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1 9 8 5 A N N U A L R E P O R T



THE COMPANY

Majestic is one of North America's leading cross country pipeline contractors. Originally formed in 1954, the Company through amalgamation, was listed on the Toronto Stock Exchange in May, 1974. The Company has been involved in all major pipeline systems in Canada, several in the United States, and has developed valuable expertise in arctic construction in both Canada and Alaska. The Corporation has also completed projects in India, Malaysia and the Middle East.

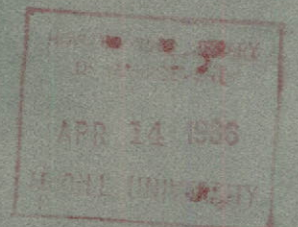
The Company owns a large fleet of well-maintained pipeline construction equipment. Our resources are particularly suited to big inch pipe from 508 mm to 1067 mm diameter and larger.

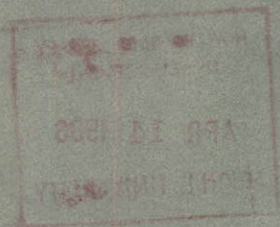
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ANNUAL AND GENERAL MEETING

All shareholders are invited to attend the Annual and General Meeting of Shareholders to be held on May 9, 1986 at 10:00 a.m. (local time) in the British Columbia suite of the Royal York Hotel, Toronto, Ontario, Canada.





FINANCIAL HIGHLIGHTS

Operations	1985	1984
Revenues	\$71,561,000	\$57,379,000
Income from continuing operations	2,206,000	799,000
Loss on discontinued operation	(4,076,000)	(1,892,000)
Net loss	(1,870,000)	(1,093,000)
Financial Position		
Cash and term deposits	\$14,878,000	\$17,560,000
Working capital	16,609,000	16,239,000
Current ratio	3.4:1	3.2:1
Property and equipment — net	11,173,000	10,233,000
Total assets	34,575,000	39,130,000
Shareholders' equity	23,977,000	26,177,000
Per Common Share		
Income from continuing operations	\$0.27	\$0.10
Net loss	(0.23)	(0.13)
Dividends	—	0.50
Funds provided by operations	0.41	0.48
Shareholders' equity	2.92	3.17
Market Price Range Per Share		
Quarter ended:		
March 31	\$3.60 - 3.15	\$4.40 - 3.30
June 30	4.25 - 3.35	3.70 - 3.20
September 30	4.40 - 3.35	3.50 - 2.60
December 31	3.75 - 3.00	3.50 - 3.20



REPORT TO SHAREHOLDERS

We are pleased to announce that despite low levels of pipeline construction on a world-wide basis, our total revenues in 1985 increased by close to 25% over the previous year. Revenues for the year ending December 31, 1985 totalled \$71,561,000 compared to \$57,379,000 for 1984.

In addition our income from continuing operations increased by 176% to \$2,206,000 or \$0.27 per share in 1985 from \$799,000 or \$0.10 per share in 1984. We are particularly pleased that we managed to achieve close to 50% utilization of our available construction capacity, despite low levels of pipeline construction. The profitability of our Canadian and U.S. Operations during 1985 helped us to minimize the impact of a disappointing year for our International Operations with intense competition and severe cutbacks in the Kingdom of Saudi Arabia.

We have now discontinued our operation in Saudi Arabia with a writedown of \$4,076,000 and a resulting overall corporate net loss for the year of \$(1,870,000) or \$(0.23) per share, compared with a net loss of \$(1,093,000) or \$(0.13) per share the previous year.

CANADIAN OPERATIONS

During the first quarter of last year our Canadian Division successfully completed the second season's work on the Norman Wells project for Interprovincial Pipeline (NW) Ltd. During that period we also

received a claim settlement on a project completed in Quebec during 1984.

The second quarter saw us receive an award from Westcoast Transmission Company Limited for the removal and upgrading of various sections of gas pipeline in British Columbia. This project was successfully completed in November.

In late July we were successful on a tender for Imperial Pipeline Company Limited for the construction of 204 km of 323.9 mm oil pipeline, extending from Sundre to Ellerslie, Alberta. We completed this project in October.

U.S. OPERATIONS

In June of 1985 the offices of our U.S. Division were relocated from Lubbock, Texas to Lakeville, Minnesota. We are pleased to have Mr. Roger Peltier rejoin our company as Vice President, U.S. Administration and Assistant Secretary.

In May we received an award from Natural Gas Pipeline Company of America for the take-up of 223.2 km of 304.8 mm to 914.4 mm gas pipeline and the laying of 129.9 km of 914.4 mm new gas pipeline in Iowa and Illinois. A second contract was awarded by Minnesota Pipeline Company for the construction of 106.8 km of 406.4 mm oil pipeline in Minnesota. Both of these projects were completed in the fourth quarter.



