

revenue properties
company limited



annual report 1984



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REPORT TO SHAREHOLDERS

FINANCIAL REVIEW

The Company reported a loss of \$5,619,000 or 39.7¢ per share for 1984 compared with a loss in 1983 of \$546,000 or 3.9¢ per share from continuing operations. While rental revenues fell to \$20,616,000 in 1984 from \$21,830,000 in 1983, gross profits on rental operations increased 7.9% to \$6,010,000 in 1984 from \$5,569,000 in 1983. Gross profits increased because of higher occupancy levels and general increments in rental rates. The sale of four revenue producing buildings and a leasehold interest produced a profit of \$2,105,000 in 1984. In comparison, two revenue producing buildings and a management contract on nine properties were sold in 1983 for a profit of \$4,619,000.

Sales of construction and land held for development were \$15,295,000 in 1984, producing a loss of \$2,146,000. In 1983, sales were \$16,624,000 and the loss was \$595,000. The losses in 1984 resulted from our Boucherville, Vero Beach and Uxbridge projects.

In 1984, the Company recorded a provision for loss of \$2,491,000 for certain of the Company's land and construction projects, a provision for bad debts of \$641,000, and carrying costs expensed of \$489,000. The provision for loss on real estate was required because of declining real estate values of certain projects, the effect of depressed market conditions and the Company's decision to sell rather than develop certain properties.

PROGRESS REPORT

Management has continued to review the earnings potential of every asset of the Company. The value of rental properties has been improved in a number of ways. Selective capital expenditures to certain properties resulted in the elimination of vacant space and higher rental rates than previously achieved. In projects such as the Colonnade and the Brewery Square, the redevelopment of a rental property can achieve higher returns for the Company by placing the property in a different rental market. In some cases, the sale of a revenue producing asset is the most profitable course of action.

Land inventories provide the Company with a different set of opportunities and challenges. In the case of our Torlease project in Vaughan, Ontario, the maximum return on our land investment has been achieved through the sale of serviced housing lots to builders. For our Ajax residential project, we have found that the construction of houses has optimized our profits. During 1984, we had 82 house sales in Ajax. The remaining 40 units in Phase II of this project will be sold in 1985. It is anticipated that services will commence in 1985 for Phase III containing approximately 430 lots and in 1986 for Phase IV containing approximately 500 lots. We have shown continued marginal losses on the construction of houses in our Boucherville, Quebec project. As a result, construction activity has stopped and the land is being marketed and sold as serviced building lots. The sales results for our Seacove condominium project in Vero Beach, Florida have been disappointing. The sale of 3 units in 1984 leaves us with 79 remaining units. While it appears that the Florida condominium market is now improving, we anticipate a sell out time period into 1986.

In late 1984, the Company became involved in a joint venture on the Vivian property in Uxbridge which consists of 93 estate housing lots. The Company has contracts to service

this land and construct homes for the joint venture. To date, purchase commitments have been received by the joint venture on 45 of the 93 lots. This project will provide the Company with good profits and cash flow.

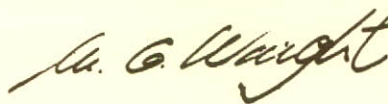
OUTLOOK

There are several events which hold promise for the Company's future. In the past year, we have disposed of three projects, the Commercial Site in Ajax, the Davenport land in Toronto and the vacant development land in Vero Beach, Florida. These projects held little promise and their disposal enabled the Company to apply its investment to better uses. Sales volumes in our Ajax and Uxbridge residential projects are at profitable levels and are enabling us to liquidate our investment in land. The market for serviced lots in Boucherville, Quebec appears to be good and we will shortly commence construction of the final phase of our commercial site in Pointe Claire, Quebec. Due to a concentrated effort by staff the occupancy level of our rental properties is at the highest point in the recent history of the Company. This will lead to improved rental revenues in 1985.

We look forward to reporting to you a year from now.



Maxwell Goldhar
Chairman of the Board



Michael G. Wright
President

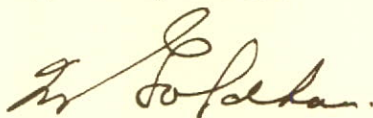
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**CONSOLIDATED
BALANCE
SHEET**
December 31

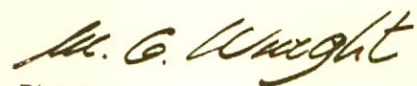
Expressed in Canadian dollars
(U.S. dollar equivalent
December 31, 1984, \$0.76 U.S.;
December 31, 1983, \$0.80 U.S.)

