. An apprenticeship program produces highly skilled tradespeople to work at project sites and equipment maintenance facilities. The education of an apprentice, featured on the cover of this report, is a classic example of how expertise is passed on from more experienced workers to younger employees throughout the Corporation.

Brenda Moren is Banister Continental's personnel administrator. In 1985 Brenda received her certificate in personnel administration from the University of Alberta upon completion of a three-year part-time program. Brenda joined the Corporation in 1979.

Safety training is a high priority for all divisions. In addition to training in safe work practices for the jobsite, project personnel receive first-aid instruction through St. John Ambulance courses. A driver-training program instituted by Cliffside has resulted in significant reductions in lost-time injuries and insurance costs.

Banister's engineers keep up-to-date on new construction techniques through training programs and information seminars offered by universities, technical schools, and professional associations. In addition, Pitts Engineering Construction supports the University of Waterloo's Co-operative Engineering Program.

Pat Larkin has worked for Banister since 1969 at the Edmonton equipment terminal. To keep pace with ever-changing technology, he attends courses through the Alberta Journeyman Updating Program on an ongoing basis. Pat is a journeyman mechanic qualified in both automotive and heavy duty mechanics.

Some training programs are initiated to meet specific needs. When Banister Pipelines was awarded an important contract in Quebec, all supervisory personnel were enrolled in a French language course to improve their bilingual abilities. As computers become increasingly available both in our offices and at the jobsite, employees are trained in the use of appropriate computer programs. Individual employees, such as the four shown here, are encouraged to attend courses which enhance their job skills and prepare them for increased responsibility.

Scholarships for university and technical school programs are available to the families of Banister employees, and a Banister scholarship is awarded annually at the Northern Alberta Institute of Technology. The University of Alberta's Faculty of Business has benefitted from both financial support and the participation of Banister executives in its programs. In 1986 the Ronald K. Banister Chair of Business was endowed at the University of Alberta in honour of the Corporation's founder.

Patricia Porter is currently a part-time student in the Master of Business Administration program at the University of Alberta. Patricia has been with Banister Continental since 1980 as manager, corporate communications. She also has a Master of Arts degree in English.

The Corporation's commitment to learning takes many forms, of which a few specific examples have been given. Central to all is the belief that no one is too old, too wise, or too important to learn. By supporting and encouraging the ongoing education of all employees at all levels, the Corporation is making an invaluable investment in its future.

BANISTER CONTINENTAL LTD.

FINANCIAL INFORMATION

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Results of Operations

Construction and service revenue increased to $128.7 million for the year ended December 31, 1986 compared to $112.1 million for the year ended December 31, 1985 primarily due to increased pipeline construction and utility construction revenue. Fiscal 1986 civil and industrial construction revenue benefited from the full year's inclusion of revenue from the October 1, 1985 acquisition of 50% of Nicholls-Radtke Ltd. Reference is made to Note 2 of the Corporation's Consolidated Financial Statements for a description of the proforma information relating to the acquisition of Nicholls-Radtke Ltd. Civil and industrial construction revenue, for fiscal 1986, includes a $6.5 million settlement of all claims related to the Revelstoke Dam project. Included in pipeline construction revenue for fiscal 1986 is a $17.7 million settlement of the Corporation's claim for extra costs incurred on a 1980 - 1981 pipeline project in Oregon. Reference is made to Note 11(a) and 11(b) to the Corporation's Consolidated Financial Statements for a description of these claim settlements. Construction and service revenue increased by $7.7 million to $112.1 million for the year ended December 31, 1985 compared to the previous fiscal year primarily due to increased civil and industrial construction and utility construction revenue and the October 1, 1985 acquisition of Nicholls-Radtke Ltd. partially offset by reduced pipeline construction revenue.

Although the level of operating expenses for fiscal 1986 remained relatively unchanged to that of fiscal 1985, operating expenses relative to construction and service revenue for 1986 are proportionately less than for 1985 because of the claim settlements included in 1986 construction and service revenue. In conjunction with the increase in construction revenue, operating expense for the year ended December 31, 1985 increased to $97.8 million from $92.8 million for the year ended December 31, 1984.

Other income increased to $4.0 million for the year ended December 31, 1986 compared to $2.2 million for the year ended December 31, 1985 primarily due to the inclusion in the current fiscal period of a refund of pension plan surplus of $3.5 million (see Note 10) partially offset by reduced interest income and a $1.1 million loss on the disposition of a 49% interest in the Corporation's marine operations. For the year ended December 31, 1985, other income increased to $2.2 million from $1.9 million for the year ended December 31, 1984 due to increased gains on disposal of fixed assets partially offset by reduced interest income.

Depreciation of $4.7 million for the year ended December 31, 1986 is substantially higher than the $3.6 million for the year ended December 31, 1985 primarily due to an additional $1.0 million provision for depreciation resulting from a reduction in the estimated remaining service lives of certain older pieces of construction equipment (See Note 5). Depreciation for the year ended December 31, 1985 was higher than the $3.5 million depreciation in 1984 due to the inclusion of Nicholls-Radtke Ltd. in the last quarter of fiscal 1985.

Interest expense for the years ended December 31, 1986 and 1984 is substantially lower than for the year ended December 31, 1985 because interest bearing non-bank advances were outstanding for a full year during fiscal 1985 compared to three months in fiscal 1986 and four months in fiscal 1984. These non-bank advances were fully repaid in April of 1986.

Selling, administrative and general expense of $11.6 million for fiscal 1986 is substantially higher than the $8.9 million incurred during the year ended December 31, 1985 primarily due to the inclusion of Nicholls-Radtke Ltd. for a full year compared to only three months subsequent to the October 1 acquisition date in 1985 (see Note 2). Fiscal 1985 selling, administrative and general expense was $0.5 million higher than the $8.4 million incurred for fiscal 1984 primarily due to the additional expense in 1985 resulting from the acquisition of Nicholls-Radtke Ltd.