J.M. Banks

A.J. Cressey

INTERNATIONAL OPERATIONS

Severe cutbacks in Saudi Arabia have caused us to discontinue operations in our 49% owned Saudi company, Abahsain Majestic Pipeline Company Limited. The resulting loss has been shown as a discontinued operation in the Consolidated Statements of Loss (See Note 1). Since no tax recoveries are available in Saudi Arabia, the loss shown is approximately double what it would have been had it occurred in North America. Although financial results were disappointing, we did successfully complete four projects in the Kingdom and now have experienced crews and equipment which can be deployed to other International markets.

During the year, the Company tendered two major projects in Saudi Arabia and India. While the Saudi tender was unsuccessful, the award date on the 1,700 km India project has been extended to March 24, 1986.

While we are optimistic about our prospects in the International marketplace, we recognize that the reduced amount of work available for tender on a world-wide basis has severely impacted available margins as competitors try to maintain market share.

OTHER

During the past year the Company reduced its profit participation to 0% in its joint venture with Perini International Corporation. Originally the design/construct project called for Majestic to install two radar sites along the Arctic Circle in Eastern Canada. Revisions to the program have now moved both sites to the U.S. and delayed construction by a year.

Our 51% owned subsidiary, Majestic Laser Systems Ltd., reached its output objective of +20 kW in the first quarter of 1985. However, depressed pipeline markets and requirements for additional funding to adapt the unit to field welding have caused us to look at other industrial applications.

Extensive discussions with many potential users have revealed that our unit is too big and powerful for their

immediate requirements and that additional investors and time are required to penetrate this market.

As a result we have terminated all staff and are undertaking discussions with a number of interested parties to continue development of our CO₂ laser. A decision on the future of these discussions is expected by June of this year.

SHARE REPURCHASE

During the period from September 20, 1984 to September 19, 1985, the Company purchased, for cancellation, 209,000 shares (2.5%) of its common stock at prices ranging from \$3.15 to \$3.35 per share, approximately half of the 421,277 shares (5%) it announced it intended to purchase.

On February 3, 1986, the Company announced a further intention to purchase up to an additional 411,007 shares (5%) of its common stock through the facilities of the Toronto Stock Exchange. Purchases were to commence on or after February 18, 1986 and cease at the earlier of February 17, 1987, or such time as the 411,007 shares have been purchased.

Your directors feel these shares represent a worthwhile investment at current market prices and an appropriate use of company funds. It is felt this purchase will benefit continuing shareholders and will not impair the viability of the Company's operations.

OUTLOOK

We expect construction of big-inch pipeline to continue at a relatively low level of activity during 1986 due to the uncertainty of world oil prices. Despite this factor, we are confident that resource exploration and development will continue at a reasonable level in the foreseeable future, and that your company is in an excellent position to benefit by and participate in future projects in North America.

In addition we are continuing to investigate opportunities in other parts of the world on a selective basis. Our resources in skilled manpower, finances and equipment, coupled with our experience in the International market, give us optimism that our future endeavours will meet with success.

The Directors wish to thank our employees for their co-operation, dedication and overall contribution throughout the year.

