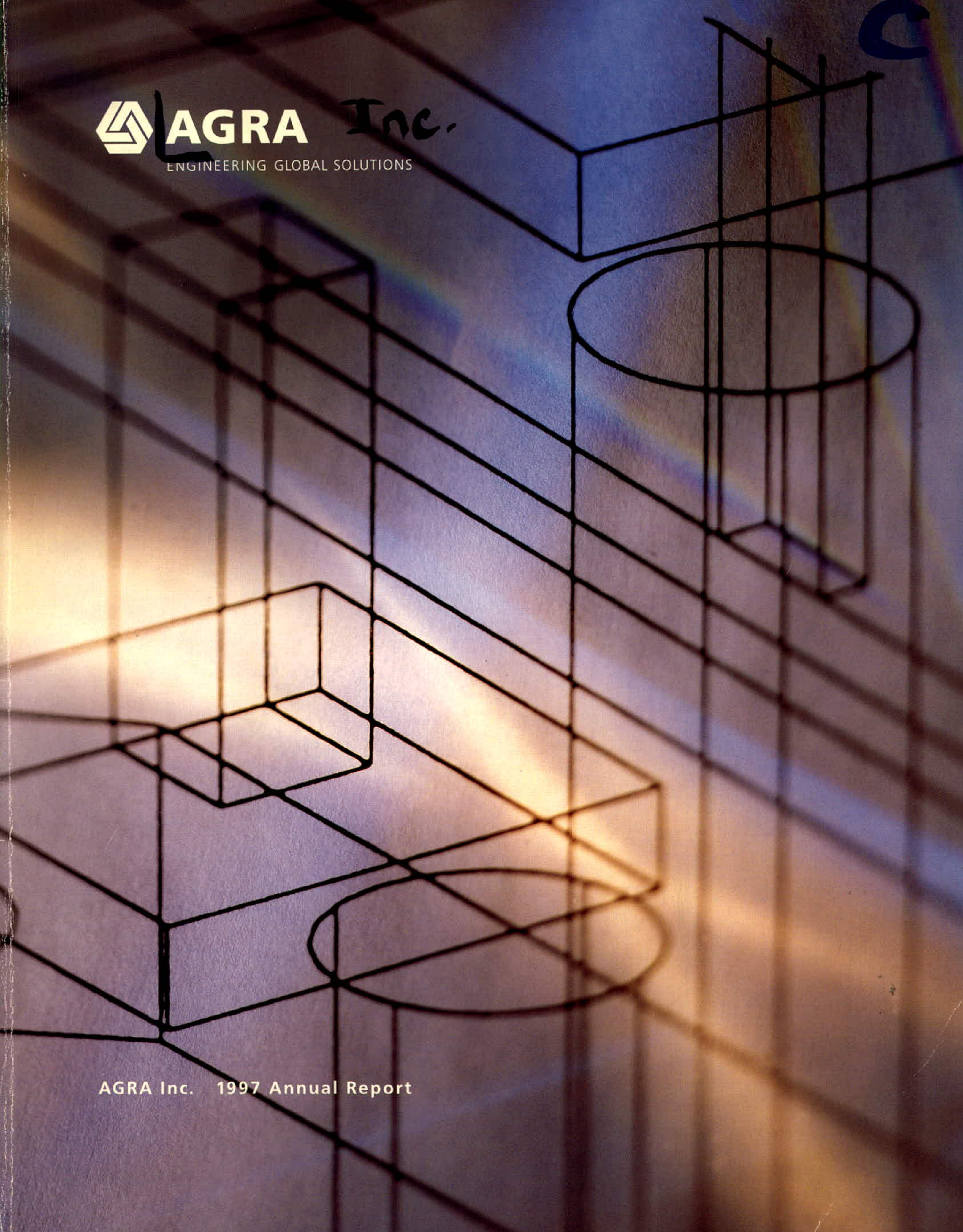
AGRA Inc.

ENGINEERING GLOBAL SOLUTIONS



AGRA Inc. 1997 Annual Report

Corporate Profile

AGRA Inc. is an international engineering, construction and technology company. Headquartered in Canada, it employs 5,000 people and operates 155 offices in 22 countries.

AGRA provides complete project solutions and specialized services in the areas of toll highways and other infrastructure development, process industries, electric power generation and transmission, marine and deep foundation construction, pipelines, specialty steel design and fabrication, environmental engineering, systems integration and geographic information systems data conversion. AGRA also owns hotel and duty-free retailing businesses which it considers non-core assets.

AGRA's core expertise includes project development, ownership and operation, project financing, consortium management, engineering, procurement and construction management, project management systems, systems engineering, radio spectrum management, environmental engineering, pipeline and specialty construction services.

AGRA's targeted markets for growth include North America, China, South and Southeast Asia, the Middle East, Eastern Europe and Latin America.

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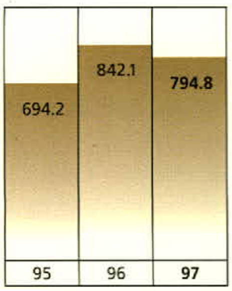
Financial Highlights

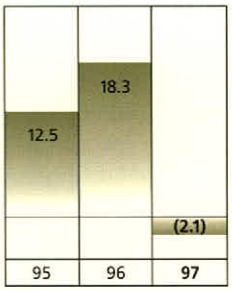
For the year ended July 31, 1997	1997	1996*
OPERATIONS *(in thousands of dollars)*		
Revenue	$ 794,842	842,083
Earnings (loss)		
From continuing operations	(2,368)	13,601
Discontinued operations	229	4,656
Net Earnings (Loss)	$ (2,139)	18,257
COMMON SHARE STATISTICS *(per share)*		
Earnings (loss)		
From continuing operations	$ (0.10)	0.64
Net Earnings (Loss)	(0.09)	0.87
Fully diluted earnings (loss)		
From continuing operations	(0.10)	0.59
Net Earnings (Loss)	(0.09)	0.77
Cash flow from operations	(0.15)	1.24
Dividends – Common	0.12	–
– Class A	0.035	0.14
– Class B	0.04	0.16
Equity	9.86	10.27
OTHER STATISTICS *(in thousands)*		
Average shares outstanding	23,108	20,931
Shareholders' equity	$ 290,461	216,606
Working capital	$ 117,864	84,407
SEGMENTED INFORMATION *(in thousands of dollars)*		
Revenue		
Engineering, Construction & Technology	$ 604,527	652,128
Asset Development & Investments	190,315	189,955
	$ 794,842	842,083
Operating Profits (before interest and taxes)		
Engineering, Construction & Technology	$ 3,907	21,752
Asset Development & Investments	17,693	16,178
	$ 21,600	37,930

**Comparative figures have been restated to reflect operations discontinued during the 1997 fiscal year.*

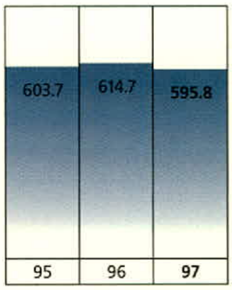
AGRA Revenue
($ in millions)



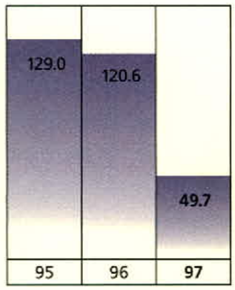
AGRA Net Earnings (Loss)
($ in millions)



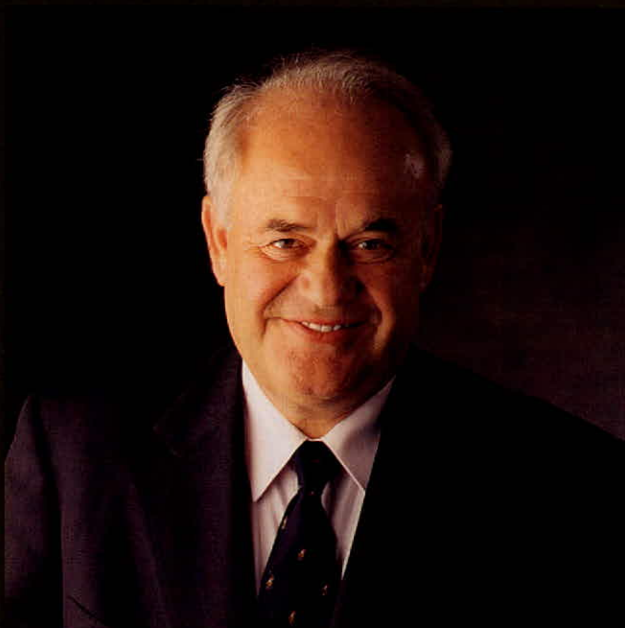
AGRA Total Assets
($ in millions)



AGRA Long-Term Debt
($ in millions)



President's Message



Alex Taylor
President and CEO

"Future growth will come through ongoing bids on major projects worldwide and through acquisitions related to our core engineering, construction and technology business."

This year AGRA strengthened its balance sheet and significantly increased its backlog of major contracts in order to position the company for continuing growth. Future growth will come through ongoing bids on major projects worldwide and through acquisitions related to our core engineering, construction and technology business. While we are encouraged by the medium to longer-term outlook based on our high success rate in winning highly competitive bids, results from our continuing operations were disappointing this year. We have therefore taken steps to improve cost effectiveness and we will continue to narrow our focus through the divestiture of non-core assets. We will achieve improved earnings levels as these steps are implemented, and as major contracts begin generating higher revenues and operating profits in the second half of fiscal 1998.