The effective income tax rate provided for the year ended December 31, 1986 was higher than the statutory rate primarily due to expenses which are not deductible for income tax purposes. The effective income tax rate provided for the year ended December 31, 1984 was substantially higher than the statutory rate for 1984 and the effective income tax rate for 1985 because of losses in the Corporation's U.S. subsidiary for which no tax recovery was provided.

During the year ended December 31, 1986 the Corporation had a recovery of income taxes otherwise payable of $8.1 million. This amount was recorded as an extraordinary item as it relates to the utilization of prior years' operating losses, for which no tax recovery was provided, against income earned by the Corporation's U.S. subsidiary.

The Corporation earned net income of $15.7 million in fiscal 1986 compared to $0.8 million and $0.2 million in fiscal 1985 and 1984 respectively. The 1986 net income is primarily attributable to the settlement of a $17.7 million claim for additional compensation on a pipeline contract performed in Oregon during 1980 and 1981 by the Corporation's U.S. subsidiary and the $6.5 million settlement of claims related to the Revelstoke

Dam project partially offset by other operating losses in the pipeline and civil and industrial construction segments.

Impact of Inflation and Changing Prices

Historically, the impact of inflation has not had a material effect on the Corporation. On longer term construction projects, the Corporation is protected from increasing labour and material costs as the terms of such contracts normally provide for wage escalation adjustments and major material purchases are committed at the time the contract is bid. Where certain items are not covered by escalation clauses in the contracts, the Corporation determines its bid price according to anticipated inflation over the life of the contract.

Liquidity and Capital Resources

Cash and cash equivalents decreased $0.2 million to $15.5 million during the year ended December 31, 1986 primarily due to the repayment of other advances comprising the Corporation's $21 million share of indebtedness of the Revelstoke Dam joint venture and the use of cash for net fixed asset additions partially offset by cash provided by the settlement of major claims. Cash and cash equivalents increased $4.6 million during the year ended December 31, 1985 due primarily to operations providing $6.4 million partially offset by $2.0 million net cash used to acquire a 50% interest in Nicholls-Radtke Ltd.

Working capital increased $17.0 million to $23.2 million during the year ended December 31, 1986 primarily due to the settlement of major claims referred to above.

Unused lines of credit increased $4.9 million to $17.5 million at December 31, 1986 from $12.6 million at December 31, 1985 primarily due to the cancellation of $24.2 million of letters of credit related to the repayment of non-bank indebtedness of a joint venture partially offset by a $17.4 million reduction of available credit lines.

The Corporation replaces its construction equipment over an extended period of time based on the specific requirements of contracts obtained. In certain situations, the Corporation will rent or lease rather than purchase equipment. Equipment purchased for certain long-term civil construction contracts may be funded by proceeds from mobilization advances received at the beginning of such contracts.

Management believes that capital resources are adequate to meet requirements for 1987.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1986, 1985, and 1984

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which, in the case of the Corporation, are not materially different from those generally accepted in the United States except as described in Note 13. Because a precise determination of many assets and liabilities depends on future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries and its pro rata share of assets, liabilities, revenues and expenses of joint ventures. Note 1 to the financial statements summarizes the effect of the joint ventures on the consolidated financial statements.

Translation of Foreign Currencies

The accounts of the Corporation, its foreign subsidiaries and joint ventures stated in foreign currencies have been translated into Canadian dollars using:

- the fiscal year end exchange rates for monetary items which include cash, amounts receivable and payable, and long-term debt;
- exchange rates in effect at the time of the transaction for non-monetary assets, liabilities and deferred credits; and
- exchange rates prevailing during the period for revenues and expenses, except for depreciation which has been translated at rates pertaining to the related assets.

Significant unrealized foreign exchange gains or losses relating to long-term monetary items are deferred and amortized over the remaining life of the monetary item. All other foreign exchange gains and losses are included in income.

Accounting for Contracts

Income, from contracts which may extend up to five years, is determined on the percentage of completion basis except that income from contracts of a fixed price nature is not recognized until projects attain a stage of completion sufficient to reasonably determine the probable results. Provision is made for all anticipated losses as soon as they become evident. Claims for additional contract compensation are not recognized until resolved.

Unbilled revenues on contracts in progress are included in accounts receivable. Deferred contract costs represent the excess of costs incurred over the amount of billings less profits earned on uncompleted contracts. Unearned revenue and contract advances represent the excess of billings over the amount of costs incurred and profits earned on uncompleted contracts and payments received from clients in advance of the performance of the work. Provisions for anticipated losses on uncompleted contracts are deducted from related deferred contract costs with any excess being included in current liabilities.

Provision for estimated major overhaul costs for equipment is charged to contract costs as the equipment is utilized.

Land Held for Resale

Land held for resale is valued at the lower of cost and estimated net realizable value.

Fixed Assets

Fixed assets are recorded at cost and are depreciated on the straight line method, after recognition of salvage values ranging up to 30%, over the useful lives of the assets which are estimated to be 20 to 40 years for buildings and 4 to 15 years for construction equipment.

When joint ventures are established to perform single contracts and equipment is acquired for use during the contract to be disposed of upon completion of the contract, the cost of such equipment, net of estimated salvage value, is treated as a contract cost. The original cost of this equipment less estimated salvage value is amortized and charged to contract costs based on the percentage-of-completion method, with the percentage being determined on the same basis as that for income recognition. The unamortized portion of such equipment cost is included in deferred contract costs. Equipment not disposed of upon completion of the contract is classified as equipment held for disposal and is carried at estimated net realizable value.

Excess of Cost Over Net Assets at Acquisition

The excess of cost over net assets at acquisition, which resulted from the 1969 purchase of the Banister pipeline operations ($6,938,000), is not being amortized since the Corporation does not believe there is any diminution of value. The excess of cost over net assets resulting from acquisitions subsequent to 1974 ($914,000), is amortized on a straight line basis over the estimated life of such amounts, not to exceed forty years. Accumulated amortization for the years ended December 31, 1986 and 1985 amounted to $110,000 and $10,000 respectively.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

Deferred income taxes result from timing differences between financial and tax reporting principally relating to recognition of construction revenues and accelerated depreciation. That portion of deferred income taxes which relates to amounts included in current assets and liabilities is shown as a current asset or current liability.