February 25, 1986



A.J. Cressey
President &
Chief Executive Officer



J.M. Bankes
Chairman of the Board

CANADIAN PROJECTS

A - Aerial view of 420 Man Camp on Norman Wells Project

B - Engineer Surveys R.O.W. in Northwest Territories

C - Trenching Operation on Imperial Pipeline Project

D - Welders placing Hot Pass near Sundre, Alberta

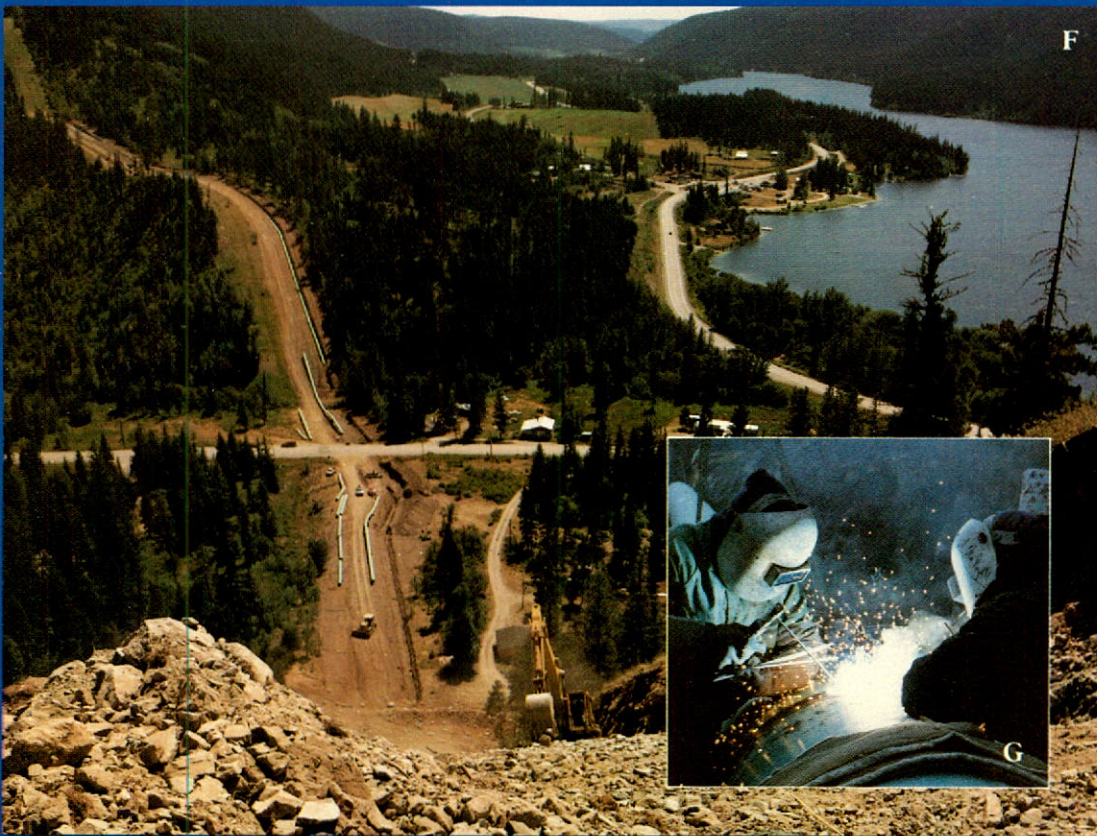




E - Lowering-in pipeline near Hope, B.C.

F - Backhoe preparing R.O.W. on 45° slope near McLeese Lake, B.C.

