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REVENUE PROPERTIES COMPANY LIMITED

1987 ANNUAL REPORT

Company Profile

Revenue Properties operates in various segments of the real estate industry, primarily in Toronto and Montreal, Canada. Over 75% of the Company's assets, at market values, are income producing properties. Future growth is expected to occur primarily by the development of raw land and rental properties as well as the redevelopment or acquisition of commercial properties.

The Company, incorporated under the laws of the Province of Ontario in 1961, maintains its head office at The Colonnade, 131 Bloor Street West, Suite 300, Toronto. Revenue Properties is registered with the Securities and Exchange Commission and its shares, held by approximately 6000 shareholders, trade on the Toronto Stock Exchange.

Contents

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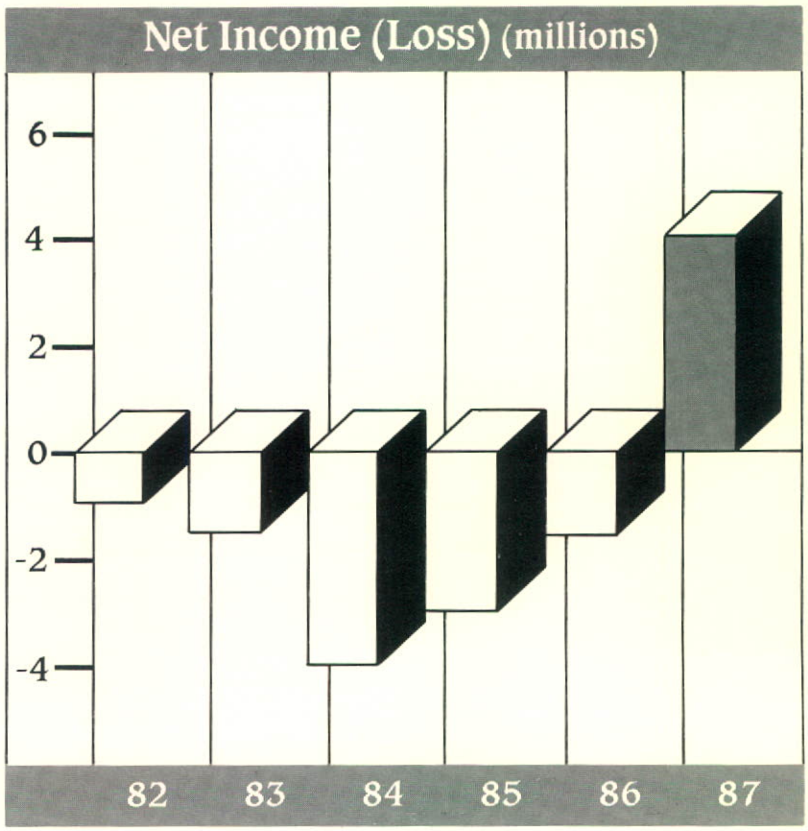
Six Year Summary

$ Thousands except per share amounts

	1982	1983	1984	1985	1986	1987
Net Income (loss) before depreciation and taxes	$(2,100)	$ 2	$(6,843)	$(2,635)	$ 222	**$4,509**
Depreciation	744	886	752	1,221	1,372	**1,303**
Income tax expense (recovery)	(1,769)	426	(1,976)	(406)	–	**–**
Net Income (loss)	$(1,075)	$(1,310)	$(5,619)	$(3,450)	$(1,150)	**$3,206**
Net Income (loss) per share	$ (.08)	$ (.09)	$ (.40)	$ (.24)	$ (.08)	**$ .20**
Cash flow (deficit)	$ (410)	$ 793	$(3,630)	$ (463)	$ 1,597	**$5,374**
Cash flow per share	$ (.03)	$ .06	$ (.26)	$ (.03)	$ .11	**$ .33**



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Report to Shareholders

The year 1987 marks the Company's return to profitability. This dramatic improvement can be attributed to the implementation of major changes in corporate policy, substantial reductions in operating costs and overhead, and the successful program of selling non-income producing assets.

Results of Operations

After depreciation, income taxes, and an extraordinary item, net income for 1987 totalled $3,206,000 or 19.7 cents per share as compared to a loss of $1,150,000 or 7.8 cents per share in 1986, and a loss of $3,450,000 or 23.9 cents per share in 1985. Cash flow from operations increased to $5,374,000 or 33 cents per share in 1987 as compared with $1,597,000 or 10.8 cents per share in 1986, and a cash deficit of $463,000 or 3.2 cents per share in 1985.

During 1987 gross profit from rental operations increased to $3,106,000 from $2,463,000 in 1986, and $2,182,000 in 1985. Rental revenues totalled $17,357,000 as compared with $14,757,000 in 1986, and $18,117,000 in 1985. The increase in gross profit was due to a full year's operation of the Colonnade and the continuing strength of the rental market in Montreal. Rental revenues decreased from 1985 to 1986 because of the sale of rental properties.

In 1987, gross profit on the sale of construction and land under development increased to $2,007,000 from a gross profit of $694,000 in 1986 and a loss of $1,971,000 in 1985. The profit for 1987 included the sale of our apartment site in the Town of Vaughan.

The Company's share of the loss from the operation of the Nova Scotian Hotel amounted to $514,000 in 1987 as compared with $424,000 in 1986, and $132,000 in 1985. In July 1987, the Company sold the hotel to a Limited Partnership for a profit of $1,082,000, with the Company remaining as the General Partner. Revenue has retained a 2% interest in the Limited Partnership with a 20% interest in future profits of the hotel.

Interest and other income increased to $2,979,000 in 1987 from $1,914,000 in 1986 and $637,000 in 1985. Interest income increased during 1987 because amounts previously classified as non collectible became well secured. The Company's interest costs continued to decrease during 1987, totalling $7,419,000 compared with $8,767,000 in 1986 and $10,254,000 in 1985. We are pleased to note that general and administrative expenses decreased to $1,250,000 from $1,406,000 in 1986 and $1,800,000 in 1985.