Unremitted earnings of the Corporation's foreign subsidiaries amounted to approximately $10,296,000 at December 31, 1986. Because the unremitted earnings can be repatriated on a tax free basis, Canadian income taxes have not been provided for.

Retirement Plans

The Corporation and its subsidiaries maintain a retirement plan covering full time employees. Pensions are funded currently and pension expense includes the cost of current service and, if applicable, amortization of unfunded past service cost or plan gains.

Earnings per Share

Basic earnings per share were computed by dividing net income by the weighted average number of common shares outstanding during each period.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the Year Ended December 31 (Stated in Canadian Dollars)

	1986	1985	1984
Revenue:			
Construction and services (Note 11)	$128,690,000	$112,064,000	$104,371,000
Other income (Note 9)	3,984,000	2,234,000	1,862,000
	132,674,000	114,298,000	106,233,000
Expenses:			
Operating	97,890,000	97,822,000	92,791,000
Depreciation (Note 5)	4,690,000	3,633,000	3,462,000
Interest	1,117,000	2,344,000	914,000
Selling, administrative and general	11,635,000	8,887,000	8,356,000
	115,332,000	112,686,000	105,523,000
Income before income taxes and extraordinary item	17,342,000	1,612,000	710,000
Income taxes (Note 7)	9,714,000	837,000	471,000
Income before extraordinary item	7,628,000	775,000	239,000
Recovery of income taxes by utilization of prior years' losses (Note 11)	8,107,000	—	—
Net income	15,735,000	775,000	239,000
Retained earnings, beginning of year	5,108,000	4,333,000	4,094,000
Retained earnings, end of year	$ 20,843,000	$ 5,108,000	$ 4,333,000
Earnings per share:			
Income before extraordinary item	$ 1.51	$ .15	$ .05
Net income	$ 3.12	$ .15	$ .05

(See accompanying notes and summary of significant accounting policies)

CONSOLIDATED BALANCE SHEET

(Stated in Canadian Dollars)

ASSETS	December 31 1986	December 31 1985
Current assets:		
Cash and short-term deposits (Note 3)	$15,875,000	$15,872,000
Receivables (Note 4)	24,543,000	21,319,000
Recoverable income taxes	—	55,000
Deferred contract costs	3,661,000	4,151,000
Equipment held for disposal (Note 11(a))	922,000	2,716,000
Land held for resale	3,009,000	3,760,000
Other current assets	3,453,000	2,716,000
Total current assets	51,463,000	50,589,000
Fixed assets, less accumulated depreciation (Note 5)	32,664,000	33,407,000
Other assets, at cost	461,000	573,000
Excess of cost over net assets at acquisition	7,743,000	7,026,000
	$92,331,000	$91,595,000

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank loans (Note 6)	$ 385,000	$ 150,000
Other advances	—	21,071,000
Accounts payable and accrued liabilities	19,920,000	16,056,000
Income taxes payable	807,000	—
Deferred income taxes	5,470,000	6,137,000
Unearned revenue and contract advances	1,315,000	600,000
Current portion of long-term debt (Note 8)	321,000	325,000
Total current liabilities	28,218,000	44,339,000
Long-term debt (Note 8)	1,321,000	1,650,000
Deferred income taxes	4,087,000	2,636,000
Contingencies (Note 11)		
Shareholders' equity:		
Common shares without nominal or par value (Note 12) — 20,000,000 shares authorized 5,038,023 shares issued	34,751,000	34,751,000
Contributed surplus	3,111,000	3,111,000
Retained earnings	20,843,000	5,108,000
Total shareholders' equity	58,705,000	42,970,000
	$92,331,000	$91,595,000

(See accompanying notes and summary of significant accounting policies)

On behalf of the Board:

R. K. Banister DIRECTOR

[signature] DIRECTOR

BANISTER CONTINENTAL LTD.

CONSOLIDATED STATEMENT OF CHANGES IN CASH RESOURCES

For the Year Ended December 31 (Stated in Canadian Dollars)

	1986	1985	1984
Operating Activities:			
Income before extraordinary item	$ 7,628,000	$ 775,000	$ 239,000
Non-cash charges (credits) to income:			
Depreciation	4,690,000	3,633,000	3,462,000
Deferred income taxes	1,451,000	(1,421,000)	(2,321,000)
Loss (gain) on sale of fixed assets	444,000	(719,000)	3,000
Unrealized currency translation losses (gains)	(7,000)	50,000	73,000
Amortization of goodwill	100,000	10,000	—
Recovery of income taxes by utilization of prior years' losses	8,107,000		
Proceeds from sale of fixed assets	4,617,000	3,754,000	2,486,000
Additions to fixed assets	(9,008,000)	(6,069,000)	(2,519,000)
Net change in non-cash working capital items	(17,227,000)	6,444,000	(5,792,000)
Other	112,000	60,000	165,000
Cash provided by (used for) operations	907,000	6,517,000	(4,204,000)
Financing Activities:			
Proceeds from long-term debt	—	500,000	—
Reduction in long-term debt	(322,000)	(322,000)	(308,000)
Cash provided by (used for) financing activities	(322,000)	178,000	(308,000)
Investing Activities (Note 2):			
Business purchase less cash acquired	—	(2,043,000)	—
Additional consideration on acquisition	(817,000)	(97,000)	—
Cash used for investing activities	(817,000)	(2,140,000)	—
Increase (decrease) in cash and cash equivalents	(232,000)	4,555,000	(4,512,000)
Cash and cash equivalents, beginning of year	15,722,000	11,167,000	15,679,000
Cash and cash equivalents, end of year	$ 15,490,000	$15,722,000	$11,167,000
Net change in non-cash working capital balances related to operations represents the following:			
Receivables	$ (3,224,000)	$ 5,752,000	$(3,675,000)
Recoverable income taxes	55,000	(55,000)	273,000
Deferred contract costs	490,000	(2,234,000)	(327,000)
Equipment held for disposal	1,794,000	1,109,000	(3,825,000)
Land held for resale	751,000	(1,135,000)	42,000
Other current assets	(737,000)	(223,000)	(375,000)
Other advances	(21,071,000)	2,336,000	1,073,000
Accounts payable and accrued liabilities	3,864,000	(807,000)	(2,340,000)
Income taxes payable	807,000	(162,000)	(15,000)
Deferred income taxes	(667,000)	2,814,000	2,792,000
Unearned revenue and contract advances	715,000	(969,000)	567,000
Current portion of long-term debt	(4,000)	18,000	18,000
Increase (decrease)	$(17,227,000)	$ 6,444,000	$(5,792,000)