G - Welders making Tie-In on 914.4 mm pipe



AMERICAN PROJECTS

H - Spud Barge used for excavation of Fox River in Illinois

I - Stringing Crew unloading 914.4 mm pipe in Iowa

J - Sidebooms prepare to install Mississippi River Crossing in Minnesota



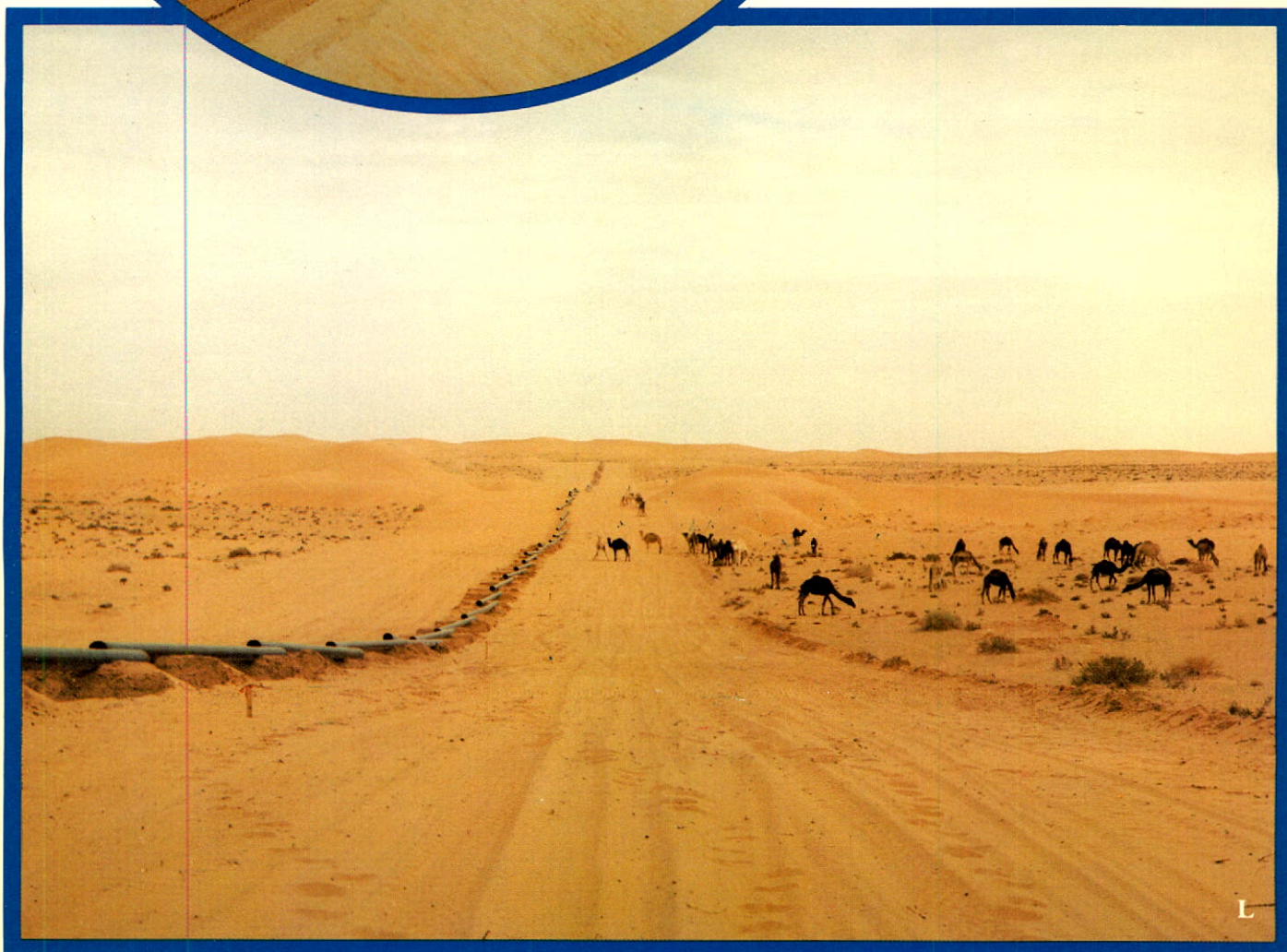


SAUDI ARABIA PROJECT

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K - Crew lowering-in 660.4 mm pipe in the desert

L - 660.4 mm pipe strung on sand berms for Quasim Project in Saudi Arabia



CORPORATE INFORMATION

Board of Directors:

J.M. Banks

Chairman of the Board of Directors,
Majestic Contractors Limited

J.B. Barber

Retired Executive,
Formerly Vice Chairman of the Board and
Senior Vice President,
The Algoma Steel Corporation

G.W. Clayton

Principal,
Columbia Pacific Resources Group Ltd.

A.J. Cressey

President and Chief Executive Officer,
Majestic Contractors Limited

J.E. Maybin

President,
Colmac Energy Inc.
American Consumer Industries Inc.

D.B. Perini

Chairman of the Board,
President and Chief Executive Officer
Perini Corporation

Officers:

J.M. Banks

Chairman of the Board of Directors

A.J. Cressey

President and Chief Executive Officer

G.M. Oswald

Senior Vice President, Pipeline Operations

N.A. Harrison

Senior Vice President, Finance and Administration

K. Austin

Vice President, U.S. Operations

L.G. Ziehr

Vice President, Canada

J. Kolbl

Vice President, International

M.J. Finlayson

Vice President, Special Projects

A.D. Munro

Vice President, Equipment and Purchasing

L.G. Wasylynchuk

Vice President, Comptroller and Secretary

R. Peltier

Vice President, Administration,
U.S. and Assistant Secretary

R.J. Haagsma

Assistant Comptroller

Transfer Agent and Registrar:

Montreal Trust Company
Calgary and Toronto

Stock Exchange Listing:

The Toronto Stock Exchange
(symbol MJC)

Bankers:

The Royal Bank of Canada

Auditors:

Arthur Andersen & Co.,
Chartered Accountants

Offices:

Corporate/Canadian Pipeline Division

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Edmonton, Alberta, Canada T6H 4P1
Telephone: (403) 988-6421
Telex: 037-41558
Telecopier: (403) 988-5727

U.S. Pipeline Division

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19784 Kenrick Avenue
Lakeville, Minnesota, USA 55044
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Telex: 29-0877
Telecopier: (612) 469-5454

India Representative's Office

1st Floor, Tower Block, Suite 146
Ashok Hotel
50-B Chanakyapuri
New Delhi - 110021 India
Telephone: 600-121/412 Ext. 2464/2465
Telex: 65207/65647

Majestic International Contractors Limited

P.O. Box 1179
Thirty Cedar Avenue
Hamilton, 5-24 Bermuda
Telephone: (809) 295-2244
Telex: 3223

Majestic Laser Systems Ltd. (51%)

Dr. H.J. Seguin, President
P.O. Box 8205, Station "F"
Edmonton, Alberta, Canada T6H 4P1
Telephone: (403) 988-6421
Telex: 037-41558

Abahsain Majestic Pipeline Company Limited (49%)

P.O. Box 4684
Dammam, 31412 Saudi Arabia
Telephone: 8640956
Telex: 870026 (BAHSAIN SJ)





AUDITORS' REPORT

To the Shareholders of Majestic Contractors Limited:

We have examined the consolidated balance sheets of Majestic Contractors Limited (an Ontario corporation) as at December 31, 1985 and 1984, and the related consolidated statements of loss, retained earnings and changes in financial position for the years then ended. 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 accompanying consolidated financial statements present fairly the financial position of the company as at December 31, 1985 and 1984, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
January 31, 1986