	Note	<u>1984</u>	<u>1983</u>
(in thousands of dollars)			
ASSETS			
Revenue producing real estate	2	\$ 51,351	\$ 58,744
Construction in progress	3	21,260	11,845
Land held for and under development	4	36,098	39,626
Accounts and mortgages receivable	5	7,833	8,900
Other assets	6	2,547	2,793
Cash		375	281
		<u>\$119,464</u>	<u>\$122,189</u>
LIABILITIES			
Mortgages and loans payable on revenue producing real estate	7	\$ 47,252	\$ 52,929
Other loans and mortgages payable	8	10,932	6,453
Sinking-fund debentures	9	921	921
Bank indebtedness	10	31,554	27,965
Accounts payable and accrued liabilities		10,396	7,749
		101,055	96,017
Deferred income		774	942
Deferred income taxes		470	2,446
		<u>102,299</u>	<u>99,405</u>
SHAREHOLDERS' EQUITY			
Capital Stock	11		
Authorized			
100 million First preference shares			
100 million Second preference shares			
4,918,233 Class A shares — voting, fully participating			
100 million Non-voting Class B shares — fully participating			
100 Common shares			
Issued			
4,718,233 Class A shares — voting, fully participating (1983 — 4,718,242 shares)		7,718	7,718
9,447,914 Non-voting Class B shares — fully participating (1983 — 9,447,905 shares)		15,455	15,455
		<u>23,173</u>	<u>23,173</u>
Deficit	12	(6,008)	(389)
		<u>17,165</u>	<u>22,784</u>
		<u>\$119,464</u>	<u>\$122,189</u>

Approved by the Board



Director



Director

CONSOLIDATED
STATEMENT
OF INCOME

Year ended December 31

	1984	1983	1982
	(in thousands of dollars, except per share amounts)		
Rental operations			
Income from revenue producing real estate	\$20,616	\$21,830	\$21,183
Property operating expenses...	\$13,674	\$15,226	\$15,128
Depreciation	932	1,035	813
Gross profit	6,010	5,569	5,242
Sales of revenue producing real estate and interest in management contract	3,816	5,852	2,213
Cost of sales	1,711	1,233	925
Gross profit	2,105	4,619	1,288
Sales of construction, land held for development and surplus land	15,295	16,624	13,776
Cost of sales	17,441	17,219	12,996
Gross profit (loss)	(2,146)	(595)	780
Interest and other income	1,043	1,095	1,890
Gross profit from operations	7,012	10,688	9,200
Deduct:			
Interest expense less amounts capitalized (note 14(a))	7,589	6,811	6,929
Administration and general expenses	3,397	2,994	2,833
Discount on sale of mortgages receivable	—	—	401
Provision for loss on real estate and carrying costs expensed	3,621	736	1,609
	14,607	10,541	11,772
Income (loss) from continuing operations before income taxes	(7,595)	147	(2,572)
Deferred income tax (recovery) (note 15)	(1,976)	693	(1,656)
Loss from continuing operations	(5,619)	(546)	(916)
Loss from discontinued operations (net of income tax recovery of \$267,000 in 1983 — \$113,000 in 1982)	—	(764)	(159)
Loss for the year	\$ (5,619)	\$ (1,310)	\$ (1,075)
Loss per share:			
Loss from continuing operations	(39.7¢)	(3.9¢)	(6.5¢)
Loss for the year	(39.7¢)	(9.2¢)	(7.6¢)

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**CONSOLIDATED
STATEMENT
OF RETAINED
EARNINGS
(DEFICIT)**
Year ended December 31

	<u>1984</u>	<u>1983</u>	<u>1982</u>
	(in thousands of dollars)		
Retained earnings (deficit) at beginning of year	\$ (389)	\$ 921	\$ 1,996
Loss for the year	(5,619)	(1,310)	(1,075)
Retained earnings (deficit) at end of year	<u>\$ (6,008)</u>	<u>\$ (389)</u>	<u>\$ 921</u>