Financial Condition

In the fall of 1987 management commissioned Mackenzie, Ray, Heron and Edwardh to appraise the Company's income properties. The total value of the appraisals as at November 1, 1987, exceeded $111,000,000 as compared to a book value of $53,057,000. In addition, management estimates that the value of its "land under development" exceeds $13,500,000 as compared to a book value of $5,372,000.

The Company owns 645,000 square feet of office and industrial buildings in Metropolitan Montreal on lands which had been leased from the Government of Canada. In December, the Company completed the acquisition of these lands, which greatly enhances the value of these properties.

At year end, "projects under construction" totalled $2,031,000, being our investment in a neighbourhood plaza to be built in the Town of Ajax in 1988. There has been a substantial reduction in "accounts payable" and "estimated costs to complete projects", primarily as a result of our land development projects nearing completion.

On April 28, 1987, the Company repurchased 1,471,701 Class A shares from Alex and Harry Rubin for a total consideration of $5,151,000. During the year, warrants to purchase 2,400,000 Non-voting Class B shares were exercised, netting $2,400,000 to the Company. In the course of reviewing real estate acquisitions, management recommended that the Company repurchase up to a total of 972,724 of its outstanding Class B shares.

Outlook

Income properties, at appraised values, now account for approximately 75% of the Company's assets providing a firm foundation for the ongoing profitability of Revenue Properties.

The Company is negotiating the sale of a 37½% interest in its Guelph lands and anticipates that such sale will be completed during the second quarter of 1988. The expected sale price is consistent with management's estimated value of these lands. This sale will yield substantial cash and profits, and in addition, bring to the joint venture highly experienced partners in the field of land development. We anticipate obtaining municipal approvals for the first phase of this development during the latter part of 1988.

Management is actively seeking real estate opportunities in both Canada and the United States in order to carry on with our planned program of expansion. Based on the progress achieved to date, the coming years will prove to be productive and beneficial to shareholders.

Theodore Sherman

Theodore I. Sherman
President and
Chief Executive Officer

Louis Forbes

Louis Forbes
Controller and
Chief Financial Officer

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Consolidated Balance Sheet

As at December 31, 1987
Expressed in
Canadian dollars

	Note	1987	1986
		(in thousands of dollars)	
Assets			
Rental properties	2	**$53,057**	$ 53,691
Projects under construction		**2,031**	5,708
Land under development		**5,372**	8,227
Mortgages receivable	3	**16,859**	28,394
Accounts receivable		**3,534**	4,956
Prepaid expenses and sundry assets		**1,080**	1,240
Cash		**2,001**	1,346
		$83,934	$103,562
Liabilities			
Mortgages payable on rental properties	4	**$47,384**	$ 47,568
Other loans and mortgages payable	5	**2,458**	1,644
Construction and land financing	6	**2,376**	10,377
Bank indebtedness	7	**6,341**	8,304
Accounts payable		**2,692**	7,488
Estimated costs to complete projects		**1,851**	7,497
Debentures payable	8	**5,700**	5,921
Rental and sundry deposits		**770**	812
Deferred income		**500**	585
		70,072	90,196
Shareholders' Equity			
Capital Stock	9		
Issued			
3,411,525 Class A shares – (1986-4,883,225 shares)		**5,593**	8,007
12,524,545 Non-voting Class B shares – (1986-10,094,579 shares)		**18,408**	15,967
		24,001	23,974
Deficit	10	**(10,139)**	(10,608)
		13,862	13,366
		$83,934	$103,562

Theodore Sherman

Director

[signature]

Director

Consolidated Statement of Income

Year ended December 31, 1987

	1987	1986	1985
	(in thousands of dollars, except per share amounts)		
Revenues			
Rentals	**$17,357**	$ 14,757	$ 18,117
Real estate sales	**18,674**	39,060	59,384
Interest and other	**2,979**	1,914	637
Total revenues	**39,010**	55,731	78,138
Expenses			
Property operating	**9,156**	8,387	11,069
Cost of real estate sales	**15,337**	37,025	56,678
Interest (note 13(a))	**7,406**	6,825	8,356
General and administrative	**1,250**	1,406	1,800
Other expenses	**1,352**	1,866	2,870
Total expenses	**34,501**	55,509	80,773
Income (loss) before depreciation, income taxes and extraordinary item	**4,509**	222	(2,635)
Depreciation	**1,303**	1,372	1,221
Income (loss) before income taxes and extraordinary item	**3,206**	(1,150)	(3,856)
Income taxes (note 14)			
Current	**1,011**	–	64
Deferred	–	–	(470)
	1,011	–	(406)
Income (loss) before extraordinary item	**2,195**	(1,150)	(3,450)
Extraordinary item			
Recovery of income taxes due to application of prior years' tax losses	**1,011**	–	–
Net income (loss)	**$ 3,206**	$ (1,150)	$ (3,450)
Earnings (loss) per share before extraordinary item	**$ 0.135**	$ (0.078)	$ (0.239)
Earnings (loss) per share	**$ 0.197**	$ (0.078)	$ (0.239)
Weighted average number of Class A and Class B shares (in thousands)	**16,276**	14,809	14,412

Consolidated Statement of Deficit

Year ended December 31, 1987

	1987	1986	1985
	(in thousands of dollars)		
Deficit at beginning of year	**$10,608**	$ 9,458	$ 6,008
Net (income) loss for the year	**(3,206)**	1,150	3,450
	7,402	10,608	9,458
Premium on repurchase of Class A shares	**2,737**	–	–
Deficit at end of year	**$10,139**	$ 10,608	$ 9,458

Auditors' Report

We have examined the consolidated balance sheet of Revenue Properties Company Limited as at December 31, 1987 and 1986 and the consolidated statements of income, deficit and changes in financial position for each of the years in the three year period ended December 31, 1987. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1987 and 1986 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1987, in accordance with accounting principles generally accepted in Canada applied on a consistent basis.