Improved Balance Sheet One of this year's most important achievements was a significant improvement in our share structure and balance sheet. The fiscal year began with shareholders voting more than 99% in favour of the reclassification of AGRA's shares into a single class of common voting shares. This change helped to broaden the market for AGRA's shares, as did the company's move onto the TSE 300 index in January.

To grow successfully, AGRA must be positioned with sufficient working capital to fund large projects and new acquisitions. In March, the Board approved a share offering which successfully raised $34.3 million for the company. These funds, together with cash proceeds from the settlement of the Pearson International Airport dispute in April, have greatly strengthened AGRA's financial foundation.

In May, AGRA called for the conversion of its outstanding 8% Convertible Subordinated Debentures. The conversion of these debentures into AGRA common shares increased our market capitalization to more than $350 million and significantly reduced the company's long-term debt.

Increased Backlog As of July 31, 1997, we had increased our backlog to $860 million from $533 million at the end of fiscal 1996. This year we were pleased to have won all four of the major projects we targeted as strategic for profitable growth in our core business. AGRA and its partners were selected, in world-class competition, to serve as engineers and project managers for the $1.5 billion Sable Offshore Energy Project, the $1.5 billion floating Terra Nova oil platform and Syncrude's $900 million Aurora Mine. Through our associated companies, Canatom and Nuclear Project Managers, we also negotiated a leading role in the multi-billion-dollar Qinshan CANDU power project in China.

New Opportunities and Alliances Several other developments also helped to position us for improved performance in the future. In November, we formed AGRA Infrastructure, Inc. through the purchase of Standage & Truitt Engineering, Ltd. of Arizona. We have already won a number of significant road engineering contracts through AGRA Infrastructure and we will continue to expand our civil engineering work in Arizona, Nevada and Utah – some of the fastest-growing areas of the United States.

"Our growth strategy is founded upon a renewed focus on excellence and profitable growth in our core business."

AGRA's non-exclusive alliance with Newcourt Credit Group, outlined in last year's report, has been highly productive as we and other financial partners have worked toward structuring innovative infrastructure solutions for clients in North America and worldwide. AGRA has identified several opportunities for large financed projects, including a major proposal led by Bombardier for the development of a high-speed train from Toronto to Quebec City. AGRA has taken a position in this consortium.

This year we also formed an important new alliance with American Water Works of New Jersey and Anglian Water of the United Kingdom for the development and operation of water and waste water facilities. We see this as an important area of opportunity as municipalities in Canada and elsewhere turn increasingly to the private sector to assist with the financing, development and operation of their water systems.

Results From Operations Despite these important developments, results from operations were disappointing and unsatisfactory. During the year, we experienced increased competition at our duty-free retail and hotel operations and significantly higher lease costs for our duty-free stores. In the fourth quarter, we also faced reduced spending by Asian travellers to western Canada. All these factors contributed to a significant reduction in operating profits in our non-core Asset Development & Investments Sector.

In our Engineering, Construction & Technology Sector, we experienced lower revenues and operating efficiencies following the conclusion or winding down of several large contracts during the latter part of the year. Unfortunately, we were unable to bring our major new projects on-stream fast enough to make up for these shortfalls. At the same time, we incurred large expenses for complex bids in the power, toll highway and offshore oil and gas areas and experienced losses in our specialty steel fabrication, GIS data conversion and U.S. earth and environmental operations, which we have taken action to address.

We did record strong performance in our pipeline group and our Canadian foundation construction and Canadian earth and environmental operations, but profits from these areas could not offset losses or declining earnings in other areas. Gains from the sale of ProMIRA Software and our interest in Saztec of the Philippines, as well as proceeds from the settlement of the Pearson International Airport development case, provided large positive contributions, but tax payments related to these gains were very high.

Improving Performance To improve the performance of our operations, we have taken steps to increase our volume of profitable work while lowering costs in operations. In this regard we are poised for the final sanctioning of the Sable Offshore Energy Project, the Terra Nova oil project and Syncrude's Aurora Mine, as outlined above. Through Canadian Highways International Corporation, we are in the final stages of bidding or negotiation for large toll highway projects in Israel and New Brunswick and we will bid on the Highway 407 extension in Ontario in late 1997.

To improve cost effectiveness, we have cut corporate and unit overheads and we have consolidated certain operations, including our engineering businesses in Quebec. We have reviewed losing operations and taken corrective actions, including changes in senior management at certain operations.

To sharpen our focus on excellence in our core business, AGRA's Board of Directors has authorized management to consider plans for the sale of AGRA's interest in Allders International (Canada) Limited as well as a plan that will position AGRA to divest its interest in the Grand Cayman Hyatt Regency Hotel within the current three-year planning period.

Taken together, we are confident that these steps will improve profitability and enable AGRA to better leverage its capital assets for long-term profitable growth.

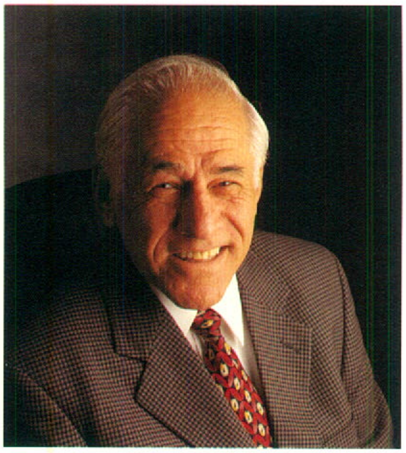
Growth Strategy Despite this year's downturn in revenues and earnings, AGRA still believes that it can achieve its targets of $1.5 billion in revenues with a 12% return on shareholders' equity by fiscal 2000. As outlined in more detail later in this report, our growth strategy is founded upon a renewed focus on excellence and profitable growth in our core engineering, construction and technology business. We will exit non-core or under-performing operations and make strategic acquisitions in key areas. We will also extend our presence in international growth markets and build upon our leadership in the financing, development and management of complete financed project solutions for our clients worldwide.

Acknowledgments I would like to thank AGRA's Board members, our employees and our shareholders for their support throughout this fiscal year. I am confident that together we can look forward to profitable growth in fiscal 1998.

Alexander Taylor

Alex Taylor
President and CEO

Chairman's Message



Three important developments of this past year merit recognition as a result of their impact on AGRA's past, present and future. In 1997 we celebrated the 90th anniversary of AGRA Monenco, our flagship engineering, procurement and construction management operation. We also updated AGRA's corporate identity and we successfully concluded important improvements to AGRA's balance sheet.

The 90th anniversary of AGRA Monenco is an important milestone in the history of our company. AGRA Monenco was founded in 1907 as the Montreal Engineering Company. The company stemmed from the Royal Securities Corporation of Montreal, a financial firm with interests in the development of electric power stations and high-voltage power transmission throughout South, Central and North America. The company's founders, W.M. Aitken (later Lord Beaverbrook) and I.W. Killam saw the importance of providing sound engineering analysis and appraisals in support of their financial ventures. From these beginnings, the company evolved into separate financial and engineering enterprises as power utilities were nationalized before and after the Second World War.

In the years that followed, the company diversified its services to include work on oil, gas and pipeline expansions, infrastructure and specialized systems engineering, including geographic information systems. AGRA's purchase of Monenco in 1992 greatly expanded our core Engineering, Construction & Technology business and added to our international strength.

Today, AGRA is focusing more than ever before on excellence in its core business. The company plans to move ahead with the divestiture of its remaining non-core assets and reinvest its capital in high-growth core business. To reflect this change, this year we dropped the word "Industries" from our name and established a more consistent AGRA brand identity among our operating subsidiaries.

This year also saw a number of important steps with significant implications for the future of our company. Management initiatives have increased AGRA's share liquidity, reduced our long-term debt and placed the company in one of the strongest financial positions since its founding. Our strengthened balance sheet now provides an excellent foundation for future acquisitions and growth.

In December 1996, two long-standing company directors, Alan Torchinsky and Raymon Torchinsky, retired from their positions on AGRA's Board of Directors and shareholders elected two new directors – Joyce Borden Reed, Corporate Counsel and Secretary of Motorola Canada Limited and Steve Hudson, President and CEO of Newcourt Credit Group. I wish to express my deep gratitude to Alan and Raymon for their unwavering dedication and support. I would also like to thank Joyce Borden Reed, Steve Hudson and all other AGRA Board members for their hard work and dedication throughout this fiscal year.

Ben Torchinsky
Chairman of the Board

Review of Operations

H. William Pearson
President, AGRA Development Group

Robert G. Dittmer
Executive Vice-President, Finance and Administration, and Secretary, AGRA Inc.