**AUDITORS'
REPORT**
To the Shareholders of
Revenue Properties
Company Limited

We have examined the consolidated balance sheet of Revenue Properties Company Limited as at December 31, 1984 and 1983, and the consolidated statements of income, retained earnings (deficit) and changes in financial position for each of the years in the three year period ended December 31, 1984. 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, 1984 and 1983 and the results of their operations and changes in their financial position for each of the years in the three year period ended December 31, 1984, in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
March 26, 1985

Thorne Riddell
Chartered Accountants

CONSOLIDATED
STATEMENT
OF CHANGES
IN FINANCIAL
POSITION

Year ended December 31

SOURCE OF CASH

	1984	1983	1982
	(in thousands of dollars)		
Decrease in mortgages, notes and balances receivable for land sold under agreements of purchase and sale	\$ 829	\$ 1,429	\$ 7,144
Decrease (increase) in other projects under construction . . .	3,239	6,520	(3,410)
Increase (decrease) in bank loans	3,620	(3,697)	590
Net changes in other assets and liabilities	2,313	(1,964)	3,312
	<u>\$10,001</u>	<u>\$ 2,288</u>	<u>\$ 7,636</u>

USE OF CASH

Cash utilized in (generated from) continuing operations	\$ 5,619	\$ 546	\$ 916
Loss from continuing operations			
Items not requiring current cash outlay			
Depreciation	(932)	(1,035)	(813)
Deferred income tax recovery (expense)	1,976	(693)	1,656
Deferred income	98	739	191
Provision for loss	(3,131)	(350)	(1,540)
	3,630	(793)	410
Increase in land held for and under development	1,351	1,915	5,110
Increase in revenue producing real estate and revenue producing real estate under construction	3,697	4,191	2,904
Net decrease (increase) in loans and mortgages payable . . .	1,198	(2,973)	(1,969)
Net use of cash in discontinued operations	—	112	201
Increase (decrease) in cash	125	(164)	980
	<u>\$10,001</u>	<u>\$ 2,288</u>	<u>\$ 7,636</u>
Cash is defined as:			
Cash	\$ 375	\$ 281	\$ 654
Bank overdraft	670	701	910
	<u>\$ (295)</u>	<u>\$ (420)</u>	<u>\$ (256)</u>

NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS
December 31, 1984

(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 18, 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 of which the Company is a member.

(b) *Principles of consolidation*

The consolidated financial statements include:

- the accounts of the Company and all subsidiary companies. All significant inter-company transactions have been eliminated. The principal active subsidiaries are:

	<u>Ownership %</u>
Metropolitan Estates Corporation	100
Revenue Properties Central Developments Limited	100

- the proportionate share of the assets, liabilities, revenues and expenses of unincorporated joint ventures and partnership.

(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 held for and under development and construction in progress. With respect to construction of revenue producing real estate, the construction period is generally considered to have ended when a rental occupancy of approximately 70% has been achieved and 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 held for and under development and construction in progress, 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*

(i) 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 revenue producing real estate.

(ii) Where the Company sells buildings and provides cash flow guarantees, the portion of the sales price which is determined to be applicable to such guarantees is recorded as deferred income. Similarly, where the Company constructs buildings under a construction agreement and leases same, the

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portion of the contracting profits which is determined to be applicable to operating losses anticipated to occur during the minimum period of the lease, is recorded as deferred income. These amounts are transferred to income in amounts which are determined at the time of providing the guarantee or the commencement of the lease.

(g) *Foreign exchange*

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at the balance sheet dates. Non-monetary assets are translated at rates in effect at dates of acquisition. Revenues and expenses are translated at the weighted average rate during the year. Translation gains and losses are included in income.

2. Revenue producing real estate

	<u>1984</u>	<u>1983</u>
Land, buildings and equipment at January 1, less accumulated depreciation of \$5,155,000 (1983; \$4,536,000)	\$58,744	\$50,444
Additions during year	1,809	10,562
	60,553	61,006
Less: Disposal at net book value	1,566	1,227
Transfer of property to construction in progress	6,704	—
Depreciation expense for the year	932	1,035
Balance December 31, at cost, less accumulated depreciation of \$4,569,000 (1983; \$5,155,000)	<u>\$51,351</u>	<u>\$58,744</u>

The cost of freehold land included at December 31 in the above is \$3,826,000 (1983; \$4,439,000).