Thorne Ernst & Whinney

Toronto, Canada
March 11, 1988

Chartered Accountants

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1987

	1987	1986	1985
		(in thousands of dollars)	
Funds provided (used) by:			
Operations			
Net income (loss) for the year	**$ 3,206**	$ (1,150)	$ (3,450)
Non-cash items			
Depreciation	**1,473**	1,610	1,439
Deferred income taxes	–	–	(470)
Deferred income	**(85)**	(90)	(99)
Provision for loss	**780**	1,227	2,117
	5,374	1,597	(463)
Decrease (increase) in mortgages receivable	**11,389**	(14,614)	(8,964)
Net change in other assets and liabilities	**(8,992)**	6,717	(2,451)
	7,771	(6,300)	(11,878)
Investments			
Acquisition and development of rental properties and rental properties under construction	**(6,714)**	(16,127)	(11,939)
Construction of projects for sale	–	(2,416)	(9,890)
Expenditures on land under development	**(1,377)**	(14,087)	(1,577)
Cost of real estate sold	**13,240**	35,834	55,395
	5,149	3,204	31,989
Financing			
Issue of debentures	–	–	5,000
Redemption of debentures	**(221)**	–	–
Issue of capital stock	**2,441**	264	537
Repurchase of capital stock	**(5,151)**	–	–
(Decrease) increase in mortgages payable on rental properties	**(184)**	18,241	(18,605)
Decrease in construction and land financing	**(8,001)**	(18,188)	(811)
Increase (decrease) in other loans and mortgages payable	**814**	1,267	(361)
(Decrease) increase in bank loans	**(1,387)**	1,783	(5,618)
	(11,689)	3,367	(19,858)
Total funds provided	**1,231**	271	253
Cash (deficiency) at beginning of year	**229**	(42)	(295)
Cash (deficiency) at end of year	**$ 1,460**	$ 229	$ (42)
Cash is defined as:			
Cash	**$ 2,001**	$ 1,346	$ 914
Bank overdraft	**(541)**	(1,117)	(956)
	$ 1,460	$ 229	$ (42)

Notes to Consolidated Financial Statements

December 31, 1987

(Tabular amounts expressed in thousands of dollars except shares and per share amounts)

Throughout these notes "the Company" refers to Revenue Properties Company Limited, unless the context indicates otherwise. The Company is engaged in the operation of rental properties and real estate development primarily in Canada.

1. Summary of significant accounting policies

(a) General

The financial statements are prepared in accordance with accounting principles generally accepted in Canada which, except as described in note 19, conform in all material respects with accounting principles generally accepted in the United States. The accounting policies and financial statement disclosures are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries together with the Company's proportionate share of the assets, liabilities, revenues and expenses of all incorporated and unincorporated joint ventures. All material intercompany accounts and transactions have been eliminated.

(c) Capitalization of costs

(i) The Company follows the policy of capitalizing direct carrying costs such as interest, realty taxes and other related costs to land under development and projects under construction. In addition, where the Company acts as general contractor, overhead costs are capitalized as a cost of the property. With respect to construction of rental properties, the construction period is generally considered to have ended when a rental occupancy of approximately 70% has been achieved or the project has attained a breakeven position subject to not capitalizing costs beyond fair market value of the property.

(ii) The Company also capitalizes that portion of interest on general borrowings considered applicable to land under development and projects under construction provided the carrying value does not exceed the net realizable value at the time of expected sale.

(d) Income recognition

(i) Sales of housing and land

Income from these transactions is recognized as follows:

House sales –

at the date when title passes, at least 5% of the purchase price has been received, and all material conditions have been fulfilled or provided for.

Condominium sales –

when the amount due on closing is received, the purchaser is entitled to occupancy and undertakes to assume a mortgage for the balance of the purchase price.

Land sales –

when all material conditions have been fulfilled, at least 15% of the purchase price has been received, and interest has commenced to accrue at a reasonable rate on the balance.

(ii) Construction income

Income from construction contracts is recorded on a percentage of completion basis.

(iii) Rental income

Rental income does not include expenses recovered from tenants.

(e) Depreciation and amortization

Depreciation on buildings is provided under the sinking fund method. Under this method depreciation is charged to income in amounts which increase annually consisting of fixed annual sums together with interest compounded at the rate of 5% per annum so as to fully depreciate the buildings over their estimated useful lives of 50 years.

Depreciation on furniture and equipment is provided on a straight-line basis over a 10 year period.

Costs incurred in obtaining leases subsequent to initial leases for commercial and industrial buildings are amortized on a straight-line basis over the term of the leases.

(f) Deferred income

The Company follows the policy of deferring its profit on sale and leaseback and similar transactions as sales occur from time to time. This profit is taken back into income on a straight-line basis over the minimum term of the leaseback and is included in income from rental properties.

(g) Foreign exchange

Foreign currency transactions entered into directly by the Company as well as financial statements of integrated foreign operations are translated using the temporal method. Under this method, monetary assets and liabilities are translated at year-end exchange rates. Other balance sheet items are translated at historical exchange rates. Income statement items are translated at average rates prevailing during the year. Translation gains and losses are included in income except for unrealized gains and losses arising from the translation of long-term monetary assets and liabilities which are deferred and amortized over the remaining lives of the related items.

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Notes (cont'd)

2. Rental properties

	1987	1986
Land, buildings and equipment at January 1, less accumulated depreciation of $4,973,000 (1986; $4,096,000)	**$53,691**	$30,817
Additions during year	**6,688**	1,619
Transfer from projects under construction	–	29,693
	60,379	62,129
Less:		
Disposals at book value	**5,849**	6,828
Depreciation	**1,473**	1,610
Balance December 31, at cost, less accumulated depreciation of $4,474,000 (1986; $4,973,000)	**$53,057**	$53,691

The cost of freehold land included at December 31 in the above is $4,439,000 (1986; $3,152,000).