Arthur Andersen & Co. CHARTERED ACCOUNTANTS

SUMMARY OF ACCOUNTING POLICIES

December 31, 1985 and 1984

ACCOUNTING PRINCIPLES

The consolidated financial statements are prepared by Majestic Contractors Limited (the Company) in accordance with accounting principles generally accepted in Canada and conform in all material respects with the standards of the International Accounting Standards Committee.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are expressed in Canadian dollars and include the accounts of the Company, its 100% owned subsidiary, Majestic International Contractors Limited (MICL), its 51% owned subsidiary, Majestic Laser Systems Ltd. and its pro rata share, utilizing the proportionate consolidation method, of the assets, liabilities, revenues and expenses of joint ventures. Details for joint ventures have not been provided as the amounts are not material. All significant intercompany transactions and balances have been eliminated on consolidation.

TRANSLATION OF FOREIGN CURRENCIES

The U.S. Division is an integrated foreign operation. The U.S. Division accounts stated in foreign currencies have been translated into Canadian dollars as follows:

- as to current assets (except for prepaid expenses) and current liabilities (except for deferred contract revenue) at the exchange rate at the balance sheet date;
- as to all other assets, liabilities and non-current deferred income taxes, at the approximate rate of exchange at the time the transaction occurred; and
- as to revenues and expenses, at the average rate of exchange for the year, except for items relating to balance sheet accounts that are translated at historical exchange rates.

All translation gains and losses related to the U.S. Division are included in the Consolidated Statements of Loss in accordance with generally accepted accounting principles applicable in Canada.

MICL is a self-sustaining foreign operation. The accounts of this subsidiary stated in foreign currencies have been translated into Canadian dollars as follows:

- a) Assets and liabilities at the rate of exchange in effect at the balance sheet date.
- b) Revenue and expense items at the rate of exchange in effect on the dates on which such items are recognized in income during the period.

The resulting translation adjustments are deferred and shown as a separate component of shareholders' equity.

ACCOUNTING FOR CONSTRUCTION CONTRACTS

Profits from construction contracts are recognized for accounting purposes on the percentage of completion method. The percentage of completion is determined by relating the actual cost of work performed to date, to the current estimated total cost of the respective contracts. When the current estimated costs to complete indicate a loss, such a loss is recognized immediately for accounting purposes. Revisions in costs and earnings or loss estimates during the course of the work are reflected during the accounting period in which the facts which cause the revision become known. Income from claims is recorded in the year such claims are resolved.

Unbilled work represents the excess of contract costs and profits or losses recognized to date, on the percentage of completion accounting method, over billings to date. Deferred contract revenue represents the excess of billings to date over the amount of contract costs and profits or losses recognized to date, on the percentage of completion accounting method.

PROPERTY AND EQUIPMENT

All property and equipment is recorded at cost. The cost and the accumulated depreciation of property and equipment which is retired or sold are removed from the accounts and the gain or loss is recorded in the Consolidated Statements of Loss.

Depreciation is provided primarily on the declining balance method over the useful lives of the assets which are estimated to be 10 to 25 years for buildings, 3 to 10 years for construction equipment and 10 years for other assets.

INCOME TAXES

The provision for (recovery of) income taxes recognizes the tax effects of all income and expense transactions included in each year's financial statements regardless of the year the transactions are reported for tax purposes.

Investment tax credits relating to the scientific research investment contract were applied to reduce income taxes payable in the year in which it was purchased.

Deferred income taxes arising from items in current assets or current liabilities are classified as a current liability.

The non-current deferred income taxes arise primarily from the difference between the depreciation claimed for tax purposes and the depreciation recorded in the accounts, as well as from the scientific research investment contract.

INCOME (LOSS) PER SHARE

Computations of income (loss) per share are based on the weighted average number of shares outstanding during the respective years (1985 - 8,222,355 shares; 1984 - 8,397,391 shares). The additional number of shares issuable upon the potential exercise of employees' stock options has not been included since the effect would not be material.

PENSION AND INCENTIVE COMPENSATION PLANS

The Company has two non-contributory pension plans which cover its executive, professional, administrative and clerical employees, subject to certain specified service requirements. An actuarial valuation is prepared at least every three years. The actuarial valuations as at December 31, 1985 for both the Canadian plan and the United States plan indicate that there is no unfunded liability in either plan.

The Company has an incentive compensation plan which provides for payment to be made to certain key employees based on performance goals. Amounts accrued under this plan are charged to income in the current year and are payable over a period of years, subject to approval of the Board of Directors. The amount not currently payable is immaterial.

SCIENTIFIC RESEARCH INVESTMENT CONTRACT

In 1982, the Company purchased a scientific research investment contract. This investment qualifies as a research and development expense for income tax purposes. Under the Income Tax Act, there is a permanent tax saving which has been applied to reduce the cost of the investment in the financial statements.