3. Construction in progress

	<u>1984</u>	<u>1983</u>
Revenue producing real estate		
Commercial	\$13,121	\$ 2,738
Projects under construction and for sale		
Housing	1,240	829
Multiple unit residential buildings	6,850	8,264
Commercial	49	14
	<u>\$21,260</u>	<u>\$11,845</u>

4. Land held for and under development	<u>1984</u>	<u>1983</u>
Balance, January 1.....	\$39,626	\$39,706
Additions during the year		
Development costs.....	4,695	2,512
Interest.....	2,275	2,699
Other carrying charges.....	420	506
	47,016	45,423
Less:		
Transfers to revenue producing real estate and construction in progress.....	2,980	1,713
Cost of land sold.....	6,055	3,802
Provision for loss.....	1,883	282
Balance, December 31.....	<u>\$36,098</u>	<u>\$39,626</u>

5. Accounts and mortgages receivable	<u>1984</u>	<u>1983</u>
Mortgages and notes receivable.....	\$4,771	\$5,645
Balances receivable for land sold under agreements of purchase and sale.....	45	—
	4,816	5,645
Rents and other receivables.....	3,017	3,255
	<u>\$7,833</u>	<u>\$8,900</u>

Mortgages and balances receivable, including \$2,003,000 on certain properties leased back, bear interest at rates which vary from 7% to 15% (weighted average rate 9.0%), and mature at various dates to 1999 as follows:

1985.....	\$ 856
1986.....	401
1987.....	244
1988.....	213
1989.....	231
1990 and subsequent.....	<u>2,605</u>
	4,550
Second mortgages taken back on housing units sold mature at various dates to 1995 (interest rates vary from 6.2% to 17.5%)..	<u>221</u>
	<u>\$4,771</u>

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NOTES TO
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STATEMENTS

6. Other assets	<u>1984</u>	<u>1983</u>
Prepaid expenses and sundry assets	\$1,737	\$2,147
Costs recoverable from tenants	427	273
Investments, at cost	383	373
	<u>\$2,547</u>	<u>\$2,793</u>

7. Mortgages and loans payable on revenue producing real estate	<u>1984</u>	<u>1983</u>
Fixed interest loans	\$40,168	\$45,268
Range of interest rates	6.2-18%	6.2-18%
Weighted average interest rate at December 31	10.5%	10.7%
Variable interest loans	\$ 7,084	\$ 7,661
Weighted average interest rate at December 31	13.0%	13.1%

The effective interest rates on the variable interest loans are 0.75%-3.9% (1983; 1%-2.3%) above the prime interest rate charged by Canadian chartered banks. Principal payments are due as follows:

1985	\$ 2,046
1986	2,280
1987	2,590
1988	6,708
1989	2,995
1990 and subsequent	<u>30,633</u>
	<u>\$47,252</u>

8. Other loans and mortgages payable

	<u>Secured by</u>	
	<u>Real Estate</u>	<u>Mortgages Receivable</u>
1984		
Fixed interest loans	\$6,111	\$1,055
Range of interest rates	13.5-14.2%	14.7-15.7%
Weighted average interest rate at December 31	14.2%	15.3%
Variable interest loans	\$1,827	\$ 800
Weighted average interest rate at December 31	13.6%	12.7%
1983		
Fixed interest loans	\$ 551	\$1,079
Range of interest rates	10.5-13.5%	14.7-15.7%
Weighted average interest rate at December 31	11.4%	15.3%
Variable interest loans	\$2,101	\$ 840
Weighted average interest rate at December 31	13.8%	12.2%

Interest rates on the variable interest loans in both years vary 1% to 3.5% above the prime interest rate charged by Canadian chartered banks.

Principal payments are due as follows:

			<u>Total</u>
1985	\$ 7,421	\$ 829	\$ 8,250
1986	353	33	386
1987	—	561	561
1988	164	432	596
	<u>\$ 7,938</u>	<u>\$ 1,855</u>	9,793
Interim financing secured by certain properties under construction			<u>1,139</u>
			<u>\$10,932</u>

9. Sinking fund debentures

7½% convertible subordinated sinking fund debentures — Series A, due June 30, 1988. Outstanding December 31, 1984 and 1983 \$921,000.