3. Mortgages receivable

	1987	1986
Mortgages and notes receivable	**$16,859**	$28,039
Balances receivable from land sales	–	355
	$16,859	$28,394

Mortgages and balances receivable, including $1,579,000 on certain properties leased back, bear interest at rates which vary from 7% to 12% (weighted average rate 9.3%), and mature at various dates to 1999 as follows:

1988	$ 2,081
1989	2,818
1990	250
1991	9,530
1992	267
1993 and subsequent	1,863
	16,809
Second mortgages taken back on housing units sold mature at various dates to 1995	50
	$ 16,859

Included in mortgages receivable is a mortgage receivable in the amount of $1,196,000 which participates in the operating income of the related property. During 1987 and 1986 no amount was received with respect to such participation.

4. Mortgages payable on rental properties

	1987	1986
Fixed interest loans	**$45,036**	$45,360
Range of interest	**6.2-13.7%**	6.2-13.7%
Weighted average interest rate at December 31	**11.4%**	11.1%
Variable interest loans	**$ 2,348**	$ 2,208
Weighted average interest rate at December 31	**10.7%**	10%

Interest rates on the variable interest loans are 1% (1986; 0.5%) above the prime interest rate charged by Canadian chartered banks. Principal payments are due as follows:

1988	$ 6,506
1989	3,006
1990	4,136
1991	392
1992	429
1993 and subsequent	32,915
	$ 47,384

Included in fixed interest loans are $12,291,000 of mortgages payable which have the right to participate in the operating income of the related property. During 1987, $158,000 (1986; $6,000) was payable with respect to such participation.

In addition $10,757,000 of these mortgages have the right to fifty per cent of any gain on the disposition of the underlying property.

5. Other loans and mortgages payable

	1987	1986
Fixed interest loans	**$ 1,808**	$ 994
Range of interest rates	**11-14.7%**	14.7-15.7%
Weighted average interest rate at December 31	**11.9%**	15.3%
Variable interest loans	**$ 650**	$ 650
Weighted average interest rate at December 31	**10.7%**	10.7%

Interest rates on the variable interest loans in 1987 and 1986 are 1% above the prime interest rate charged by Canadian chartered banks.

Principal payments of these debts are all due in 1988.

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Notes (cont'd)

6. Construction and land financing

	1987	1986
Variable interest loans (1986 includes loan of U.S. $1,854,000)	$ 2,376	$10,377
Weighted average interest rate at December 31	10.7%	10.5%

Interest rates on the variable interest loans are 1% (1986; 1.2% to 1.5%) above the prime interest rate charged by Canadian chartered banks.

Principal payments of these debts are all due in 1988.

7. Bank indebtedness

	1987	1986
Bank debt outstanding at December 31	$ 6,341	$ 8,304
Maximum debt outstanding at any quarter end	9,898	8,304
Average debt outstanding at quarter ends	7,414	7,583
Weighted average interest rate at year end	10.6%	11.4%
Weighted average interest rate during the year	10.2%	10.7%

At December 31, 1987 the Company's unused lines of credit for general corporate purposes with various banks aggregated $1,370,000 (1986 – nil).

8. Debentures payable

	Maturity date	1987	1986
7.5% convertible subordinated sinking fund debentures Series A	June 30, 1988	$ 700	$ 921
12% debentures	August 31, 1988	5,000	5,000
		$ 5,700	$ 5,921

(a) 7.5% convertible subordinated sinking fund debentures – Series A

The debentures are convertible into units consisting of one-third of a voting Class A share and two-thirds of a Non-voting Class B share on or before June 30, 1988 at $10.22 per unit.

The debentures are redeemable at par (i) to meet sinking fund requirements, and (ii) at any time if throughout the 180 days prior to the date on which notice of redemption is given the market price of a unit has not been less than $12.78.

Under the terms of a trust indenture, the Company may not declare or pay any dividends or other distributions other than stock dividends on any of its shares as long as any of the Series A debentures remain outstanding.

(b) 12% debentures

In September 1985, the Company issued (by way of private placements) 50 units, each consisting of a $100,000 debenture and 50,000 warrants for $100,000 per unit giving total proceeds to the Company of $5,000,000. The debentures mature August 31, 1988 and bear interest at the rate of 12% per annum, interest payable monthly. Each warrant to purchase one Non-voting Class B share of the Company was exercisable at the price of $1 per share until February 28, 1987, thereafter at $1.25 per share until August 31, 1987 and thereafter at $1.50 per share until expiry on August 31, 1988. At December 31, 1987 all warrants have been exercised.

Debentures in the amount of $4,200,000 were purchased by directors (or their relatives) of the Company and held by them at December 31, 1987. During 1987 the outstanding warrants were exercised.

9. Capital stock

	1987	1986
(a) Authorized		
100 million First preference shares		
100 million Second preference shares		
3,446,618 Class A shares (1986 - 4,918,319 shares) – voting, fully participating		
100 million non-voting Class B shares – fully participating		
100 Common shares		
Issued		
3,411,525 Class A shares (1986 - 4,883,225 shares)	**$ 5,593**	$ 8,007
12,524,545 Non-voting Class B shares (1986 - 10,094,579 shares)	**18,408**	15,967
	$24,001	$23,974

(b) Changes during the year

Changes in the Company's outstanding share capital during the year were as follows:

	Class A Shares		Class B Shares	
	Shares	Amount	Shares	Amount
Balance, December 31, 1986	4,883,225	$8,007	10,094,579	$15,967
Issued on exercise of employee stock options	–	–	29,967	41
Issued on exercise of share purchase warrants	–	–	2,400,000	2,400
Repurchase from the Rubins April 28, 1987	(1,471,701)	(2,414)	–	–
To settle fractional share holdings resulting from conversion of shares	1	–	(1)	–
Balance, December 31, 1987	3,411,525	$5,593	12,524,545	$18,408

Notes (cont'd)

(c) Stock options

During the year, the Company granted additional options to certain officers and employees of the Company to purchase 320,000 Class B shares. At December 31, 1987 outstanding stock options to officers and employees of the Company were 555,033 shares with exercise prices ranging from $1.10 to $2.75 per share and expiring over the period from April 1989 to November 1991.