Robert G. Van Adel
President, AGRA Monenco

William A. Slusarchuk
President, AGRA Earth & Environmental Group

F. Dennis McCarthy
President, AGRA Construction Group

1997 Overview

Hibernia offshore oil project – Canada

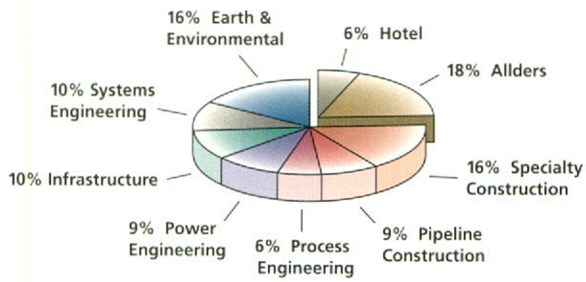
AGRA's businesses are organized into the core Engineering, Construction & Technology (ECT) Sector and the non-core Asset Development & Investments Sector.

The ECT Sector includes the General Engineering & Construction Group (focused on process industries, power, infrastructure and construction), the Earth & Environmental Engineering Group and the Systems Engineering Group.

The Asset Development & Investments Sector includes the duty-free retail operations of Allders International (Canada) Limited and AGRA's Hyatt Regency Hotel in Grand Cayman.

The following chart breaks out key areas of AGRA's business by percentage of total 1997 revenues.

Revenue Breakdown



Process Industries

Profile AGRA provides complete process industry solutions for oil and gas production and processing, oil sands mining and extraction, heavy oil upgraders, petrochemical, mining, agriculture, waste treatment, pharmaceutical and biotechnology projects worldwide.

Highlights

- Selected as alliance partner for the engineering and project management of the $1.5 billion Sable Offshore Energy Project and awarded construction management contract for the $100 million onshore facility
- Selected as alliance partner, engineers and project managers for the $1.5 billion Terra Nova offshore floating oil production project
- Selected as alliance partner, engineers and project managers for Syncrude's $900 million Aurora oil sands mine expansion at Fort McMurray
- Operations and maintenance contract work began for the $6.5 billion Hibernia offshore oil production project
- Work completed on the $30 million membrane cells modernization project for ICI Canada at Becancour
- Selected by Nova Chemical for petrochemical facilities upgrades in Sarnia
- Ongoing process work for Dupont, Shell and Canadian AGRA Foods

Outlook We have greatly expanded our backlog of process industry work, especially in the oil and gas sector. Continued energy sector capital investment in offshore production and oil sands projects is expected to generate significant new opportunities. We will build on our leading position in the Canadian marketplace and expand our international work.

Grati Power Plant – Indonesia

Highway 407 – Canada

Power

Profile AGRA is a leader in the development of resources for electric power generation, transmission and distribution. We offer our customers complete project management, engineering, procurement, construction management and financing solutions for hydro, thermal, cogeneration and nuclear power projects.

Highlights

- Contracted for on-site project, construction, commissioning management and Canadian procurement management for two 700-megawatt CANDU power units at Qinshan, China, through associated companies CANATOM and NPM
- Project management system customization and training for the multi-billion-dollar Three Gorges project and marketing of additional power service packages
- Established a new alliance with Union Energy of Thailand – selected as owner's engineer for the Hin Krut thermal plant
- Completion of 75 per cent of the Zongo Valley hydro-electric project for Bolivian Power
- Completed PLN's 800-megawatt combined cycle thermal plant at Grati, Indonesia
- Work advanced on the Agbulu thermal power plant for the National Power Corporation of the Philippines
- Enhanced AGRA Monenco power unit marketing and project financing capabilities
- Established strategic alliances with key developers and manufacturers

Outlook We strengthened our international power marketing capability and reoriented our focus toward the development of small or mid-sized independent power projects in China, South Asia and Latin America. Demand is strong in these regions but currency fluctuations and complex deal structuring requirements have delayed several potential projects. Weak domestic markets are expected to improve with energy market deregulation and recent developments which may generate large new power opportunities in Ontario.

Infrastructure

Profile AGRA is a proven leader in the development, engineering, management and operation of infrastructure including toll highways, roads, water and waste water facilities, airports, ports, rail systems, bridges and tunnels.

Highlights

- Opened the first 35-kilometre section of toll Highway 407 north of Toronto – nearing completion of remaining sections
- Substantial completion of toll Highway 104 in Nova Scotia – Canada's first privately financed toll highway
- Shortlisted for the $1 billion Cross Israel Toll Highway and the $800 million New Brunswick toll highway from Fredericton to Moncton
- Formed Allied Water for water/waste water development and operations in alliance with American Water Works and Anglian Water
- Formed AGRA Infrastructure, Inc. through the purchase of Standage & Truitt and we were selected as construction managers for a three-mile section of Arizona's Pima Expressway
- Continued expansion of our western Canadian road engineering business through Torchinsky Engineering
- Joined Bombardier's Lynx High Speed Rail consortium carrying out a pre-feasibility study for the development of a $10 billion Toronto-Quebec City rail link

Outlook The worldwide trend toward privatization, outsourcing and public-private partnerships offers excellent opportunities for AGRA. We anticipate consistent revenue growth through Canadian Highways International Corporation's toll highway business and plan to expand our water/waste water, road engineering and other infrastructure business areas.

Pipeline construction work– United States

AGRA Earth & Environmental – North America

Construction

Profile The AGRA Construction Group provides earth retention systems and specialized foundation, marine and pipeline construction services to customers throughout North America and worldwide. AGRA also provides condominium construction services and specialty steel design, fabrication and construction management for astronomy telescopes and other specialized structures.

Highlights

- Developed an advanced automated pipeline welding technology
- Awarded $50 million in Alberta pipeline contracts for Nova Gas Transmission and Alberta Energy
- Awarded and completed a 144-kilometre Montana-Wyoming section of the Express Crude Oil Pipeline
- Expanded revenues and profitability in our western Canadian piling group
- Awarded $4.3 million in marine sewer outfall and bridge foundation contracts in Greece and Great Britain through Seacore of the United Kingdom
- Completed the sale of 24 condominiums, 2 townhouses and 7 residential lots through Ellesmere Britannia
- Awarded additional specialty steel structure design contracts for Walt Disney in Japan and California
- Completed substructure foundation work for the San Diego Light Rapid Transit project

Outlook Prospects are excellent in western Canadian marine and foundation construction markets, where we maintain market dominance. We have improved our backlog of U.S. foundation work and expect growth in this area. Pipeline construction markets remain very strong, driven by capital expansion in the North American energy sector. Our specialty steel fabrication business continues its reorientation toward new markets.

Earth & Environmental Engineering

Profile AGRA Earth & Environmental provides a full range of environmental consulting services including environmental planning and management, water resources, geotechnical and materials engineering, waste management and analytical services.

Highlights

- Received the Canadian International Development Agency environment award, the Emerald Award and the Canadian Consulting Engineering Award for environmental excellence
- Voted Outstanding Environmental Consulting Firm in Arizona by the local business community
- Awarded a $19 million soil and water resources management project for Egypt's Nile River valley
- National partnering relationships with Wal-Mart, Esso, Kell Real Estate, Shell Canada, Westcoast Energy and Interprovincial Pipelines
- Launched the Windows™-based AGRA Environmental Management System™
- Opened new offices in Argentia, Mississauga, Hamilton and St. Catharines
- Conducted materials testing for the Seattle Mariners' new Pacific Northwest Stadium
- Carried out geotechnical engineering and materials testing for Nike's corporate headquarters
- Siberia-Mongolia-China pipeline feasibility study for Nippon Steel Corporation of Japan
- Preliminary engineering study for the Kuranakh Mine in Russia for Echo Bay Mines
- Oil sands environmental, engineering and materials testing for Syncrude, Suncor and Shell Canada in Fort McMurray

Outlook North American markets are highly competitive. Prospects remain strong for sustained profitable growth in our Canadian and international operations. We have focused managerial attention on improving the commercial performance of our western U.S. operations and expect improved results in fiscal 1998.

Radio Spectrum Management – Indonesia

Allders International duty-free – Vancouver International Airport

Systems Engineering

Profile AGRA's Systems Engineering Group provides specialized services in the areas of systems integration, project management systems, radio spectrum management, currency security and geographic information systems (GIS) data conversion.

Highlights

- Completion of AGRA Spectrocan's $40 million Phase II contract in Indonesia
- Radio spectrum technology transfer and marketing agreement with JTM in Malaysia
- Bids/proposals for extensions on new radio spectrum contracts in Indonesia, Argentina, Pakistan and Sri Lanka
- Selected as systems integrator for Canada's National Firearms Registry
- AxioM™ project management system license and partnership with Kabool of Korea
- AxioM™ translation, customization and training for Three Gorges Corporation
- Contracted for creation of Three Gorges information centre and Web site
- Systems integration and project management for Canadian Departments of National Defence and Veterans' Affairs
- Significant new GIS data conversion contracts with British Telecom, US West, TELESP, Copenhagen Energy and NUPNEM
- Strategic alliances for GIS data conversion with partners in Brazil and Argentina
- Test marketed DuraNote plastic currency in partnership with selected national currency reserves

Outlook Government outsourcing in Canada will continue to provide systems integration and project management opportunities. We have submitted bids on selected radio spectrum management contracts and expect to build our backlog in this area. We continue to refocus our GIS data conversion business for improved profitability and retain international market leadership in this area.

Asset Development & Investments

Profile AGRA's non-core businesses include Allders International (Canada) duty-free retail stores and the Hyatt Regency hotel in Grand Cayman. AGRA plans to divest these businesses within its current three-year planning cycle in order to focus on its core Engineering, Construction & Technology business.