(a) *Convertible Features*

The debentures are convertible on or before June 30, 1988 at \$10.59 per unit. A unit is one-third of a voting class A share and two-thirds of a class B share.

The above conversion price is subject to anti-dilution provisions.

(b) *Sinking Fund Requirements*

Sinking fund payments will not be required until at least 1987.

NOTES TO
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(c) *Redemption*

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 the common shares has not been less than \$13.24.

(d) *Dividend restrictions*

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.

10. Bank indebtedness

	<u>1984</u>	<u>1983</u>
Bank indebtedness secured by:		
Construction in progress.....	\$10,120	\$ 8,184
Land held for and under development.....	10,812	11,762
Mortgages and notes receivable.....	—	93
Revenue producing real estate.....	9,674	7,041
Unsecured.....	948	885
	<u>\$31,554</u>	<u>\$27,965</u>
Maximum debt outstanding at any quarter end.....	\$31,554	\$30,832
Average debt outstanding at quarter ends.....	\$31,002	\$29,322
Weighted average interest rate at year end.....	12.6%	12.3%
Weighted average interest rate during the year.....	12.6%	12.8%

At December 31, 1984, the Company's unused lines of credit for general corporate purposes with various banks aggregated \$1,022,000. At December 31, 1983, the Company had fully utilized its available lines of credit for general corporate purposes.

11. Capital stock

During 1983, the Company allotted 400,000 Class B shares to a newly created employee stock option plan. In 1984, the Company granted an option for 200,000 of these shares at 70.55¢ per share exercisable until July 24, 1989 to an officer of the Company.

12. Retained earnings (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.

13. Lease commitments

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

	<u>Total</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
Gross rental expense — 1984	\$ 3,755	\$ 1,639	\$ 2,116
— 1983	4,552	2,439	2,113
— 1982	4,652	2,573	2,079
Approximate annual rental expenses for next 5 years	2,456	1,025	1,431
Aggregate rental expense over term of leases ..	40,793	8,922	31,871

Capital leases

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

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:

	<u>1984</u>	<u>1983</u>
Property under capital leases, net of amortization	\$ 5,987	\$ 6,810
Obligations under capital leases	5,987	6,810

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 7.8%) and accordingly, net income would be unchanged.

14. Consolidated statement of income

(a) *Interest*

Interest incurred during the year has been allocated as follows:

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Capitalized			
Revenue producing real estate under construction	\$ 1,029	\$ 579	\$ 806
Construction in progress	103	661	1,428
Land held for and under development	2,275	2,699	3,538
Other	—	—	152
	<u>3,407</u>	<u>3,939</u>	<u>5,924</u>
Expensed			
Revenue producing real estate	5,294	5,244	4,813
Construction in progress	1,019	682	58
Land held for and under development	935	451	616
Surplus land	—	—	44
Other	341	434	1,398
	<u>7,589</u>	<u>6,811</u>	<u>6,929</u>
	<u>\$10,996</u>	<u>\$10,750</u>	<u>\$12,853</u>

(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.

15. Income taxes

Income tax expense (recovery) is included in the financial statements as follows:

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Continuing operations.....	\$(1,976)	\$ 693	\$(1,656)
Discontinued operations.....	<u>—</u>	<u>(267)</u>	<u>(113)</u>
	<u>\$(1,976)</u>	<u>\$ 426</u>	<u>\$(1,769)</u>

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

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Income (loss) from continuing operations before income taxes.....	\$(7,595)	\$ 147	\$(2,572)
Computed tax based on statutory rate of 51% in 1984 (51.5% in 1983 and 50% in 1982).....	\$(3,873)	\$ 76	\$(1,286)
Increase (decrease) in income taxes resulting from:			
Income taxed at capital gains tax rate.....	(513)	(65)	(389)
Losses of U.S. subsidiary company not tax benefited.....	1,985	662	—
Other sundry items.....	425	20	19
Tax expense (recovery).....	<u>\$(1,976)</u>	<u>\$ 693</u>	<u>\$(1,656)</u>

The potential income tax benefits associated with losses of the Company's U.S. subsidiary in 1984 and 1983 have not been recorded in the accounts. Net operating losses in the amount of \$3,900,000 (1983; \$1,200,000) relating to this subsidiary, are available to reduce taxable income in future years until 1999 - 2000.