Cash and cash equivalents represent cash and short-term deposits less short-term bank indebtedness.

(See accompanying notes and summary of significant accounting policies)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1986, 1985 and 1984 (Stated in Canadian Dollars)

1. JOINT VENTURES

The Corporation has investments in and advances to joint ventures and has participated in these joint ventures in an effort to spread business risks and to make available to the Corporation increased capital and technological resources.

The Corporation's pro rata share of the joint venture operations included in the consolidated financial statements is summarized below.

Statement of Income

	1986	1985	1984
Revenue	$28,216,000	$15,038,000	$25,417,000
Other income	8,000	101,000	—
	28,224,000	15,139,000	25,417,000
Operating expenses	18,488,000	12,399,000	24,824,000
Depreciation	334,000	52,000	—
Interest	888,000	2,269,000	807,000
Selling, administrative and general	1,730,000	334,000	—
	21,440,000	15,054,000	25,631,000
Income (loss) before income taxes	6,784,000	85,000	(214,000)
Income taxes	657,000	75,000	—
Net income (loss)	$ 6,127,000	$ 10,000	$ (214,000)

Balance Sheet

	1986	1985
Assets:		
Current	$ 7,788,000	$10,241,000
Fixed	4,493,000	2,219,000
Other	1,032,000	217,000
	$13,313,000	$12,677,000
Liabilities and owner's equity (deficiency):		
Current liabilities	$ 5,609,000	$24,528,000
Long term deferred taxes	457,000	75,000
Long term debt	1,000,000	1,000,000
Owner's equity (deficiency)	6,247,000	(12,926,000)
	$13,313,000	$12,677,000

Notes:

(a) Transactions between the joint ventures and the Corporation have been eliminated in the consolidated financial statements including equipment rentals charged by the Corporation amounting to $23,000 for the year ended December 31, 1986, $498,000 for the year ended December 31, 1985, and $804,000 for the year ended December 31, 1984.

(b) Income taxes applicable to the income or losses of unincorporated joint ventures are not provided in the ventures' accounts but are provided, to the extent of the Corporation's share, in its consolidated statement of income. Income taxes applicable to income or losses of incorporated joint ventures are provided in the ventures' accounts.

2. ACQUISITION

Effective October 1, 1985 the Corporation acquired a 50% interest in Nicholls-Radtke Ltd. by the purchase of common shares for $2,500,000. Nicholls-Radtke Ltd. is in the electrical and mechanical construction business. The acquisition has been accounted for as a purchase and the pro rata share of the results of operations from October 1, 1985 have been included in the consolidated financial statements. The allocation of the purchase price is summarized as follows:

Cash	$ 457,000
Accounts receivable	3,264,000
Deferred contract costs	301,000
Fixed assets	1,680,000
Other assets	252,000
Accounts payable	(2,734,000)
Unearned revenue	(220,000)
Long term debt	(500,000)
Purchase price	$2,500,000

The amount shown in the consolidated statement of changes in cash resources as payment for the investment in Nicholls-Radtke Ltd. reflects the purchase price of $2,500,000 less the cash resources at the date of acquisition of $457,000.

Additional consideration of up to $2,700,000 (Corporation's share $1,350,000) is payable in connection with the acquisition should future years' pre-tax income of Nicholls-Radtke Ltd. exceed specified amounts. To December 31, 1986 additional consideration of $1,828,000 ($914,000 Corporation's share) has become payable. This contingent consideration is recorded when it becomes payable as excess of cost over net assets at acquisition and amortized on a straight line basis over a ten year period ending 1995.

The following unaudited pro forma consolidated information includes the results of the Corporation's operations together with Nicholls-Radtke Ltd. for the years ended December 31, 1985 and 1984 assuming the acquisition took place at the beginning of each period presented.

	1985	1984
Revenue	$123,042,000	$115,678,000
Net income	$ 1,273,000	$ 358,000
Earnings per share	$ .25	$ .07

3. CASH AND SHORT-TERM DEPOSITS

Cash and short-term deposits are made up of:

	1986	1985
Cash on hand and in bank (overdraft)	$ (659,000)	$ 4,742,000
Short-term deposits	16,534,000	11,130,000
	$15,875,000	$15,872,000

Cash and short-term deposits include collateral deposits amounting to $2,028,000 at December 31, 1985 securing bank letters of credit issued to third parties.

4. RECEIVABLES

Receivables include holdbacks receivable amounting to $7,887,000 at December 31, 1986 and $6,262,000 at December 31, 1985. Included in receivables at December 31, 1986 are unbilled revenues amounting to $69,000.

Holdbacks receivable represent amounts billed but not paid by customers pursuant to retainage provisions in construction contracts and will be due upon completion and acceptance of the contract. Based on the Corporation's experience with similar contracts in recent years $7,675,000 of the balance at December 31, 1986 is expected to be collected in the year ending December 31, 1987 and the remainder in subsequent years.