Highlights

- Completed sale of AGRA Plastics
- Board approved plans to exit remaining non-core businesses in a manner that will realize the best possible value for shareholders
- Significant cash resources were returned to Allders and AGRA through the resolution of the Pearson International Airport case
- AGRA gained a new operating partner in its duty-free retail business with the Nuance/Swissair purchase of Allders' 49 per cent interest in the operation
- A 53-suite beachfront addition to the hotel was approved to address local competition and better position the hotel for sale by fiscal 1999
- The Cayman Hyatt Regency was voted best hotel value in the Caribbean, Bahamas and Bermuda by Travel & Leisure magazine

Outlook Competitive pressures on both non-core operations are expected to preclude significant increases in short-term profitability. Weakness in the Japanese economy and a shortage of western Canadian hotel accommodations are key factors that will continue to negatively affect duty-free retail volumes. Our focus will be on recognizing value for these assets and positioning them for sale.

ATLANTIC
Bermuda Is.
(U.K.)
Hamilton
CUBA
BAHAMAS
San Juan
DOMINICA
BARBADOS
GRENADA
TRINIDAD AND TOBAGO
New York
TEXAS
Dallas

Backlog

AGRA's Year-End Backlog AGRA's backlog as of July 31, 1997 was $860 million. This represented a 61 per cent increase over the previous year's backlog of $533 million. Backlog grew as a result of the signing of a large multi-year contract for two CANDU power units at Qinshan, China, the initiation of front-end design work for the Sable Offshore Energy Project and the Terra Nova oil platform as well as strong year-end volumes in our pipeline construction operations. Additional revenues will be added to AGRA's backlog total when final regulatory approvals and project sanctioning is completed for the Aurora Mine oil sands project and the Terra Nova and Sable offshore energy projects.

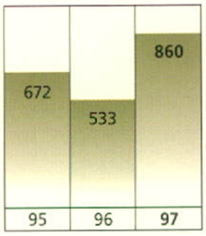
Understanding AGRA's Backlog AGRA segments its year-end backlog according to the three groups of its ECT Sector: General Engineering & Construction, Systems Engineering and Earth & Environmental Engineering. Most of AGRA's backlog is generated through large multi-year contracts in the areas of process industries, power, infrastructure and systems.

AGRA's year-end backlog calculation does not include revenues secured through multi-year leases in the company's duty-free operations or advance hotel room bookings. The company's Asset Development & Investments Sector operations generate approximately $200 million in revenues annually with no impact on backlog. Backlog statistics therefore provide only a partial measure of the company's future work.

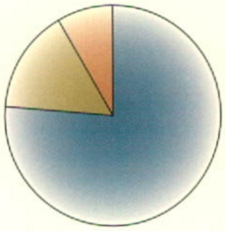
Many of AGRA's core ECT Sector operations also achieve considerable in-year volumes without adding significantly to year-end backlog. AGRA's GIS data conversion and pipeline, marine and foundation construction operations obtain numerous short-term projects each year, many of which are bid, contracted and completed within a two to three-month period. Revenues from such short-term projects are generally not reflected in the year-end backlog. AGRA does, however, include a full year's revenues from its earth and environmental operations to reflect the consistent total contribution of this group.

AGRA records as backlog work in its Engineering, Construction & Technology (ECT) Sector which has been contracted but not yet completed. Year-to-year changes in backlog provide one measure of the company's success in securing large projects and an indicator of the company's potential for growth.

ECT Sector Backlog
($ in millions)



Backlog – ECT Groups
($ in millions)



GE&C Group	658.1
E&E Group	132.0
Systems Group	69.9

Managing Risk

At AGRA, risk management is an ongoing priority for our daily commercial activities and a longer-term corporate priority as we evaluate various forms of risk through our strategic planning process. Our risk management processes include comprehensive corporate policies and directives, a Commercial Risk Management Program and a Corporate Risk Management Program.

Policies and Directives Risk management involves all AGRA employees and starts with policies and directives to define procedures and clearly establish limits of authority throughout the organization. Policies cover the management of commercial and operational risks including employee and environmental safety risks. Ongoing training is also part of our program to ensure employees understand risk identification, management and mitigation procedures.

Commercial Risk Management AGRA's Commercial Risk Management Program is led by AGRA's Commercial and Project Financing Group. The program includes the creation of risk identification protocols and the application of risk norms appropriate to individual lines of business. Throughout the company, a strict proposal and contract review process is enforced and ensures senior level monitoring and approval for prequalifications, proposals and contracts. Considerations in choosing to bid on large projects include our ability to obtain payment in solid currencies through international financing organization guarantees or other contractual protections. Effective risk management also extends into the management of our projects and the technologies we apply to mitigate project risk.

Corporate Risk Management Corporate risk management is a key component of the company's annual strategic planning and review process. This includes the ongoing evaluation of market life cycles, market positioning, capital resources, and political and geographic risks and opportunities.

Management's Discussion and Analysis

This discussion and analysis of operations and financial position should be read in conjunction with the consolidated financial statements and related notes, as well as the President's message and management's discussions contained throughout the annual report.

CAPITAL STRUCTURE

Significant improvements were made to the capital structure of the Company during the year:

Share Reclassification At a meeting of shareholders on October 17, 1996, approval was given to convert all existing shares of both classes into a new class of common shares on the basis of 1.05 new common shares for each Class A voting share, and one new common share for each Class B non-voting share. The resulting dilution is insignificant and voting control of the Company became widely held as a result of the conversions.

Share Issue On April 25, 1997, the Company completed a public offering of three million common shares at a price of $12.00 per share, from which net proceeds of $34.3 million were realized.

Debenture Conversion During the year, the $40 million 8% Convertible Subordinated Debentures, due November 1, 2001 were converted to shares. In March 1997, the holder of $5,000 of the debentures converted to 555 shares at $9.00 per share. On May 22, 1997 the Company called for redemption of the remaining $39,995,000 of the Debentures, which were then all converted by their holders to common shares at the conversion price of $9.00 per share prior to the specified call date.

RESULTS OF OPERATIONS

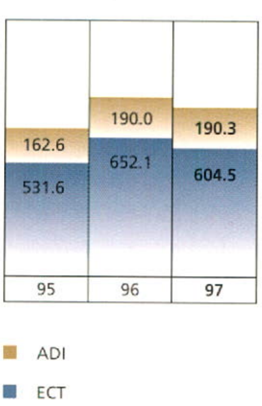
Consolidated Operations Consolidated revenues reached $794.8 million during the year ended July 31, 1997, a decrease of $47.3 million (5.6%) compared to restated revenues of $842.1 million in 1996.

Operations during 1997 resulted in a net loss of $2.1 million or 9 cents per share (based on an average 23,107,623 shares outstanding) compared to net income of $18.3 million or 87 cents per share in 1996 (based on an average 20,931,384 shares outstanding). Net income last year included restated net profit of $4.7 million or 22 cents per share arising from discontinued operations during the year, whereas results this year include a net profit of $0.2 million or 1 cent per share from discontinued operations.

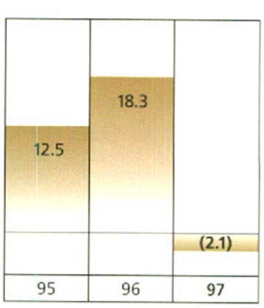
The gain from discontinued operations this year resulted primarily from the sale of AGRA Plastics in Mississauga, whereas the 1996 amount was derived from the sale of Contain-A-Way Holdings, Inc. in California and the assets of AGRA Recycling in Edmonton.

Results during the year also included an aggregate gain of $7.3 million after taxes and minority interest from the disposal of investments, including: the sale of our remaining interest in software developed by the Systems Engineering Group, part of which was sold previously; the sale of shares of Saztec Philippines, Inc. which were purchased previously to facilitate a supply arrangement; the disposal of our interest in the Pearson International Airport redevelopment project, including the sale of our interest in Terminal 3 and settlement of the dispute with the Goverment of Canada arising from cancellation on the development contracts; and the sale of a rental property.

Consolidated Revenue
($ in millions)



Net Earnings (Loss)
($ in millions)



Strategic initiatives and marketing efforts have resulted in a 61% increase in backlog to $860 million at year-end compared to $533 million last year. Changes in management and other corrective action in certain under-performing units, including judicious reduction of overheads, are also expected to contribute to improved future performance.

Engineering, Construction & Technology Sector Total revenues in this sector were $604.5 million in 1997, a decrease of 7.3% from revenues of $652.1 million in 1996.

Revenues by Group in this Sector were:

(in millions of dollars)	1997	1996
General Engineering & Construction Group	$ 396.2	433.5
Earth & Environmental Engineering Group	129.1	131.6
Systems Engineering Group	79.2	87.0
Total	$ 604.5	652.1

Continuing operations in this sector produced operating profit of $3.9 million in 1997 after one-time gains of $8.0 million, compared to operating profit of $21.8 million in 1996.

The decline in revenues and unsatisfactory operating results for the year were primarily the result of the convergence of the following factors: the conclusion or winding down of several contracts during the latter part of the year which resulted in lower revenues and operating efficiency; the substantial marketing and proposal costs incurred in connection with successful awarding of several new contracts; losses incurred in the steel fabrication operation, the earth and environmental engineering unit in the United States, and the GIS data conversion unit; and the delay of commencement of the new contracts. Recovery from these factors is expected to begin in the second half of fiscal 1998.