(d) Reserved

The Company has reserved Class A and Class B shares for possible issue as follows:

	No. of Class A Shares	No. of Class B Shares
7.5% convertible subordinated sinking fund debentures	34,467	68,933
Employee stock options	–	555,033
	34,467	623,966

10. Deficit

A Certificate of Amendment dated June 30, 1981 decreased the issued capital of the Company from $27,336,000 to $23,173,000, thereby eliminating the Company's deficit as at January 1, 1981 of $4,163,000.

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11. Lease commitments

The Company is the lessee under a number of capital and operating leases:

	Total	Capital Leases	Operating Leases
Gross rental expense			
– 1987	$ 3,327	$ 1,320	$ 2,007
– 1986	3,644	1,672	1,972
– 1985	3,813	1,718	2,095
Approximate annual rental expenses for next 5 years	1,317	567	750
Aggregate rental expense over term of leases	21,784	5,430	16,354

Capital leases are defined as those which transfer substantially all the risks and benefits of ownership to the leasee.

The Company has not entered into any capital leases subsequent to December 31, 1978. If the Company had capitalized its capital leases acquired prior to that date, the consolidated balance sheet would include:

	1987	1986
Property under capital leases, net of amortization	**$ 3,372**	$ 4,133
Obligations under capital leases	**3,372**	4,133

Amortization is calculated on the sinking fund method over the term of the leases, employing the interest rate implicit in the lease (weighted average of 7.7%) and accordingly, net income would be unchanged.

12. Contingent liabilities

A partner in a joint venture offered to purchase the Company's interest in the joint venture for $1,047,000. The Company accepted the offer, and was prepared to complete the transaction on the basis that the purchaser would pay the amount offered plus an amount of $2,614,000 representing advances to the joint venture by the Company. The purchaser claims that the offered price included these advances. These advances included costs of construction and servicing amounting to $502,000 which the joint venture has since repaid to the Company. The various claims arising from these facts are proceeding to trial, and the Company believes that it will be successful.

Notes (cont'd)

13. Consolidated statement of income

(a) Interest

Interest incurred during the year has been allocated as follows:

	1987	1986	1985
Capitalized			
Rental properties under construction	$ –	$ 1,824	$ 1,184
Projects under construction	–	101	156
Land under development	13	17	558
	13	1,942	1,898
Expensed			
Rental properties	5,095	3,907	4,866
Projects under construction	46	456	792
Land under development	491	834	2,457
Other	1,774	1,628	241
	2,311	2,918	3,490
	$7,419	$ 8,767	$10,254

(b) Rent controls

The residential rental operations of the Company and its subsidiaries are subject to the rent controls of the various jurisdictions in which they operate.

14. Income taxes

The expected tax expense (recovery) differs from the actual tax expense (recovery) as follows:

	1987	1986	1985
Income (loss) before income taxes	$3,206	$(1,150)	$ (3,856)
Computed tax based on statutory rate of 52.1% (51.5% in 1986; 51% in 1985)	$1,669	$ (592)	$ (1,967)
Increase (decrease) in income taxes resulting from:			
Income taxed at capital gains tax rate	(624)	(412)	(1,678)
Losses of Canadian operations not tax benefited	33	–	2,620
Losses of U.S. subsidiary company not tax benefited	94	1,097	734
Other sundry items	(161)	(93)	(115)
Income tax expense (recovery)	$1,011	$ –	$ (406)

Deferred tax expense (recovery) results from timing differences in the recognition of revenue and expense for tax and financial accounting purposes. The sources of these differences and the tax effect of each are as follows:

	1987	1986	1985
Operating losses for which the recovery of taxes is provided by the drawdown of deferred tax timing differences	–	–	$(470)

The Company has losses available to reduce future taxable income as follows:

	Losses		
Year of Expiry	Canada	U.S.	Total
1990	$ 2,918	$ –	$ 2,918
1991	3,126	–	3,126
1992	7,421	115	7,536
1993	5,925	99	6,024
1994	–	7	7
1995 and subsequent	–	6,805	6,805
	$19,390	$7,026	$26,416

The portion of the loss carry forward for tax purposes in Canada which has not been recognized in the financial statements amounts to $4,222,000. None of the losses carried forward for tax purposes in the United States have been recognized in the financial statements.

At December 31, 1987, the net book value of fixed assets exceeds the undepreciated capital cost by approximately $2,741,000.

Notes (cont'd)

15. Joint venture operations

The consolidated financial statements include the Company's proportionate interest in its joint ventures.

	1987	1986	1985
Assets	$ 8,592	$ 8,228	$ 9,901
Liabilities	$ 1,420	$ 4,011	$ 5,182
Equity and advances	7,172	4,217	4,719
	$ 8,592	$ 8,228	$ 9,901
Revenues	$10,542	$10,820	$35,810
Expenses	5,650	9,476	30,237
Income before income taxes	$ 4,892	$ 1,344	$ 5,573

The Company includes in its balance sheet the proportionate shares of the assets and liabilities of its unincorporated joint ventures. The Company is contingently liable for the other participants' portion of the liabilities of these joint ventures. This contingent liability is approximately $2,000,000 as at December 31, 1987. Against this contingent liability, the Company has recourse to all of the assets of each joint venture as well as the assets of the participants to the extent it is required to pay liabilities in excess of its proportionate share.

16. Related party transactions

a) On April 28, 1987, pursuant to the authorization of the shareholders of the Company at a special meeting held on April 13, 1987, the Company closed the following transactions with Alex J. Rubin, Harry Rubin and family trusts and corporations related to them:

(i) The Company repurchased a total of 1,471,701 Class A shares of the Company at a price of $3.50 per share for a total consideration of $5,151,000.

(ii) The Company terminated its interest in a joint venture with the Rubins in the vicinity of Naples, Florida for $1,200,000 U.S. and the return of the Company's bank guaranty.