5. FIXED ASSETS

The cost and net book value of fixed assets (in thousands) are as follows:

	Cost		Net Book Value	
	1986	1985	1986	1985
Land and buildings	$ 8,492	$ 7,807	$ 6,905	$ 6,415
Construction equipment	51,887	56,756	25,227	26,516
Other	1,580	1,465	532	476
	$61,959	$66,028	$32,664	$33,407

As a result of a review made in the fourth quarter of 1986, the Corporation reduced its estimate of the useful remaining lives of certain older pieces of construction equipment. The effect of this change in estimate was to increase depreciation expense by $1,030,000.

6. BANK LOANS

The Corporation has operating lines of credit of $19,536,000 of which $17,489,000 was unused at December 31, 1986. Used operating lines of credit, amounting to $2,047,000, include bank loans of $385,000 and letters of credit amounting to $1,662.000. As collateral security the Corporation has given assignments of accounts receivable and debentures providing a fixed and specific mortgage on all land, buildings and certain equipment and a floating charge covering other assets.

7. INCOME TAXES

The Canadian and foreign components of the income before income taxes and extraordinary item are as follows:

	1986	1985	1984
Canadian	$(1,530,000)	$1,441,000	$1,062,000
Foreign	18,872,000	171,000	(352,000)
	$17,342,000	$1,612,000	$ 710,000

The current and deferred components of the provision for income taxes are as follows:

	1986	1985	1984
Current:			
Canadian — Federal	$ —	$ (271,000)	$ —
— Provincial	—	(149,000)	—
Foreign —	823,000	(136,000)	—
— Provision offset by recovery	8,107,000	—	—
	8,930,000	(556,000)	—
Deferred:			
Canadian — Federal	593,000	965,000	336,000
— Provincial	191,000	428,000	135,000
	784,000	1,393,000	471,000
Income taxes	$ 9,714,000	$ 837,000	$ 471,000

7. INCOME TAXES (continued)

The following is a reconciliation between the normal Canadian federal statutory tax rate and the consolidated effective tax rate:

	1986	1985	1984
Canadian federal income tax rate	47.8 %	46.9 %	46.0 %
Expenses (income) not included for income tax purposes	4.7	(1.1)	(0.2)
Operating losses for which no tax recoveries are currently available	—	—	20.8
Tax rate differential relating to the use of losses or tax loss carrybacks	—	—	(1.2)
Tax exempt portion of capital gain	(0.3)	(4.3)	(7.9)
Other including provincial rate differentials	3.8	10.4	8.8
Consolidated effective tax rate	56.0 %	51.9 %	66.3 %

Deferred income tax expense (recovery) results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The source of these differences and the income tax effect of each was as follows:

	1986	1985	1984
		(thousands of dollars)	
Depreciation:			
Differences between tax and book depreciation	$(2,163)	$ (731)	$(1,375)
Long-term contracts including joint ventures:			
Use of percentage completion for financial purposes and use of billings less costs excluding contractual hold-backs for tax purposes	(1,795)	2,064	1,657
Loss provisions charged to expense for financial purposes but not deductible until incurred	(544)	(385)	—
Revenue recognized for financial purposes not taxable until realized	4,068	—	—
Deductible losses in excess of amounts charged to expense	—	—	4,690
Reserve for equipment overhauls:			
Charged to expense for financial purposes but not deductible until paid	(536)	58	177
Loss carry-forwards:			
Benefits recognized for tax purposes which were previously recognized for financial purposes	2,041	420	—
Benefits recognized for financial purposes but not for tax purposes	(25)	(155)	(4,286)
Other:			
Expenses accrued or deferred for financial purposes, deducted for tax purposes as paid	(262)	122	(392)
Deferred income tax expense (recovery)	$ 784	$1,393	$ 471

8. LONG-TERM DEBT

	1986	1985
Non-interest bearing note payable to an affiliate, no specified terms of repayment but not repayable within one year or until replaced by bank or other term financing	$1,000,000	$1,000,000
5-1/2% U.S. dollar convertible subordinated debenture (U.S. $465,000 at December 31, 1986; U.S. $697,500 at December 31, 1985) payable to a company controlled by a director of the Corporation, repayable in equal annual instalments of U.S. $232,500 maturing December 31, 1988 convertible at the holder's option at U.S. $10.91 per share into 42,621 (63,932 at December 31,1985) shares of common stock	642,000	975,000
	1,642,000	1,975,000
Less amount due within one year	321,000	325,000
	$1,321,000	$1,650,000

The principal repayments of long-term debt payable within the next five years are as follows:

1987 - $321,000; 1988 - $321,000.

9. OTHER INCOME

Other income consists of:

	1986	1985	1984
Interest	$ 727,000	$1,390,000	$1,776,000
Pension Plan surplus refund (Note 10)	3,500,000	—	—
Gain (loss) on sale of fixed assets	647,000	719,000	(3,000)
Loss on disposal of 49% interest in marine operations	(1,091,000)	—	—
Foreign exchange losses	(25,000)	(90,000)	(25,000)
Other	226,000	215,000	114,000
	$3,984,000	$2,234,000	$1,862,000

10. RETIREMENT PLANS

The plan assets available for benefits and the actuarial present value of accumulated plan benefits at December 31, 1986 and 1985 are as follows:

		1986	1985
Plan assets available for benefits		$10,676,000	$13,872,000
Actuarial present value of accumulated plan benefits	— vested	7,725,000	11,476,000
	— unvested	58,000	809,000
		$ 7,783,000	$12,285,000

The assumed rate of return used in determining the actuarial present value of plan benefits was 8½% at December 31, 1986 and 5% at December 31, 1985. The fiscal 1986 rate more closely reflects the expected future rate of investment returns.

10. RETIREMENT PLANS (continued)

During 1986, annuity contracts were purchased to cover benefits to former employees and plan amendments were approved which enabled the Corporation to receive a refund of $3,500,000 of surplus assets from the pension plan. This amount is included in other income in 1986.

Pension expense was approximately $25,000 in 1986, $648,000 in 1985 and $902,000 in 1984. In arriving at 1986 pension expense, current service cost of $596,000 was reduced by $571,000 representing $372,000 of plan surplus utilized to reduce contributions in the current year and the current year's amortization of $199,000 of plan surplus utilized to reduce contribution requirements in the prior year. In arriving at the 1985 pension expense current service cost of $847,000 was reduced by amortizing $199,000 of the $597,000 plan surplus applied against contribution requirements for that year.