Emphasis on foreign work, turnkey packages and projects arising from privatization continues in this sector. Pursuit of this work is costly in terms of marketing and proposal preparation, and typically, significant time elapses during marketing and bidding on the projects and before the realization of revenues and profits from successful project wins. Our goal continues to be to generate 30% or more of revenue in this sector from outside North America, with concentration on major world markets such as the Pacific Rim, the Middle East and South America.

Our contract for the turnkey construction of toll Highway 407 in Ontario progressed very well this year due to favourable weather conditions, however at a lower level of revenues and profits than last year which was the peak construction period. We expect to bid on the extension of Highway 407 in the fall of 1997. Construction of Highway 104 in Nova Scotia also progressed very well due to very dry weather in that area.

Significant projects were won in the offshore oil fields and the oil sands during the year; however, these projects are not expected to have a significant impact on revenues or profits until after the projects have been sanctioned and work commences in the second half of our 1998 fiscal year. Prospects are encouraging for additional contracts of a similar nature, and teams and alliances are being sought and formed to assist in obtaining other projects in the power, roads, water and information systems infrastructure markets and in response to the current trend to privatization. Bids for highway projects in New Brunswick and Israel have been submitted by Canadian Highways International Corporation, in which AGRA holds a 25% interest.

General Engineering & Construction Group Revenues of the general engineering business units decreased during the year as a result of several large projects winding down and the delayed start of new work for the process engineering business unit on energy projects. Revenues from the construction of the Hibernia gravity base structure have ended and the largest segment of toll Highway 407 has been completed. New contracts arising from the Sable Island, Terra Nova and Aurora Mines projects have yet to produce significant revenues.

In addition, a paucity of contracts in the power engineering business unit further suppressed revenue and profit. The power engineering business unit has been restructured with a new management team and efforts are under way to rebuild our volume of work in that market segment. While numerous proposals have been submitted at significant cost in the last half of the year, improved results for the power engineering business unit will not be realized until future periods when successes are expected and the volume of work increases.

The road engineering business unit achieved a significant increase in revenues as a result of increased municipal road-building activity in western Canada, as well as from the acquisition in November 1996 of a similar operation in Arizona.

Demand continued to strengthen for our construction units, resulting in further improvement in margins. The foundation construction units achieved much improved performance this year as a result of buoyant construction in western Canada. The pipeline construction division successfully completed installation of a section of the Express Pipeline project in the first half of fiscal 1997 as well as other projects; however, revenues this year were lower than last year's record revenues, when several large contracts were completed. Contracts have been won for significant volumes of pipeline work next year.

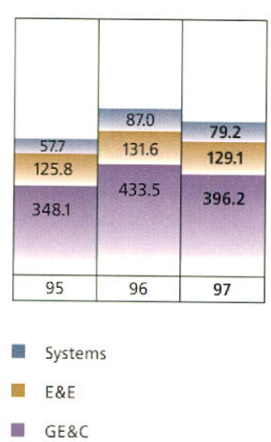
Losses arising from problems encountered last year on two steel fabrication projects further suppressed profits in the group this year; however, these have now been largely completed. A new management team is in place at the steel fabrication plant, implementing remedial action on problem contracts and improving project management practices.

Earth & Environmental Engineering Group The Canadian unit of the Earth & Environmental Engineering Group achieved 11% growth in revenues this year. However, the U.S. unit experienced a 12% decline in revenues and suffered a significant loss due to the effect of competitive pressures in their market and their failure to react aggressively enough in managing costs in response to the change in market conditions. Some changes in management personnel have been implemented in this group and increased emphasis on efficiency in the operation is expected to result in a return to normal profitability next year.

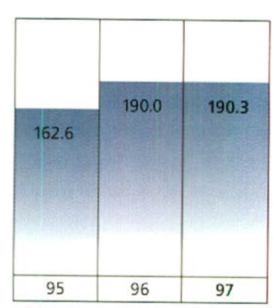
Systems Engineering Group Revenue growth of 18% was achieved in the frequency spectrum management and software development unit this year. However both revenue and profitability were negatively impacted in the Systems Engineering Group as a result of a reduction in geographic information systems revenue and a substantial loss in that unit, where problems encountered in the execution of a major contract had a serious effect. Expenditures on research and development related to currency technology are producing encouraging results; however, future prospects for the technology cannot be determined since marketing of the product has just commenced.

Asset Development & Investments Sector Figures reported for last year have been restated for comparability since AGRA Plastics was sold during this year. Revenues reached $190.3 million in 1997, compared to restated revenues of $190.0 million in 1996. Operating profits increased to $17.7 million in 1997, including a gain of $13.9 million on the settlement on the Pearson International Airport dispute and the

ECT Sector Revenue
($ in millions)



ADI Sector Revenue
($ in millions)

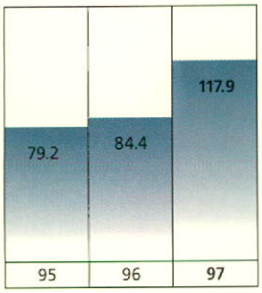


sale of Terminal 3. This compares to restated operating profit of $16.2 million in 1996. Lower numbers of foreign travellers in the usually busy fourth quarter suppressed profits in the duty-free business and competition from a new hotel in Grand Cayman continued to affect the profitability of our hotel throughout the year. Revenue growth is expected to continue in both of the operations in this sector next year; however, growth in profits is expected to be muted until the volume of international passengers recovers and the expansion of the hotel is completed.

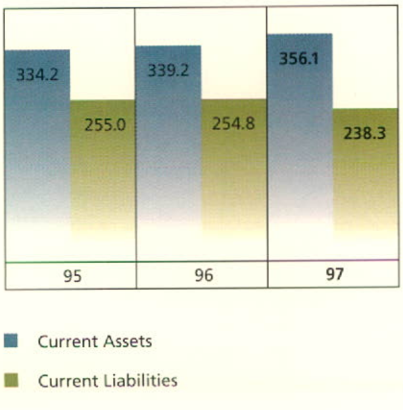
Allders International (Canada) Ltd. did not achieve expected growth in sales as a result of lower than expected volume of international travel, particularly from Asian destinations. Eight new Allders stores which opened in the new international terminal in Vancouver in the latter part of last year have generally performed well; however, much higher rents in the new airport and store opening costs, coupled with the slower growth in passenger traffic, resulted in below-budget profits at that location. Growth in international traffic at the new terminal will be essential to growth in profitability.

The Britannia Resort on Grand Cayman achieved improved occupancy levels during the year, in spite of competition from a new hotel on the Island. Average room rates also increased; however, profits have not yet recovered to the record levels reached in 1995. Construction of new beachfront suites is expected to strengthen the position of our hotel as the premier property in the Island's luxury market and produce a significant increase in the profitability of the hotel beginning in 1999.

Working Capital
($ in millions)



Current Ratio of Assets to Liabilities
($ in millions)



FINANCIAL CONDITION AND LIQUIDITY

During 1997 there was significant improvement in the balance sheet, largely attributable to proceeds of $34.3 million from the public share issue and $71.7 million realized from the sale of shares in ProMIRA, Saztec and AGRA Plastics together with recovery of our investment in the Pearson International Airport project. The consolidated cash position net of current bank indebtedness increased slightly to $32.4 million from $31.9 million after payment of $3.7 million of dividends to AGRA shareholders and $8.5 million to our partners in Allders. Cash was deployed within the company primarily to reduce long-term debt, finance increases in current assets and purchase equipment. $95.0 million of long-term debt was retired during the year and new long-term financing of $18.6 million was obtained resulting in the year-end balance of $65.0 million. Consolidated working capital increased by $33.5 million to $117.9 million from $84.4 million last year. The reduction in long-term debt was achieved by scheduled debt repayments, conversion of the 8% Subordinated Convertible Debentures into common shares and early repayment of certain long-term debt. Of the $68.1 million consolidated cash at July 31, 1997, $38.7 million was held by joint ventures and operations which are not 100% owned. Availability of such cash for general purposes is subject to agreements with joint venture partners and minority shareholders.

During 1996, the consolidated cash position of the Company increased by $26.0 million after payment of $4.0 million in dividends. The most significant items affecting cash in 1996 (restated) were $31.5 million generated directly by operations to which $16.0 million was added by reducing working capital employed, $19.0 million generated from the sale of non-core assets, and $25.1 million (net of disposals) used for purchases of equipment.

Principal payments on long-term debt will be $15.3 million in 1998 and $18.2 million in 1999. Improvement in consolidated cash flow from operations is expected in 1998 as a result of a return to profitability. Capital expenditures will be constrained in 1998 in order to reserve working capital for internal growth of operations and for strategic acquisitions. Settlement of outstanding claims related to certain projects, cash flow from joint ventures and disposal of non-core assets will make substantial amounts of working capital available; however, timing of these events is uncertain.

RISKS AND UNCERTAINTIES

Our initiative to develop strategic alliances with reputable partners is continuing in order to position AGRA to participate in joint venture contracts on major development projects, both domestically and internationally, in response to increasing demand for turnkey, fixed-price construction of infrastructure and industry projects in both the public and private sectors. Foreign contracts, fixed-price contracts and joint ventures, some of which may require equity investments, carry more risks than traditional domestic consulting engineering and construction contracts, including exposure to more significant contractual as well as political and currency risks and the need for increased capital resources. Such risks are insured wherever possible, and management and control measures are emphasized in order to reduce exposures.