(iii) The Company purchased the Rubins' 50% interest in a hotel in Halifax, Nova Scotia by payment of $1 and the assumption of liabilities totalling $3,180,854. Prior to this purchase, the Company owned the other 50% interest in the hotel.

(iv) The Company settled a judgement against the Rubins of $297,180 (U.S.) for $1 and further settled a claim against the Rubins in the amount of $449,000 for $250,000.

(v) The Rubins released all rights to claim any sums from a joint venture in which the Company has a substantial interest.

b) During the year the Company borrowed money, under 90 day promissory notes, from persons related to directors of the Company. These notes bore interest at 12% per annum up to January 28, 1987 and bear interest at 11% per annum thereafter. Interest expense for the year was $182,000.

The maximum amount outstanding under these loans during the year was $2,900,000 and at December 31, 1987 the Company owed $1,375,000 to these parties (March 11, 1988 – $725,000).

c) In July 1987, the Company, acting as general partner, formed a limited partnership with a private company, the limited partner, controlled by a director of the Company. The Company sold The Nova Scotian Hotel to this partnership, for $6,610,000, which included the repayment of advances of $1,770,000 made to the Hotel by the Company, resulting in gross profit of $1,082,000. The Company believes that the sale price was not less than the fair market value of the hotel. The Company holds a 2% interest in the operating losses of the partnership and a 20% interest in the future profits, calculated on a cumulative basis. In its capacity as manager of the partnership, the Company earned $61,000 of management fees from the partnership during 1987.

17. Pension costs and obligations

The Company maintains defined benefit pension plans which cover substantially all of its employees which provide benefits based on length of service and remuneration. Effective January 1, 1987, the Company prospectively adopted the recommendations of the Canadian Institute of Chartered Accountants in accounting for pension costs and obligations. As at December 31, 1987, the actuarial present value of accrued pension benefits is $749,000 and the market value of pension plan assets is $1,176,000.

18. Subsequent Event

During February and March, 1988 the Company purchased 172,014 Non-Voting Class B shares for a total, including commissions, of $504,959, pursuant to a normal course issuer bid which permits the Company to repurchase up to 972,724 Non-Voting Class B shares on or before January 21, 1989.

Notes (cont'd)

19. United States accounting principles

The Company follows Canadian accounting principles which are different in some respects from those applicable in the United States and from practices prescribed by the United States Securities and Exchange Commission. The only material differences between the Canadian generally accepted accounting principles utilized in the preparation of these financial statements and the applicable U.S. generally accepted accounting principles are the following:

(i) The Company follows the sinking fund method of depreciation on its rental properties. This method will write off the cost of the building over 50 years in annual amounts increasing at the rate of 5% compounded annually.

Under United States accounting principles, the Company would have adopted the straight-line method of depreciation. This method would write off the cost of the building in equal amounts over 40 years.

(ii) A number of leases which meet the criteria of capital leases are accounted for as operating leases and the effect of which are disclosed in Note 11. Under United States accounting principles, these leases would have been capitalized.

These differences would have affected net income and earnings per share as follows:

	1987	1986	1985
Income (loss) based on Canadian accounting principles	**$3,206**	$(1,150)	$(3,450)
Net changes due to depreciation method			
Depreciation expense	**(854)**	(492)	(782)
Rental properties – cost of sales	**29**	493	3,671
Deferred income taxes	**430**	–	(1,473)
Net changes due to capitalization of capital leases			
Interest expense	**(272)**	(279)	(428)
Amortization expense	**(478)**	(605)	(605)
Property operating expenses	**1,034**	1,242	1,318
Deferred income taxes	**(148)**	(183)	(145)
Income (loss) based on United States accounting principles	**$2,947**	$ (974)	$(1,894)
Income (loss) per share:			
Canadian accounting principles	**$0.197**	$(0.078)	$(0.239)
United States accounting principles	**$0.181**	$(0.066)	$(0.131)

The cumulative effect of the application of the above noted United States accounting principles on the deficit would be as follows:

	1987	1986	1985
Deficit at beginning of year as reported	$(10,608)	$(9,458)	$(6,008)
Effect of changes			
Depreciation method	(3,467)	(3,468)	(4,884)
Capitalization of capital leases	(900)	(1,075)	(1,215)
Deficit at beginning of year based on United States accounting principles	(14,975)	(14,001)	(12,107)
Income (loss) based on United States accounting principles	2,947	(974)	(1,894)
Premium on purchase of Class A shares	(2,737)	–	–
Deficit at end of year based on United States accounting principles	(14,765)	(14,975)	(14,001)
Deficit as reported under Canadian accounting principles	(10,139)	(10,608)	(9,458)
Cumulative effect of changes net of income taxes	$ (4,626)	$(4,367)	$(4,543)