The Canadian Institute of Chartered Accountants has issued a pronouncement dealing with the accounting for pension costs and obligations which becomes effective for years commencing on or after December 1, 1986. The Corporation proposes to implement these recommendations, which are similar in most significant respects to the pronouncements issued by the United States Financial Accounting Standards Board (SFAS 87 and SFAS 88) relative to accounting for pensions, effective January 1, 1987. Management has not determined the future impact of these changes.

11. CONTINGENCIES

(a) The Corporation has a 50% interest in Dalcan Constructors, a joint venture established to carry out the Revelstoke Dam project which was substantially completed in 1984.

To December 31, 1986 the Corporation recorded a loss on the project of $40,800,000. A loss of $47,342,000 was provided for in prior fiscal years.

The reduction of $6,542,000 in the loss provision during fiscal 1986 represents the Corporation's share of the settlement of all claims with the owner which is reflected in construction revenue in the Corporation's financial statements.

Included in the Corporation's share of the project loss is a $2,100,000 shortfall in a joint venture partner's contributions to the project. This is repayable contingent upon the joint venture partner's earnings over a ten year period. Amounts will be reflected in income if and when received.

Contract costs have been reduced by the estimated proceeds to be received from the sale of equipment which was not disposed of upon completion of the contract. The Corporation's share of the estimated realizable value of these assets is $922,000; however, it is uncertain when they will be sold and what the final proceeds will be.

(b) On August 22, 1986, the Corporation's U.S. subsidiary accepted a final settlement of U.S. $12,750,000 (approximately $17,700,000 Canadian) from Northwest Pipeline Corporation ending a dispute over extra costs incurred by the U.S. subsidiary on the 1980 - 1981 Pan Alberta natural gas project in Oregon. This recovery is included in construction revenues for 1986.

Operating loss carry forwards of the Corporation's subsidiary, for which no accounting tax benefit had previously been recognized, were applied to reduce income taxes otherwise payable by $8,107,000. This amount has been reflected as an extraordinary item in the statement of income.

(c) The Corporation is involved in other claims and litigation primarily arising in the normal course of its business for the reimbursement of costs of additional work and of additional costs incurred because of changed conditions. Any settlements or awards will be reflected in income as the matters are resolved.

(d) The Corporation is contingently liable for the usual contractor's obligations relating to performance and completion of construction contracts and for the obligations of its associates in unincorporated joint ventures.

12. STOCK OPTIONS

During fiscal 1986, the Corporation adopted a stock option plan which became effective October 1985 under which options may be granted to officers and other key employees. Options become exercisable at such time and in such installments as prescribed by the stock option committee except that all options shall terminate no later than five years after the date on which they were granted. Options may not be granted at a price less than the fair market value of the Corporation's common shares on the date of grant of such options.

12. STOCK OPTIONS (continued)

The details of outstanding and exercisable options for fiscal 1986 and 1985 are as follows:

	1986	1985
Option price per share	$9.25	$9.25
Options outstanding beginning of year	30,000	—
Granted	—	30,000
Options outstanding end of year	30,000	30,000
Options exercisable beginning of year	10,000	—
Became exercisable	10,000	10,000
Options exercisable end of year	20,000	10,000

At December 31, 1986, 120,000 common shares were available for future option grants. 150,000 common shares were reserved for issuance upon the exercise of stock options.

The Corporation has the right, at the time an option is exercised, to pay an amount to the option holder equal to the excess of the market value over the option price of the shares in lieu of issuing common shares.

13. DIFFERENCE BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Note 10 describes the accounting for pension surpluses refunded or utilized in 1986 and 1985. Under United States generally accepted accounting principles (APB 8) pension plan gains should be spread over the current year and future years in arriving at pension costs. A period of 10 to 20 years is considered reasonable. On the basis of a 10 year amortization period, the effect on net income and earnings per share of this difference between Canadian and United States accounting principles is as follows:

	1986	1985	1984
Income before extraordinary item as reported — Canadian basis	$ 7,628,000	$775,000	$239,000
Adjustments net of taxes for:			
Refund of surplus pension plan assets	(1,575,000)	—	—
Pension plan surplus used to reduce contributions	(238,000)	(70,000)	—
Income before extraordinary item — U.S. basis	5,815,000	705,000	239,000
Extraordinary item	8,107,000	—	—
Net income — U.S. basis	$13,922,000	$705,000	$239,000
Earnings per share (U.S. basis)			
Income before extraordinary item	$1.15	$0.14	$0.05
Net income	$2.76	$0.14	$0.05

The cumulative effect on shareholders' equity would be to reduce retained earnings by $1,883,000 at December 31, 1986 and $70,000 at December 31, 1985.

14. BUSINESS SEGMENTS

The Corporation operates in three industry segments: pipeline construction, civil and industrial construction, and underground utilities construction. Pipeline construction includes the construction, upgrading and testing of pipelines, gathering systems and distribution systems for the oil and gas industry. Since 1981, major pipeline construction activities have taken place only in Canada. During prior years, pipeline construction was active in Canada, the United States, and the Middle East.

The Corporation engages in civil and industrial construction primarily for governments at all levels through its Pitts Engineering Construction division and electrical and mechanical work through Nicholls-Radtke Ltd. Pitts specializes in the construction of large scale energy developments, multilane highways, bridges, dams and tunnels. Marine construction is performed through Pitts International Inc. To date, all civil engineering construction and electrical and mechanical work has been carried out in Canada with some limited activity in the United States.

Underground utilities construction operations are conducted by Cliffside Utility Contractors Ltd., a wholly-owned subsidiary of the Corporation. Cliffside's work consists of the construction of all types of public utility systems in Ontario and Quebec.