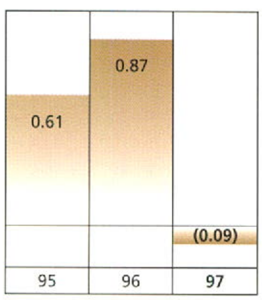
During the year, one of the risks associated with having a larger proportion of revenue generated from large projects and the importance of timely success in winning contracts was demonstrated, as the completion of several significant contracts occurred at a time when work on new contracts had not commenced, resulting in reduced revenues and profits. Advance marketing and careful timing of contracts has become more critical in maintaining consistent revenue growth and profitability. Increased emphasis on the quality of the bid preparation continues in order to improve the success rate and also to improve the accuracy of the estimates of contract costs.

International contracts require additional working capital due to a slower collection cycle. Since conventional bank financing for such requirements can be more difficult to obtain, increased internal working capital may be required, which together with the working capital requirements of large turnkey projects may place some constraint on growth unless additional sources of equity or capital are obtained.

The Company's revenues are generated from contracts and construction activities from which claims occasionally arise; consequently the Company and its subsidiaries are defendants in lawsuits involving various amounts. The results of these actions should not have any material effect on the financial position of the Company; however, such outcome cannot be determined with certainty.

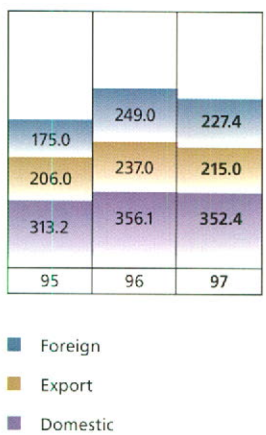
Earnings (Loss) Per Share

($)



Geographic Revenue

($ in millions)



Auditors' Report

To the Shareholders of AGRA Inc.

We have audited the consolidated balance sheets of AGRA Inc. as at July 31, 1997 and 1996 and the consolidated statements of earnings, retained earnings and changes in cash for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 1997 and 1996, 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.

Calgary, Alberta
October 2, 1997

Deloitte & Touche

Chartered Accountants

Consolidated Statement of Earnings

For the year ended July 31, 1997 *(in thousands of dollars)*	1997	1996
		(Note 3)
Revenue (Note 19)	$ 794,842	842,083
Expenses		
Cost of sales and services, selling, general and administrative	776,972	787,985
Depreciation and amortization	17,947	16,168
Interest on long-term debt	7,990	10,680
Other interest	2,341	2,883
	805,250	817,716
	(10,408)	24,367
Gain on sale of investments	21,677	–
Earnings before the following	11,269	24,367
Income tax (Note 13)		
Provision	12,091	13,236
Benefit from previously unrecorded tax items	(1,284)	(6,623)
	10,807	6,613
	462	17,754
Earnings of non-consolidated entities	191	81
Minority interest	(3,021)	(4,234)
Earnings (loss) from continuing operations	(2,368)	13,601
Discontinued operations (Note 3)	229	4,656
Net Earnings (Loss)	$ (2,139)	18,257
Per Share (Note 14)		

Consolidated Statement of Retained Earnings

For the year ended July 31, 1997 *(in thousands of dollars)*	1997	1996
Balance, Beginning of Year	$ 117,847	102,871
Net Earnings (Loss)	(2,139)	18,257
	115,708	121,128
Dividends paid	(3,725)	(3,281)
Balance, End of Year	$ 111,983	117,847

Consolidated Balance Sheet

As at July 31, 1997 *(in thousands of dollars)*	1997	1996
ASSETS		
Current		
Cash and short-term investments	$ 68,111	78,403
Accounts receivable	211,494	193,537
Income taxes recoverable	3,865	–
Contracts in progress and inventory	62,859	59,907
Prepaid expenses	9,816	7,352
	356,145	339,199
Investments and other (Note 5)	40,881	78,235
Fixed assets (Note 6)	71,382	73,223
Resort hotel and golf course (Note 7)	87,631	85,337
Deferred income taxes	–	524
Deferred financing charges	1,010	2,459
Goodwill	38,721	35,751
	$ 595,770	614,728
LIABILITIES		
Current		
Bank indebtedness (Note 8)	$ 35,676	46,487
Accounts payable	180,853	184,052
Current portion of long-term debt (Note 9)	15,321	22,456
Income taxes payable	–	1,797
Deferred income taxes	6,431	–
	238,281	254,792
Long-term debt (Note 9)	49,712	120,613
	287,993	375,405
Minority interest	17,316	22,717
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	165,153	86,005
Retained earnings	111,983	117,847
	277,136	203,852
Foreign currency translation adjustment	13,325	12,754
Total Shareholders' Equity	290,461	216,606
	$ 595,770	614,728

On behalf of the Board

R.F. Torchinsky

Director

Alexander Taylor

Director

Consolidated Statement of Changes in Cash

For the year ended July 31, 1997 *(in thousands of dollars)*	1997	1996
		(Note 3)
Cash Provided By (Used In)		
Operating Activities		
Earnings (loss) from continuing operations	$ (2,368)	13,601
Items not affecting cash flow before minority interest		
Depreciation and amortization	16,565	14,829
Deferred income taxes	4,375	(3,045)
Gain on sale of investments	(21,677)	–
Other	(350)	725
Cash flow from operations (Note 15)	(3,455)	26,110
Minority interest in cash flow	7,133	5,386
(Increase) decrease in non-cash working capital items (Note 17)	(31,107)	16,085
	(27,429)	47,581
Discontinued operations (Note 3)	(4,423)	(5,600)
	(31,852)	41,981
Investing Activities		
Purchase of fixed assets	(29,689)	(29,164)
Proceeds on disposal of fixed assets	8,839	4,089
Acquisition of subsidiary operations (Note 2)	(5,214)	–
Investments and other (Note 5)	(3,797)	(6,595)
Proceeds from investments and other (Note 5)	64,256	–
Proceeds from disposal of discontinued operations (Note 3)	7,379	19,064
	41,774	(12,606)
Financing Activities		
Proceeds from long-term debt	18,623	20,856
Retirement of long-term debt (Note 9)	(94,949)	(22,170)
Deferred financing charges	–	(194)
Issuance of share capital (Note 12)	79,148	2,096
	2,822	588
Payment of Dividends		
By the Company	(3,725)	(3,281)
By subsidiaries to minority shareholders	(8,500)	(685)
	(12,225)	(3,966)
Increase in Cash	519	25,997
Cash Position, Beginning of Year	31,916	5,919
Cash Position, End of Year	$ 32,435	31,916
Represented By:		
Cash and short-term investments	$ 68,111	78,403
Bank indebtedness	(35,676)	(46,487)
	$ 32,435	31,916

Cash Flow Per Share (Note 15)

Notes to the Consolidated Financial Statements

For the year ended July 31, 1997

During the year, the name of the Company was changed from AGRA Industries Limited to AGRA Inc.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Principles of consolidation

The consolidated financial statements include the accounts of all entities in which the Company holds a controlling interest.

Investments in which the Company exercises joint control are accounted for using the proportionate consolidation method. Under this method, only the Company's share of the assets, liabilities, revenues and expenses are consolidated. Note 4 to the financial statements summarizes the effect of joint ventures on the consolidated financial statements.

Investments in which the Company exercises significant influence are accounted for using the equity method. Under this method, only the Company's share of the net income is recorded.

Other investments are recorded at cost.

Contracts in progress and inventory

Engineering and construction contracts in progress are recorded at estimated realizable value on the percentage of completion basis. Inventory is valued at the lower of cost and net realizable value using the first in, first out method. Losses are provided for when they become apparent.

Fixed assets

Fixed assets (including equipment under capital lease) are stated at cost. Depreciation has been recorded in the accounts on a straight-line basis at annual rates of 2½% to 67% providing for amortization of the cost of buildings and equipment over their estimated useful lives.

The hotel buildings and golf course are being depreciated using the sinking fund method over their estimated useful life of 50 years.

Deferred financing charges

The costs of obtaining long-term financing are deferred and amortized on a straight-line basis over the terms of the debt. The amortization of these charges is included in interest on long-term debt.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Goodwill

The excess of the purchase price over the net fair value of identifiable assets of acquired companies is amortized on a straight-line basis over terms not exceeding forty years.

Foreign currency translation adjustment

The accounts of the Company's self-sustaining foreign operations are translated into Canadian dollars using the current-rate method. Assets and liabilities are translated at the year-end exchange rate and revenues and expenses are translated at average exchange rates. Gains and losses arising from the translation of the financial statements of the foreign operations are deferred in a "Foreign Currency Translation Adjustment" account in shareholders' equity.

2. ACQUISITIONS

During the year, the Company acquired all of the outstanding shares of AGRA Infrastructure, Inc. (formerly Standage & Truitt Engineering, Ltd.) and Zizka and Associates Inc. and the operations of McGlone & Associates Ltd. for aggregate consideration of cash and a note totalling $5,189,000.