The contract entitles the Company to guaranteed semi-annual royalty payments from 1983 to 1986. The cost of the investment and the related income taxes are being amortized over the life of the guaranteed royalty payments.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs, net of any related grants from government incentive programs, are expensed.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to be consistent with the current year classifications, including the discontinued operation, previously accounted for using the equity method as referred to in Note 1.

CONSOLIDATED BALANCE SHEETS

As at December 31, 1985 and 1984

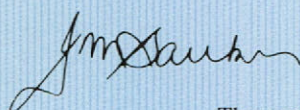
ASSETS

	1985	1984
Current assets:		
Cash and term deposits	\$14,878,000	\$17,560,000
Accounts receivable (Note 1)	2,592,000	2,676,000
Holdbacks receivable	4,645,000	2,058,000
Unbilled work	201,000	—
Current portion of scientific research investment contract	875,000	875,000
Income taxes recoverable	—	111,000
Prepaid and other	211,000	319,000
Total current assets	23,402,000	23,599,000
Equity investment (Note 1)	—	4,423,000
Property and equipment:		
Land	118,000	118,000
Buildings	2,720,000	2,512,000
Construction equipment	37,104,000	34,853,000
Other	921,000	919,000
	40,863,000	38,402,000
Less accumulated depreciation	29,690,000	28,169,000
Net property and equipment	11,173,000	10,233,000
Scientific research investment contract, net of accumulated amortization of \$2,625,000 (1984 — \$1,750,000)	—	875,000
	\$34,575,000	\$39,130,000

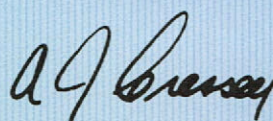
LIABILITIES AND SHAREHOLDERS' EQUITY

	1985	1984
Current liabilities:		
Accounts payable	\$ 1,347,000	\$ 2,325,000
Accrued liabilities	2,115,000	2,371,000
Dividends payable	—	2,064,000
Income taxes — current	1,190,000	—
Income taxes — deferred	2,141,000	600,000
Total current liabilities	6,793,000	7,360,000
Deferred income taxes	3,805,000	5,593,000
Shareholders' equity (Note 2):		
Capital Stock:		
Authorized — 20,000,000 shares without nominal or par value; issued and fully paid — 8,220,154 shares (1984 — 8,256,054 shares)	8,090,000	8,116,000
Contributed surplus	3,006,000	3,020,000
Retained earnings	13,134,000	15,079,000
Accumulated translation loss	(253,000)	(38,000)
Total shareholders' equity	23,977,000	26,177,000
	\$34,575,000	\$39,130,000

Approved by the Board:



Director



Director

The accompanying summary of accounting policies and notes are an integral part of these consolidated balance sheets.

CONSOLIDATED STATEMENTS OF LOSS

For the Years Ended December 31, 1985 and 1984

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	1985	1984
Revenues	<u>\$71,561,000</u>	<u>\$57,379,000</u>
Operating expenses:		
Cost of operations (Note 3)	66,949,000	57,638,000
General and administrative expenses	<u>3,340,000</u>	<u>3,183,000</u>
Total operating expenses	<u>70,289,000</u>	<u>60,821,000</u>
Income (Loss) before other income	1,272,000	(3,442,000)
Other income, net (Note 4)	<u>2,143,000</u>	<u>3,184,000</u>
Income (Loss) before provision for (recovery of) income taxes	3,415,000	(258,000)
Provision for (Recovery of) income taxes (Note 5)	<u>1,209,000</u>	<u>(1,057,000)</u>
Income from continuing operations	2,206,000	799,000
Loss on discontinued operation (Note 1)	<u>(4,076,000)</u>	<u>(1,892,000)</u>
Net loss	<u>\$ (1,870,000)</u>	<u>\$ (1,093,000)</u>
Income (Loss) per share:		
Continuing operations	\$ 0.27	\$ 0.10
Discontinued operation	<u>(0.50)</u>	<u>(0.23)</u>
Net loss per share	<u>\$ (0.23)</u>	<u>\$ (0.13)</u>

The accompanying summary of accounting policies and notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31, 1985 and 1984

	1985	1984
Balance, beginning of year	<u>\$15,079,000</u>	<u>\$20,684,000</u>
Net loss	(1,870,000)	(1,093,000)
Repurchase of shares (Note 2)	(75,000)	(341,000)
Dividends	—	(4,171,000)
Balance, end of year	<u>\$13,134,000</u>	<u>\$15,079,000</u>

The accompanying summary of accounting policies and notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31, 1985 and 1984