Industry Segments *(in thousands)*
For the Year Ended December 31

	Pipeline Construction		
	1986	1985	1984
Revenue from outside sources	$26,341	$14,909	$27,487
Segment operating profit (loss)	$14,014	$ 85	$ 1,048
Interest expense			
Income taxes			
Recovery of income taxes by utilization of prior years' losses			
Net income			
Identifiable assets	$29,252	$21,353	$28,795
Capital expenditures	$ 768	$ 912	$ 375
Depreciation and amortization	$ 1,485	$ 1,181	$ 1,133

Geographic Segments *(in thousands)*
For the Year Ended December 31

Revenue from outside sources	
Segment operating profit (loss)	
Interest expense	
Income taxes	
Recovery of income taxes by utilization of prior years' losses	
Net income	
Identifiable assets	

14. BUSINESS SEGMENTS (continued)

During fiscal 1986, pipeline operations settled a claim for $17,700,000 with one client in the United States which represents more than 10% of total revenue. Civil and industrial construction operations received $16,277,000 and utilities construction received $11,238,000 revenue from governments and government agencies in Canada during fiscal 1986. Civil and industrial construction operations received $1,666,000 revenue from government agencies in the United States.

During fiscal 1985, civil and industrial construction operations received $11,762,000 from one client and utilities construction received $13,400,000 from another client, each representing more than 10% of total revenue. In the same fiscal period, civil and industrial construction activities received $28,083,000 and utilities construction activities received $7,600,000 of revenue from government and government agencies in Canada.

For the year ended December 31, 1984, pipeline operations derived $19,207,000 of revenue from one client and utilities construction derived $14,208,000 of revenue from another client, each representing more than 10% of total revenue. During the same fiscal period, civil and industrial construction activities derived $34,198,000 and utilities construction activities derived $5,226,000 of revenue from governments and government agencies in Canada.

Reference should be made to Note 11 describing the settlement of major claims.

Civil and Industrial Construction			Utility Construction			Consolidated		
1986	1985	1984	1986	1985	1984	1986	1985	1984
$ 48,218	$ 49,311	$ 36,692	$58,115	$50,078	$42,054	$132,674	$114,298	$106,233
$ 1,668	$ 171	$ (2,617)	$ 2,777	$ 3,700	$ 3,193	$ 18,459	$ 3,956	$ 1,624
						(1,117)	(2,344)	(914)
						(9,714)	(837)	(471)
						8,107	—	—
						$ 15,735	$ 775	$ 239
$ 32,672	$ 36,032	$ 32,581	$30,407	$34,210	$25,829	$ 92,331	$ 91,595	$ 87,205
$ 1,727	$ 4,181	$ 536	$ 6,513	$ 2,656	$ 1,608	$ 9,008	$ 7,749	$ 2,519
$ 1,699	$ 1,275	$ 1,371	$ 1,506	$ 1,177	$ 958	$ 4,690	$ 3,633	$ 3,462

Domestic			Foreign			Consolidated		
1986	1985	1984	1986	1985	1984	1986	1985	1984
$112,999	$114,111	$106,346	$19,675	$ 187	$ (113)	$132,674	$114,298	$106,233
$ 567	$ 3,826	$ 1,955	$17,892	$ 130	$ (331)	$ 18,459	$ 3,956	$ 1,624
						(1,117)	(2,344)	(914)
						(9,714)	(837)	(471)
						8,107	—	—
						$ 15,735	$ 775	$ 239
$ 85,236	$ 91,551	$ 87,073	$ 7,095	$ 44	$ 132	$ 92,331	$ 91,595	$ 87,205

AUDITORS' REPORT

To the Shareholders
Banister Continental Ltd.:

We have examined the accompanying consolidated balance sheets of Banister Continental Ltd. as at December 31, 1986 and December 31, 1985 and the consolidated statements of income and retained earnings and changes in cash resources for each of the years in the three-year period ended December 31, 1986. Our examinations were 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 Corporation as at December 31, 1986 and December 31, 1985 and the results of its operations and changes in its financial position for each of the years in the three-year period ended December 31, 1986 in accordance with accounting principles generally accepted in Canada applied on a consistent basis during the period.

Arthur Young, Clarkson, Gordon & Co.

Chartered Accountants
Edmonton, Canada
February 20, 1987

COMMENTS ON DIFFERENCES IN CANADA-UNITED STATES REPORTING STANDARDS

In connection with our report dated February 28, 1986 we commented that our opinion on the consolidated financial statements of the Corporation was expressed in accordance with Canadian reporting standards for auditors, and would have been qualified with respect to the outcome of significant uncertainties referred to in the notes to the consolidated financial statements, if that report had been prepared in accordance with United States reporting standards. As explained in notes 11(a) and 11(b) to the consolidated financial statements, these uncertainties were resolved during 1986. Accordingly, our opinion in the above report dated February 20, 1987 on the 1985 and 1984 consolidated financial statements would not be qualified under United States reporting standards.

Arthur Young, Clarkson, Gordon & Co.

Chartered Accountants
Edmonton, Canada
February 20, 1987

MARKET FOR COMMON SHARES

The common shares of Banister Continental Ltd. are traded on the American Stock Exchange in the United States and the Toronto, Montreal, and Alberta Stock Exchanges in Canada. Following is a schedule of high and low share prices, by quarter, for the years ended December 31, 1986, and December 31, 1985 on the Toronto Stock Exchange and the American Stock Exchange.

a) on the Toronto Stock Exchange (in Canadian $)

	Fiscal Year Ended December 31, 1986		Fiscal Year Ended December 31, 1985	
	High	Low	High	Low
Quarter ended:				
March 31	10¼	9⅛	9⅞	6¾
June 30	10⅛	8¾	10	8⅝
September 30	10	7⅝	10¼	9⅛
December 31	9¾	7⅜	10⅜	8⅝

b) on the American Stock Exchange (in U.S. $)

	Fiscal Year Ended December 31, 1986		Fiscal Year Ended December 31, 1985	
	High	Low	High	Low
Quarter ended:				
March 31	7⅜	6⅝	7⅛	4⅞
June 30	7⅜	6⅜	7¼	6⅜
September 30	7⅛	5½	7½	6½
December 31	7⅛	5⅜	7⅝	6¼

As of December 31, 1986 there were 1,715 holders of record of the Corporation's shares, as shown on the records maintained by the Corporation's Registrar and Transfer Agent. Included in the 1,715 holders of record are investment dealers and other nominees which hold shares of the Corporation on behalf of additional shareholders.