A financial summary of these acquisitions which were accounted for as purchases, is as follows:

(in thousands of dollars)

Assets acquired	
Non-cash working capital	$ 1,416
Fixed assets	541
Goodwill	4,255
	6,212
Liabilities assumed	
Long-term debt	464
Deferred income taxes	534
	998
Net non-cash assets acquired	5,214
Bank loans assumed	25
Net assets acquired	$ 5,189

3. DISCONTINUED OPERATIONS

1997

During 1997, the Company sold the assets of AGRA Plastics Inc. and completed the disposal of certain other assets realizing cash of $7,379,000. The net gain on the sale of these discontinued operations totalled $1,066,000 after taxes of $552,000. Revenues of $58,000 for 1997 and $15,299,000 for 1996 from these discontinued operations were excluded from consolidated revenues.

Net costs of $837,000 after tax recoveries of $696,000 were incurred during 1997 from operations discontinued in prior years.

3. DISCONTINUED OPERATIONS *(cont'd)*

1996

During 1996, the Company sold the shares of Contain-A-Way Holdings, Inc. and W.T. McMullen and Associates Inc. and the assets of AGRA Recycling and discontinued the operations of Northern-Monenco AGRA, Inc. Cash of $19,064,000 was realized from the sale of the shares and assets. Aggregate operating profits and losses for the year on these discontinued operations amounted to a net loss of $1,127,000 after tax recoveries of $1,025,000. Shut-down costs, gains and losses on the disposal of assets and shares amounted to a net gain of $4,697,000 after tax provisions of $5,139,000. Revenue from these discontinued operations of $47,045,000 in 1996 was excluded from consolidated revenues.

Net cost recoveries of $476,000 after tax provisions of $181,000 were realized during 1996 from operations discontinued in prior years.

The comparative statements for 1996 have been restated to reflect the reclassification of $610,000 of income from operations discontinued in 1997.

4. JOINT VENTURES

The effect of proportionate consolidation of joint ventures on the consolidated financial statements is summarized as follows:

(in thousands of dollars)	1997	1996
Earnings		
Revenue	$ 149,028	178,733
Expenses	141,489	163,966
Earnings before income taxes	$ 7,539	14,767
Assets		
Current	$ 115,179	108,548
Fixed assets	2,708	2,804
Other	4,247	6,334
	$ 122,134	117,686
Liabilities		
Current	$ 86,233	89,542
Long-term debt	211	2,165
	$ 86,444	91,707
Cash Flow		
Operating activities	$ 324	28,075
Investing activities	$ 1,238	(5,360)
Financing activities	$ (2,994)	(5,913)

5. INVESTMENTS AND OTHER

(in thousands of dollars)	1997	1996
Investments		
Loan receivable	$ –	20,000
Partnership units	–	11,979
Non-consolidated entities, equity basis	5,739	7,341
Other, at cost	6,820	9,332
	12,559	48,652
Condominium projects under development – at lower of cost and net realizable value	28,322	29,583
	$ 40,881	78,235

During the year, the dispute arising from the cancellation by the Government of Canada of the leases for Pearson International Airport Terminals 1 and 2 in Toronto was settled, and the Toronto Airport Authority purchased Terminal 3 from a partnership in which the Company held an interest. The Company also disposed of its investment in ProMIRA Software Inc. (formerly FastMAN Software Systems Inc.), its investment in Saztec Philippines, Inc. and a rental property. The result of the foregoing was an aggregate net gain of $9,010,000 after income taxes of $12,667,000.

6. FIXED ASSETS

(in thousands of dollars)		1997	
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 4,224	–	4,224
Buildings	12,070	4,427	7,643
Equipment	122,213	62,698	59,515
	$ 138,507	67,125	71,382

		1996	
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 7,125	–	7,125
Buildings	17,730	5,729	12,001
Equipment	112,692	58,595	54,097
	$ 137,547	64,324	73,223

7. RESORT HOTEL AND GOLF COURSE

(in thousands of dollars)	1997	1996
Land	$ 10,787	9,950
Hotel and golf course	92,034	88,280
	102,821	98,230
Less accumulated depreciation	15,190	12,893
	$ 87,631	85,337

Converted from U.S. dollars under the policy described in Note 1, at the conversion rate of $1.3814 (1996 – $1.3748).

8. BANK INDEBTEDNESS

The bank loans are secured by general assignments of accounts receivable, inventory, contracts in progress, and fixed and floating charge debentures on certain fixed assets.

9. LONG-TERM DEBT

(in thousands of dollars)	1997	1996
Mortgages, chattel mortgages and obligations under capital lease with average interest rates of 6.6% (maturity dates to 2016)	$ 3,185	12,060
Notes, agreements and loans payable with average interest rates of 6.6%, secured by certain assets (maturity dates to 2005)	61,848	91,009
8% Convertible subordinated debentures, unsecured, maturing November 1, 2001	–	40,000
	65,033	143,069
Less current portion	15,321	22,456
	$ 49,712	120,613

Principal payments for the five succeeding years are: $15,321,000; $18,245,000; $8,342,000; $4,748,000 and $4,051,000.

On June 23, 1997, the Company completed the conversion of all of the 8% Convertible subordinated debentures into 4,444,431 Common shares.

10. LEASE COMMITMENTS

Minimum annual payments under long-term operating leases, the longest of which will expire in 2015, for the five succeeding years are: $60,102,000; $60,787,000; $62,691,000; $64,770,000 and $35,247,000.

11. CONTINGENT LIABILITIES

The Company has guaranteed indebtedness totalling $3,890,000 (1996 – $2,385,000) of non-consolidated entities.

The Company and its subsidiaries are defendants in lawsuits involving various amounts. The results of these actions should not have any material effect on the financial position of the Company.

12. SHARE CAPITAL

Authorized

Unlimited number of Common voting shares, without nominal or par value.

On October 17, 1996, each Class A voting share was exchanged for 1.05 common voting shares and each Class B non-voting share was exchanged for one common voting share.

Issued and outstanding:

(in thousands)	1997		1996	
	Shares	Amount	Shares	Amount
Class A Voting				
Outstanding, beginning of year	3,288	$ 4,010	3,815	$ 4,654
Conversions to Class B	–	–	(527)	(644)
Exchanged for common shares	(3,288)	(4,010)	–	–
Outstanding, end of year	–	–	3,288	4,010
Class B Non-Voting				
Outstanding, beginning of year	17,798	81,995	16,965	79,254
Conversions from Class A	–	–	527	644
Exercise of options	46	323	218	1,405
Employee share purchase plan	–	–	85	666
Dividend reinvestment	1	6	3	26
Exchanged for common shares	(17,845)	(82,324)	–	–
Outstanding, end of year	–	–	17,798	81,995
Common Voting				
Outstanding, beginning of year	–	–	–	–
Issued in exchange for Class A and Class B shares	21,297	86,334	–	–
Issued on conversion of subordinated debentures	4,444	39,167	–	–
Public share issue	3,000	34,294	–	–
Exercise of options	636	4,607	–	–
Employee share purchase plan	59	571	–	–
Dividend reinvestment	15	180	–	–
Outstanding, end of year	29,451	165,153	–	–
Total share capital		$ 165,153		$ 86,005

At July 31, 1997, there were employee stock options outstanding in respect of 611,480 common shares (1996 – 1,000,425 Class B non-voting shares) exercisable at prices not less than the market price at the time the options were granted which range from $5.88 to $11.50. These options expire at various dates to 2002.

13. INCOME TAX

The Company's consolidated tax provision is based on rates and allowances applicable to each of the income tax jurisdictions in which the Company operates. The consolidated tax provision differs from that expected by applying the combined Canadian federal and provincial income tax rate to consolidated earnings before income taxes and discontinued operations, for the following reasons:

(in thousands of dollars)	1997	1996
		(Note 3)
Expected combined Canadian federal and provincial income tax rate	44.6%	44.6%
Expected provision for income taxes based on the above rate	$ 5,026	10,868
Increase (decrease) in income taxes resulting from:		
Differences in foreign income tax rates	273	(965)
Permanent differences	5,375	1,540
Large corporations tax	500	557
Rate variance on tax recoveries	213	214
Foreign withholding taxes	472	578
Other	232	444
Provision	12,091	13,236
Benefits from previously unrecorded tax items	(1,284)	(6,623)
Income tax	$ 10,807	6,613
Consisting of		
Current	$ 4,290	9,844
Deferred	6,517	(3,231)
	$ 10,807	6,613

Deferred income taxes result from timing differences between the recording of income for accounting purposes and for income tax purposes and from the estimated future tax benefit from operating losses when, in the opinion of management, realization of such benefits is virtually certain.

14. EARNINGS (LOSS) PER SHARE

The computation of basic earnings per share is based on the weighted average number of common shares issued and outstanding during the year.

Fully diluted earnings per share reflect earnings that would have been reported had all options and conversion rights been exercised.

	Basic		Fully Diluted	
	1997	1996	1997	1996
		(Note 3)		(Note 3)
Earnings (loss) from continuing operations	$ (.10)	.64	(.10)	.59
Net Earnings (Loss)	$ (.09)	.87	(.09)	.77

Adjusted basic loss per share for the year, calculated as if the conversion of the subordinated debentures occurred at the beginning of the year, is $.04 and $.03 per share from continuing operations and the net loss, respectively.