rpc

Five Year Summary of Operations

Year ended December 31, 1987

	1987	1986	1985	1984	1983
	(in thousands of dollars, except per share amounts)				
Revenues					
Rentals	**$17,357**	$ 14,757	$ 18,117	$ 17,552	$ 19,149
Real estate sales	**18,674**	39,060	59,384	19,111	22,476
Interest and other	**2,979**	1,914	637	1,043	1,095
Total revenues	**39,010**	55,731	78,138	37,706	42,720
Expenses					
Property operating	**9,156**	8,387	11,069	10,985	12,806
Cost of real estate sales	**15,337**	37,025	56,678	19,152	18,452
Interest (note 13(a))	**7,406**	6,825	8,356	7,302	6,590
General and administrative	**1,250**	1,406	1,800	3,397	2,994
Other expenses	**1,352**	1,866	2,870	3,713	845
Total expenses	**34,501**	55,509	80,773	44,549	41,687
Income (loss) before depreciation, income taxes and extraordinary item	**4,509**	222	(2,635)	(6,843)	1,033
Depreciation	**1,303**	1,372	1,221	752	886
Income (loss) from continuing operations before income taxes and extraordinary item	**3,206**	(1,150)	(3,856)	(7,595)	147
Income taxes (note 14)					
Current	**1,011**	–	64	–	–
Deferred	**–**	–	(470)	(1,976)	693
	1,011	–	(406)	(1,976)	693
Income (loss) from continuing operations before extraordinary item	**2,195**	(1,150)	(3,450)	(5,619)	(546)
Extraordinary item					
Recovery of income taxes due to application of prior years' tax losses	**1,011**	–	–	–	–
Income (loss) from continuing operations	3,206	(1,150)	(3,450)	(5,619)	(546)
Loss from discontinued operations (net of income tax recovery of $267,000 in 1983)	–	–	–	–	(764)
Net income (loss) for the year	**$ 3,206**	$ (1,150)	$ (3,450)	$ (5,619)	$ (1,310)
Interest capitalized	**$ 13**	$ 1,942	$ 1,898	$ 3,407	$ 3,939
Earnings (loss) per share:					
From continuing operations before extraordinary item	**$ 0.135**	$ (0.078)	$ (0.239)	$ (0.397)	$ (0.039)
From continuing operations	**$ 0.197**	$ (0.078)	$ (0.239)	$ (0.397)	$ (0.039)
Net income (loss) for the year	**$ 0.197**	$ (0.078)	$ (0.239)	$ (0.397)	$ (0.092)
Weighted average number of Class A and Class B shares (in thousands)	**16,276**	14,809	14,412	14,166	14,166

Supplementary Information

Capital Resources

The Company establishes separate lines of credit as required with various banks for real estate construction and development purposes on a project financing basis. The proceeds from these lines have constituted the major sources of the Company's capital during the past three fiscal years. These lines of credit are subject to fluctuations in interest rates to a greater extent than long-term debts.

Effects of Changing Prices

The CICA issued a recommendation in December, 1982 calling for inflation-adjusted supplementary reporting. The Company has not provided this information as it has serious reservations as to whether this supplementary information is appropriate in measuring the impact of inflation under the circumstances of the Company's operations. Land is unique in its value and is not a commodity. Information presented may be misleading to the reader, will be of limited value and will not be comparable with that of other companies, including those companies operating within the industry segments in which the Company operates.

Impact of Inflation

The Company's rental operation is somewhat protected from inflation because virtually all commercial and industrial leases require the tenant to pay for increases in maintenance costs, utilities and realty taxes. The impact of inflation in the residential operations and land development and servicing operations is not significant when compared to the effects of interest rate, and governmental controls. The long-term appreciation in rental properties is expected to offset the impact of inflation.

Notes (cont'd)

Selected Financial Data

	1987	1986	1985	1984	1983
	(in thousands of dollars, except per share amounts)				
Gross revenue	**$39,010**	$55,731	$78,138	$37,706	$42,720
Net income (loss) from continuing operations	**3,206**	(1,150)	(3,450)	(5,619)	(546)
Income (loss) per share from continuing operations	**0.197**	(0.078)	(0.239)	(0.397)	(0.039)
Total assets	**83,934**	103,562	94,416	118,878	121,702
Interest bearing debts	**64,259**	73,814	70,550	90,659	88,268
Capital lease obligation	**3,372**	4,133	5,097	5,987	6,810
Cash dividends per common share	**none**	none	none	none	none
Cash generated from (utilized in) continuing operations	**5,374**	1,597	(463)	(3,630)	793

Quarterly Financial Data (unaudited)

	Quarter				
	First	Second	Third	Fourth	Year
	(in thousands of dollars, except per share amounts)				
1987					
Gross revenue	$ 9,087	$10,980	$ 6,456	$12,487	$39,010
Income before depreciation, income taxes and extraordinary item	92	653	617	3,147	4,509
Net income (loss)	(255)	364	301	2,796	3,206
Earnings (loss) per share	(0.015)	0.022	0.018	0.172	0.197
1986					
Gross revenue	$ 5,413	$13,399	$11,440	$25,479	$55,731
Income (loss) before depreciation, income taxes and extraordinary item	(481)	148	124	431	222
Net income (loss)	(836)	(156)	(278)	120	(1,150)
Earnings (loss) per share	(0.057)	(0.010)	(0.019)	0.008	(0.078)

Historic Canadian Dollar to United States Exchange Rates

The high and low spot rates, average rates and period end rates for the Canadian dollar equivalent of the United States dollar for the five years ended December 31, 1987 and the period January 1, 1988 to January 31, 1988 as reported by the Federal Reserve Bank of New York were as follows:

	Jan. 1 to Jan. 31/88	1987	1986	1985	1984	1983
High	$0.7843	$0.7691	$0.7331	$0.7574	$0.8054	$0.8201
Low	$0.7698	$0.7254	$0.6954	$0.7138	$0.7492	$0.7993
Average	$0.7779	$0.7542	$0.7197	$0.7322	$0.7710	$0.8108
Period end	$0.7837	$0.7691	$0.7244	$0.7151	$0.7566	$0.8035

Projects under construction

Location	Proposed Use	Approximate Number of Square Feet	Percentage Company Profit Participation
Ajax, Ontario	Commercial	10,000 square feet	100

Land under development

Location	Proposed Use	Approximate Number of Acres	Percentage Company Profit Participation
Guelph, Ontario	Multiple	834	75
Port Dover, Ontario	Commercial and Residential	93	33
Simcoe, Ontario	Residential	3	33
Total acreage		930	