No dividends were declared during the years ended December 31, 1986, 1985 or 1984.

The Investment Canada Act contains restrictions on the acquisition of control of the Corporation by persons who are not Canadian citizens or by non-eligible persons or groups, as defined therein.

Pursuant to the Income Tax Act of Canada, non-resident shareholders are subject to a 25% withholding tax on any dividend paid by the Corporation. As a result of tax conventions with the United States of America and certain other countries, the rate of withholding tax for residents of the United States and such other countries is reduced to 15%.

SELECTED FINANCIAL DATA

(Stated in Canadian Dollars Except for Exchange Rates)

	For the Year Ended December 31,			For the Nine* Months Ended December 31,	For the Year Ended March 31,
	1986	1985	1984	1983	1983
Revenue	$132,674,000	$114,298,000	$106,233,000	$99,945,000	$258,858,000
Income (loss) before extraordinary item	$ 7,628,000	$ 775,000	$ 239,000	$ (4,183,000)	$ 4,058,000
Net income (loss)	$ 15,735,000	$ 775,000	$ 239,000	$ (4,183,000)	$ 4,058,000
Earnings (loss) before extraordinary item per common share	$ 1.51	$ .15	$ .05	$ (.83)	$ .85
Earnings (loss) per common share	$ 3.12	$ .15	$ .05	$ (.83)	$ .85
Total assets	$ 92,331,000	$ 91,595,000	$ 87,205,000	$90,682,000	$ 97,054,000
Long term debt	$ 1,321,000	$ 1,650,000	$ 922,000	$ 1,157,000	$ 1,435,000
Shareholders' equity	$ 58,705,000	$ 42,970,000	$ 42,195,000	$41,956,000	$ 46,139,000
Cash dividends declared per common share	$ —	$ —	$ —	$ —	$ .60
Weighted average number of common shares	5,038,023	5,038,023	5,038,023	5,038,023	4,767,000
Exchange rates (U.S. Dollar equivalent of $1 Canadian):					
End of period rate	$ .7238	$ .7152	$ .7568	$ .8036	$ .8104
Average rate for period	$ .7192	$ .7323	$ .7725	$ .8104	$ .8076
High rate for period	$ .7314	$ .7569	$ .8024	$ .8162	$ .8189
Low rate for period	$ .7030	$ .7147	$ .7518	$ .8001	$ .7726

*On August 30, 1983, the Board of Directors changed the closing date of the fiscal year from March 31 to December 31.

The 1986 data determined under U.S. generally accepted accounting principles would be as follows: Revenue $ 129,174,000; Income before extraordinary item $ 5,815,000; Net income $ 13,922,000; and shareholders' equity $ 56,822,000.

Reference should be made to Note 11 to the Corporation's Consolidated Financial Statements regarding the settlement of major contingencies during 1986.

Corporate Information

Board of Directors

R.K. BANISTER
Chairman & Chief Executive Officer
Banister Continental Ltd.

H.B. BANISTER
Executive Vice President
Banister Continental Ltd.

W.M. BATEMAN
Consultant
Banister Continental Ltd.

R. BERNSTEIN**
Partner
Bear, Stearns & Co.

N. FRASER**
Vice President
Dominion Securities Pitfield Limited

J.R. McCAIG*
Chairman & Chief Executive Officer
Trimac Limited

R. MacTAVISH
President, Chief Operating Officer,
& Chief Financial Officer
Banister Continental Ltd.

S.A. MILNER*
President & Chief Executive Officer
Chieftain Development Co. Ltd.

A.M. SHOULTS*
Chairman
CHQT Broadcasting Ltd.

G.A. Van WIELINGEN**
Chairman & Chief Executive Officer
Sulpetro Limited

A. VANDEN BRINK
President & Chief Operating Officer
Trimac Limited

* *Members of the Audit Committee*
** *Members of the Compensation Committee*

Registrar and Transfer Agents

Guaranty Trust Company of Canada
401-9 Avenue S.W.
Calgary, Alberta T2P 3C5
88 University Avenue
Toronto, Ontario M5J 1T8
427 St. James Street West
Montreal, Quebec J8X 2K1

Morgan Guaranty Trust Company of New York
30 West Broadway
New York, N.Y., U.S.A. 10015

Officers

R.K. BANISTER
Chairman & Chief Executive Officer
39 years service

R. MacTAVISH
President, Chief Operating Officer,
& Chief Financial Officer
6 years service

H.B. BANISTER
Executive Vice President
12 years service

E.R. AUSTIN
Group Vice President, Utilities
24 years service

J.J.F. LOEWEN
Group Vice President, Civil Construction
2 years service

R.F.C. MARRIOTT
Group Vice President, Pipelines
13 years service

C.N. D'CROIX
Vice President, Administration, Utilities
13 years service

D. FLYNN
Vice President, Labour Relations
17 years service

J. LECH
Vice President & Controller
7 years service

F.A.M. TREMAYNE
Vice President, Secretary & General Counsel
13 years service

J.W. WRIGHT
Vice President, Administration,
& Treasurer
20 years service

Banks

Royal Bank of Canada
First National Bank of Chicago

Bonding Company

Seaboard Surety Company

Auditors

Arthur Young, Clarkson, Gordon & Co.

Insurance Brokers

Reed Stenhouse Limited

Executive Offices

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Telecopier: (416) 364-3307

Common Stock Listed On:

Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
American Stock Exchange
Stock symbols are BAC (ASE, TSE, MSE) and BAN (AMEX)

Banister
Construction Group

"Building for the Future"

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