	1985	1984
Sources of working capital:		
Income from continuing operations	\$ 2,206,000	\$ 799,000
Depreciation and amortization	2,945,000	3,184,000
Deferred income taxes	(1,788,000)	(18,000)
Gain on sale of equipment	(10,000)	(32,000)
Provided by operations	3,353,000	3,933,000
Proceeds from disposal of discontinued operation	1,722,000	—
Proceeds from sale of equipment	133,000	111,000
Note receivable	—	220,000
Proceeds from exercise of employee stock options	12,000	65,000
Working capital provided	5,220,000	4,329,000
Uses of working capital:		
Investment in discontinued operation	3,750,000	6,315,000
Other	215,000	38,000
Purchase of equipment	758,000	327,000
Repurchase of shares	127,000	570,000
Dividends	—	4,171,000
Working capital used	4,850,000	11,421,000
Increase (Decrease) in working capital	370,000	(7,092,000)
Working capital, beginning of year	16,239,000	23,331,000
Working capital, end of year	<u>\$16,609,000</u>	<u>\$16,239,000</u>

The accompanying summary of accounting policies and notes are an integral part of these consolidated statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1985 and 1984

1. DISCONTINUED OPERATION

Abahsain Majestic Pipeline Company Limited, of which the Company is a 49% participant, discontinued its Saudi Arabian operation in 1985. The equipment was sold, approximately half to each of the shareholders. The Company's expected proceeds on disposal of the discontinued operation, \$1,722,000, is included in accounts receivable. The operating loss from the discontinued operation was \$758,000 and the estimated loss on disposal was \$3,318,000. The 1984 operations were accounted for on the equity method (\$2,024,000 in revenue and \$3,916,000 in cost of operations).

2. CAPITAL STOCK

In 1985, the Company purchased 39,500 (1984 — 169,500) shares of its capital stock on the open market for \$127,000 (1984 — \$570,000). These shares were subsequently cancelled and the capital stock, contributed surplus and retained earnings accounts have been reduced by \$38,000 (1984 — \$167,000), \$14,000 (1984 — \$62,000) and \$75,000 (1984 — \$341,000), respectively.

Certain key employees are granted options exercisable during the period of five years from the date of granting, entitling the employee to purchase shares of the Company at a rate of 20% of the total optioned shares per year on a cumulative basis.

Options for 3,600 shares at a price of \$3.40 per share were exercised during the year. Options for 13,624 shares at a price of \$3.40 per share were cancelled during the year. On February 13, 1985, options for 18,000 shares at a price of \$3.40 per share were granted and were outstanding at December 31, 1985.

On May 9, 1985, the shareholders confirmed and ratified the implementation of the "1985 Stock Option and Long-term Performance Incentive Plan". The Plan provides that 200,000 shares in the capital stock of the Company are reserved for issue upon exercise of stock options pursuant to the terms of the Plan, to such employees and at such price as may be determined from time to time by the 1985 Stock Option and Long-term Performance Incentive Plan Committee.

As at December 31, 1985, the following shares have been reserved:

For options granted	289,347
For future options	228,899
	<u>518,246</u>

3. RESEARCH AND DEVELOPMENT COSTS

Included in cost of operations are research and development costs of \$385,000 (1984 — \$505,000).

4. OTHER INCOME, NET

	1985	1984
Income from short-term investments	\$ 807,000	\$1,780,000
Interest income from loan to parent (Note 7)	315,000	—
Royalties from scientific research investment contract	1,477,000	1,407,000
Amortization of cost of scientific research investment contract	(1,250,000)	(1,250,000)
Foreign exchange gains	829,000	896,000
Interest expense	(102,000)	(91,000)
Other	67,000	442,000
	<u>\$2,143,000</u>	<u>\$3,184,000</u>

5. INCOME TAXES

The provision for (recovery of) income taxes is comprised of the following:

	1985	1984
Current	\$1,456,000	\$(1,039,000)
Current — deferred	1,541,000	—
Deferred	(1,788,000)	(18,000)
	<u>\$1,209,000</u>	<u>\$(1,057,000)</u>

The following schedule reconciles the expected income taxes to the actual income tax provision reported:

	1985	1984
Expected income taxes (recovery) related to pretax income (loss)		
at 49% (1984 — 50%)	\$1,665,000	\$ (130,000)
Amortization of tax saving from scientific research investment contract	(375,000)	(375,000)
Effect of investment tax credits on research and development expenditure	(31,000)	(54,000)
Foreign tax differences	22,000	(520,000)
Other	(72,000)	22,000
Provision for (Recovery of) income taxes	<u>\$1,209,000</u>	<u>\$(1,057,000)</u>

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration, including that portion of the incentive compensation earned during the year, paid or payable, for the years ended December 31 is as follows:

	1985		1984	
	Amount	Number	Amount	Number
Directors who are not Senior Officers	\$ 30,000	4	\$ 30,000	4
Directors who are also Senior Officers	<u>299,000</u>	<u>2</u>	<u>296,000</u>	<u>2</u>
	329,000	6	326,000	6
Senior Officers who are not Directors	<u>877,000</u>	<u>9</u>	<u>673,000</u>	<u>7</u>
	<u>\$1,206,000</u>	<u>15</u>	<u>\$999,000</u>	<u>13</u>

7. RELATED PARTY TRANSACTIONS

- (a) During the year, \$5,000,000 and \$1,500,000 U.S. were loaned to and repaid by the Company's parent. There was \$315,000 of interest earned on these loans.
- (b) Included in accounts receivable is \$297,000 U.S. from Perini International Corporation from a construction joint venture.