15. CASH FLOW PER SHARE

The computation of the cash flow per share is determined by dividing the cash flow from operations by the weighted average number of common shares outstanding.

	1997	1996
		(Note 3)
Cash flow per share	$ (0.15)	1.24

16. PENSION FUNDS

The Company sponsors defined benefit and defined contribution pension plans for its employees. For the defined benefit plan, pension costs are determined using the projected benefit method and funded on the same basis. Gains and losses arising from actuarial valuations are determined every three years and from asset performance annually. Such gains and losses are deferred and amortized on a straight-line basis. The value of defined benefit pension fund assets at July 31, 1997 was $6.5 million and there is no material surplus or unfunded liability.

17. (INCREASE) DECREASE IN NON-CASH WORKING CAPITAL ITEMS

(in thousands of dollars)	1997	1996
Accounts receivable	$ (16,377)	14,827
Contracts in progress and inventory	(2,952)	244
Prepaid expenses	(2,435)	(145)
Accounts payable	(3,781)	(2,867)
Income taxes recoverable	(5,698)	4,823
Other	136	(797)
	$ (31,107)	16,085

18. FINANCIAL INSTRUMENTS

The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to presentation of financial instruments. Their adoption, on a retroactive basis has no significant impact other than the additional disclosure presented in this note.

Cash and short-term investments consist primarily of high grade financial instruments which are recorded at the lower of cost and market. The carrying values of all short-term assets and liabilities are a reasonable estimate of their fair values due to the short maturity terms.

All bank indebtedness and virtually all long-term debt is subject to floating interest rates, which therefore reflect rates currently available for debt with similar terms and maturities. Accordingly, the fair value of the debt is not materially different from the recorded value.

18. FINANCIAL INSTRUMENTS *(cont'd)*

Certain contracts require bank guarantees or letters of credit in favour of clients to secure performance of contractual obligations. Such guarantees usually decrease with performance of the contract or expire without being exercised and therefore do not represent cash obligations of the Company.

Concentration of credit risk with respect to accounts receivable and contracts in progress is limited due to the diverse client base and their dispersion through business and geographic areas. At July 31, 1997, the Company had no significant concentration of credit risk.

The Company periodically uses forward foreign exchange contracts to hedge against foreign currency exchange fluctuation risk. At July 31, 1997, no such contracts were outstanding; however, protection from foreign currency fluctuation exposure with respect to certain obligations was maintained by holding foreign cash balances.

19. SEGMENTED INFORMATION

A. Industry segments

	Engineering, Construction & Technology		Asset Development & Investments		Total	
(in thousands of dollars)	**1997**	1996	**1997**	1996	**1997**	1996
Revenue	**$ 604,527**	652,128	**190,315**	189,955	**794,842**	842,083
Segmented Operating Profit	**$ 3,907**	21,752	**17,693**	16,178	**21,600**	37,930
Interest					**(10,331)**	(13,563)
Income tax					**(10,807)**	(6,613)
Earnings of non-consolidated entities					**191**	81
Minority interest					**(3,021)**	(4,234)
Earnings (Loss) before discontinued operations					**(2,368)**	13,601
Discontinued operations					**229**	4,656
Net Earnings (Loss)					**$ (2,139)**	18,257
Assets	**$ 412,530**	389,447	**183,240**	225,281	**595,770**	614,728
Depreciation and Amortization	**$ 11,282**	10,502	**6,665**	5,666	**17,947**	16,168
Capital Expenditures, Net of Disposals	**$ 18,426**	11,938	**2,424**	13,137	**20,850**	25,075

1996 figures have been restated as described in Note 3.

19. SEGMENTED INFORMATION *(cont'd)*

B. Geographic segments

(in thousands of dollars)	Canadian 1997	Canadian 1996	Foreign 1997	Foreign 1996	Total 1997	Total 1996
Revenue	**$ 567,443**	593,066	**227,399**	249,017	**794,842**	842,083
Segmented Operating Profit	**$ 17,133**	16,150	**4,467**	21,780	**21,600**	37,930
Interest					**(10,331)**	(13,563)
Income tax					**(10,807)**	(6,613)
Earnings of non-consolidated entities					**191**	81
Minority interest					**(3,021)**	(4,234)
Earnings (Loss) before discontinued operations					**(2,368)**	13,601
Discontinued operations					**229**	4,656
Net Earnings (Loss)					**$ (2,139)**	18,257
Assets	**$ 366,515**	386,034	**229,255**	228,694	**595,770**	614,728
Depreciation and Amortization	**$ 11,530**	9,295	**6,417**	6,873	**17,947**	16,168
Capital Expenditures, Net of Disposals	**$ 11,322**	15,569	**9,528**	9,506	**20,850**	25,075

Total export sales of Canadian operations are $215 million (1996 – $237 million), including duty-free sales of $120 million (1996 – $128 million). 1996 figures have been restated as described in Note 3.

Eleven Year Review

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Earnings Statistics											
(in thousands of dollars)											
Revenue (Note 1)	$ **794,842**	842,083	694,209	609,089	531,371	366,425	364,781	246,072	198,064	231,116	207,798
Depreciation and amortization	**17,947**	16,168	13,784	12,988	13,106	10,174	9,816	6,524	5,466	5,892	4,484
Net earnings (loss)	**(2,139)**	18,257	12,518	(7,044)	2,185	(8,689)	(1,240)	1,188	56,800	7,775	7,291
Dividends paid	**3,725**	3,281	3,220	2,992	2,768	2,753	2,562	1,848	1,651	1,510	1,494
Balance Sheet Statistics											
(in thousands of dollars)											
Current assets	$ **356,145**	339,199	334,221	265,829	220,278	200,702	126,505	139,954	190,767	87,706	85,366
Current liabilities	**238,281**	254,792	254,998	195,935	156,537	139,113	97,665	107,826	85,443	48,418	42,858
Working capital	**117,864**	84,407	79,223	69,894	63,741	61,589	28,840	32,128	105,324	39,288	42,508
Fixed assets – net	**159,013**	158,560	151,045	140,839	137,923	130,837	127,572	111,979	39,438	39,746	32,525
Long-term debt	**49,712**	120,613	129,031	144,662	107,770	118,642	58,634	35,008	47,960	40,703	19,609
Shareholders' equity	**290,461**	216,606	200,007	191,786	171,984	163,559	171,026	175,115	159,015	103,581	93,101
Commons Share Statistics											
Earnings (loss) per share	$ **(0.09)**	0.87	0.61	(0.36)	0.12	(0.49)	(0.07)	0.07	3.90	0.58	0.55
Dividends per share (common/A/B)	**.12/.035/.04**	.14/.16	.14/.16	.14/.16	.14/.16	.14/.16	.13/.15	.10/.12	.10/.12	.10/.12	.10/.12
Equity per share	**9.86**	10.27	9.63	9.33	9.62	9.16	9.64	9.88	10.82	7.15	6.99
Return on equity (average)	**-1%**	9%	6%	-4%	1%	-5%	-1%	1%	43%	8%	8%
Other Statistics (Note 2)											
Average shares outstanding	**23,107,623**	20,931,384	20,613,740	19,525,427	17,865,815	17,807,099	17,735,139	16,333,238	14,561,120	13,376,952	13,262,762
Number of shareholders	**750**	700	800	800	1,100	1,000	800	700	900	1,000	1,000
Total shares traded	**17,048,200**	12,728,757	6,708,795	9,511,912	8,343,452	8,180,449	2,275,922	2,458,916	4,366,305	2,816,541	3,441,786
Price – high	$ **14.80**	10.30	7.60	10.20	8.70	9.00	9.30	9.75	12.00	8.75	8.50
– low	$ **10.00**	6.20	5.30	5.60	5.60	7.125	5.70	7.00	6.50	5.00	6.00

Note 1 – Revenues for 1992 and prior years include revenues from operations discontinued in 1997.

Note 2 – A two-for-one share split took place in fiscal 1988. Statistics for prior years have been restated to provide comparability.

Board of Directors and Officers

DIRECTORS
(left to right)

■ Steven K. Hudson
Toronto

Robert G. Dittmer
Calgary

■ Alexander Taylor
Mississauga

■ ○ Robert Richardson
Ottawa

▲ ○ Stella M. Thompson
Calgary

■ ● Benjamin B. Torchinsky
Grand Cayman, BWI

● Charles H. Hantho
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■ ● Gerald Désourdy
Montreal

▲ Steven R. Roessler
Ottawa

▲ Joyce A. Borden Reed
Toronto

F. Dennis McCarthy
Edmonton

▲ ● ○ Walter G.D. Strothers
Toronto

■ Executive Committee
▲ Audit Committee
● Human Resources Committee
○ Governance Committee

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Chairman of the Board, AGRA Inc.

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President and Chief Executive Officer, AGRA Inc.

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Executive Vice-President, Finance and Administration, and Secretary, AGRA Inc.

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Vice-President, Finance, AGRA Inc.

H. William Pearson
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President, AGRA Development Group

Robert G. Van Adel
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Shareholder Information

Annual Meeting
AGRA's annual meeting of shareholders will be held at 11:00 a.m., Thursday, December 11, 1997 in the Toronto Ballroom of the Toronto Hilton Hotel, 145 Richmond Street West, Toronto, Ontario, Canada.

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