Rental Properties

Address	Use	Rentable Area (square feet)	Company's Interest	
MONTREAL, QUEBEC				
700-740 Renaud Avenue	Industrial	51,200	100%	Freehold
742-760 Renaud Avenue	Industrial	30,400	100%	Freehold
9355-9395 Cote de Liesse	Industrial	31,800	100%	Freehold
9405-9475 Cote de Liesse	Industrial	31,800	100%	Freehold
9551-9599 Cote de Liesse	Industrial	64,500	100%	Freehold
9501-9539 Cote de Liesse	Industrial	55,100	100%	Freehold
9545 Cote de Liesse	Office	18,600	100%	Freehold
9601-9665 Cote de Liesse	Industrial	66,500	100%	Freehold
9701-9745 Cote de Liesse	Industrial	52,700	100%	Freehold
9675-9685 Cote de Liesse	Office	19,000	100%	Freehold
10105-10195 Cote de Liesse	Industrial	63,200	100%	Freehold
10205-10255 Cote de Liesse	Industrial	62,500	100%	Freehold
9010-9050 Ryan Avenue	Industrial	23,100	100%	Freehold
735-745 Renaud Avenue	Industrial	23,400	100%	Freehold
9045 Cote de Liesse	Office	32,400	100%	Freehold
9245-9255 Cote de Liesse	Industrial	19,200	100%	Freehold
939 Upton Street	Industrial	9,300	100%	Freehold
300 LaBrosse Avenue	Industrial	39,400	100%	Freehold
1-247 Place Frontenac	Office	67,500	100%	Freehold
985 Boulevard St. Jean	Retail	11,800	100%	Freehold
965-983 Boulevard St. Jean	Retail	19,300	100%	Freehold
955 Boulevard St. Jean	Office	43,900	100%	Freehold

Rental Properties (continued)

Address	Use	Rentable Area (square feet)	Company's Interest	
TORONTO, ONTARIO				
131 Bloor Street West	Residential	156 Apartments	100%	Leasehold expires 2060
131 Bloor Street West	Office	32,700	100%	Leasehold expires 2060
131 Bloor Street West	Retail	61,000	100%	Leasehold expires 2060
100 Cavell Avenue	Retail	6,100	100%	Leasehold expires 2027
419-429 Yonge Street	Retail	7,400	100%	Leasehold expires 2020
10 Gurney Crescent	Industrial	47,100	100%	Freehold
23-43 Charles Street West	Retail	9,300	75%	Leasehold expires 2019
730 Yonge Street	Retail	41,400	75%	Leasehold expires 2019
19 Constellation Court	Industrial	49,200	50%	Leasehold expires 1999
1215 York Mills Road	Residential	143 Apartments	100%	Leasehold expires 1989
43 Valleywoods Road	Residential	102 Apartments	100%	Leasehold expires 2005
11 Valleywoods Road	Residential	209 Apartments	100%	Leasehold expires 2007
2757-2777 Kipling Avenue	Residential	728 Apartments	50%	Leasehold expires 2024
SAINT JOHN, N.B.				
15 Market Square	Office	191,000	50%	Freehold
15 Market Square	Retail	9,000	50%	Freehold

Summary

Total rentable area	1,290,800 square feet
Total residential apartments	1,338 apartments

Shareholders' Information

Market for the Registrant's Stock and Related Security Holder Matters

Approximate number of holders of record of each class of equity securities of the Company as at January 31, 1988:

Title of class	Number of record holders
Class A shares (3,411,525)	5,628
Class B shares (12,524,545)	5,860
7.5% Convertible Subordinated Sinking Fund Debentures, Series A	39
12% Debentures	13

The following is a summary of prices per share by quarters on the Toronto Stock Exchange, the principal market for these shares:

	1987				1986			
Class A	4th	3rd	2nd	1st	4th	3rd	2nd	1st
High	$3.95	$3.65	$4.40	$3.90	$3.65	$3.30	$3.25	$2.85
Low	3.00	3.20	3.30	3.40	2.95	2.90	2.30	1.80
Class B								
High	$3.20	$3.30	$4.05	$3.60	$3.15	$2.95	$2.55	$1.72
Low	2.00	2.80	2.90	2.75	2.45	2.12	1.60	1.30

No dividends have been paid since 1969 on common stock. Under the terms of the trust indenture relating to the 7.5% convertible subordinated sinking fund debentures, Series A due June 30, 1988, the Company may not declare or pay any dividends or other distributions other than stock dividends on any of its shares as long as any of the Series A Debentures remain outstanding.

There has been no established United States trading market for the Company's Class A and Class B shares since April, 1969.

CORPORATE INFORMATION

DIRECTORS

* RICHARD A. BAIN, Q.C., Toronto
Partner, Fogler Rubinoff
Barristers and Solicitors

° HOWARD L. BECK, Q.C., Toronto
Partner, Davies, Ward & Beck
Barristers and Solicitors

† ARTHUR H. CROCKETT, Toronto
Corporate Director

† WATSON W. EVANS, Toronto
Retired

* DAVID FINGOLD, Toronto
Vice Chairman and Director
Slater Industries Inc.

* MAXWELL GOLDHAR, F.C.A., Toronto
Chairman of the Board
Revenue Properties Company Limited

*† THEODORE I. SHERMAN, C.A., Toronto
President and Chief Executive Officer
Revenue Properties Company Limited

MARK M. TANZ, Bahamas
Director
United Income Properties Limited

RUSSELL E. TANZ, Toronto
Executive Vice-President
United Income Properties Limited

° Director Elect
* Member of Executive Committee
† Member of Audit Committee

OFFICERS

MAXWELL GOLDHAR
Chairman of the Board

THEODORE I. SHERMAN
President and Chief Executive Officer

RICHARD A. BAIN
Secretary

PAUL W. HELLEN
Assistant Secretary

SARA TUBERMAN
Assistant Secretary

LOUIS FORBES
Controller and Chief Financial Officer

HEAD OFFICE
The Colonnade
131 Bloor Street West, Suite 300
Toronto, Ontario M5S 1R1

COMMON SHARES
Registrar & Transfer Agent
National Trust
Co-Registrar & Co-Transfer Agent
The Canadian Imperial Bank of Commerce Trust Company, New York

SUBORDINATED DEBENTURES
Trustee: National Trust

AUDITORS
Thorne Ernst & Whinney

ANNUAL MEETING – June 14th 10:00 a.m.
Plaza Salon, Park Plaza Hotel
4 Avenue Road, Toronto

FORM 10-K
The Company has filed its Annual Report with the Securities and Exchange Commission. The report may be obtained by written request to Revenue Properties at its head office.

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