8. BUSINESS SEGMENT INFORMATION

The Company operates in one industry segment, that being pipeline construction. Its operations are conducted principally in Canada and the United States. The operations and identifiable assets by geographic region for the years ended December 31, 1985 and 1984 are as follows:

1985	CANADA	FOREIGN	TOTAL
Revenues	<u>\$38,441,000</u>	<u>\$33,120,000</u>	<u>\$71,561,000</u>
Operating income	<u>\$ 802,000</u>	<u>\$ 470,000</u>	<u>\$ 1,272,000</u>
Other income, net			2,143,000
Provision for income taxes			<u>(1,209,000)</u>
			2,206,000
Loss on discontinued operation			<u>(4,076,000)</u>
Net loss			<u>\$ (1,870,000)</u>
Identifiable assets	<u>\$25,894,000</u>	<u>\$ 8,681,000</u>	<u>\$34,575,000</u>
1984	CANADA	FOREIGN	TOTAL
Revenues	<u>\$47,911,000</u>	<u>\$ 9,468,000</u>	<u>\$57,379,000</u>
Operating loss	<u>\$ (2,665,000)</u>	<u>\$ (777,000)</u>	<u>\$ (3,442,000)</u>
Other income, net			3,184,000
Recovery of income taxes			<u>1,057,000</u>
			799,000
Loss on discontinued operation			<u>(1,892,000)</u>
Net loss			<u>\$ (1,093,000)</u>
Identifiable assets	<u>\$28,333,000</u>	<u>\$10,797,000</u>	<u>\$39,130,000</u>

9. CONTINGENCIES

Contingent liabilities include the usual liability of contractors for performance and completion of construction contracts.

FIVE YEAR FINANCIAL REVIEW

(in thousands except per share amounts and ratios)

For the years ended December 31

1985

1984

1983

1982

1981

Operating Results:

Revenues	\$ 71,561	\$ 57,379	\$ 28,928	\$136,420	\$158,798
Gross income (loss) from operations ..	4,612	(259)	(4,619)	19,134	34,748
General & administrative expenses ...	3,340	3,183	4,346	5,104	6,003
Other income, net	2,143	3,184	2,569	1,791	1,105
Income (loss) before income taxes	3,415	(258)	(6,396)	15,821	29,850
Provision for (recovery of) income taxes	1,209	(1,057)	(3,655)	7,624	15,025
Income from continuing operations ..	2,206	799	(2,741)	8,197	14,825
Loss on discontinued operation	(4,076)	(1,892)	—	—	—
Net income (loss)	(1,870)	(1,093)	(2,741)	8,197	14,825
Income (loss) from continuing operations per share	0.27	0.10	(0.33)	0.98	1.77
Net income (loss) per common share .	(0.23)	(0.13)	(0.33)	0.98	1.77
Weighted average common shares outstanding used in per share calculations	8,222	8,397	8,393	8,378	8,360

Balance Sheet Data:

Total assets	\$ 34,575	\$ 39,130	\$ 43,544	\$ 55,258	\$ 68,518
Cash and term deposits	14,878	17,560	20,210	31,908	18,774
Current assets	23,402	23,599	28,405	36,242	50,115
Current liabilities	6,793	7,360	5,949	14,628	29,337
Working capital	16,609	16,239	22,456	21,614	20,778
Current ratio	3.4:1	3.2:1	4.8:1	2.5:1	1.7:1
Property and equipment — net	\$ 11,173	\$ 10,233	\$ 12,294	\$ 15,187	\$ 17,757
Deferred income taxes	3,805	5,593	5,611	5,986	4,364
Shareholders' equity	23,977	26,177	31,984	34,644	34,817
Shareholders' equity per common share	2.92	3.17	3.81	4.13	4.16

Operating Statistics:

Net income (loss) as a percentage of revenues	(2.6)%	(1.9)%	(9.5)%	6.0%	9.3%
Net income (loss) as a percentage of average shareholders' equity	(7.4)%	(3.8)%	(8.2)%	23.6%	54.2%
Net income (loss) as a percentage of average capital employed	(6.3)%	(3.2)%	(7.0)%	20.5%	48.1%
Funds provided by operations	\$ 3,353	\$ 3,933	\$ 677	\$ 13,450	\$ 19,954
Additions to property and equipment	758	327	289	1,382	12,173