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:

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Excess of capital cost allowance over book depreciation	\$ 340	\$ 1	\$ 457
Net increase in carrying costs of real estate expensed for tax purposes and capitalized for financial accounting purposes.....	187	844	813
Net differences resulting from method of deferring income for tax and financial accounting purposes....	40	(69)	856
Operating losses for which the recovery of taxes is provided by the drawdown of deferred tax timing differences.....	<u>(2,543)</u>	<u>(83)</u>	<u>(3,782)</u>
	<u>\$(1,976)</u>	<u>\$ 693</u>	<u>\$(1,656)</u>

16. Joint venture operations

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

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Assets	<u>\$30,153</u>	<u>\$29,688</u>	<u>\$34,480</u>
Liabilities	<u>\$29,608</u>	<u>\$28,257</u>	<u>\$31,548</u>
Equity and advances	<u>545</u>	<u>1,431</u>	<u>2,932</u>
	<u>\$30,153</u>	<u>\$29,688</u>	<u>\$34,480</u>
Revenues.....	<u>\$11,297</u>	<u>\$10,247</u>	<u>\$15,544</u>
Expenses.....	<u>12,432</u>	<u>11,268</u>	<u>13,713</u>
Income (loss) before income taxes	<u>\$ (1,135)</u>	<u>\$ (1,021)</u>	<u>\$ 1,831</u>

The Company includes in its balance sheet the proportionate shares of the assets and liabilities of its unincorporated joint ventures and partnership. The Company is contingently liable for the other participants' portion of the liabilities of these joint ventures and partnership. This contingent liability is approximately \$5,000,000 as at December 31, 1984. Against this contingent liability, the Company has recourse to all of the assets of each joint venture and partnership as well as the assets of the participants to the extent it is required to pay liabilities in excess of its proportionate share.

17. Related party transactions

(a) The Company participates in numerous joint ventures and a partnership in certain of which directors and officers of the Company participate for their own account. Directors' and officers' interests in these joint ventures and partnership are summarized as follows:

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Assets	<u>\$ 5,668</u>	<u>\$ 5,657</u>	<u>\$ 6,544</u>
Liabilities	<u>\$ 6,368</u>	<u>\$ 5,394</u>	<u>\$ 5,782</u>
Equity and advances	<u>(700)</u>	<u>263</u>	<u>762</u>
	<u>\$ 5,668</u>	<u>\$ 5,657</u>	<u>\$ 6,544</u>
Revenue.....	<u>\$ 3,215</u>	<u>\$ 3,313</u>	<u>\$ 2,505</u>
Expenses.....	<u>4,222</u>	<u>3,889</u>	<u>2,486</u>
Income (loss) before income taxes	<u>\$ (1,007)</u>	<u>\$ (576)</u>	<u>\$ 19</u>

(b) The Company is developing a condominium project at Vero Beach, Florida as a joint venture with other parties. One of these parties, a company which the Company understands is controlled by Alex and Harry Rubin (directors of the Company) has not funded its required equity contribution and is indebted to the Company for this in the amount of \$219,882 (U.S.) at December 31, 1984 (\$84,384 (U.S.) at December 31, 1983). The Company has commenced legal proceedings against this party to collect the amounts owing.

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- (c) The Company had agreed to attempt to develop a condominium project with Westok Holdings Limited, which development was not proceeded with. The Company understands that the shares of Westok Holdings Limited are owned by Alex and Harry Rubin or members of their immediate families. The share of the sums expended by the Company with regard to the proposed development which Westok Holdings Limited agreed to reimburse to the Company amounted to \$260,150 at December 31, 1982. Westok agreed to repay this amount with interest at bank prime rate plus 1% by December 31, 1983. Westok has not repaid the amount owing and at December 31, 1984 \$350,719 including accrued interest remained outstanding (\$307,591 at December 31, 1983). During 1984, the Company commenced legal proceedings against Westok, which Westok is defending, to collect the amounts owing to the Company.
- (d) In 1981 the Company entered into a joint venture with two other corporations pertaining to a development in the vicinity of Naples, Florida. The Company understands that Alex and Harry Rubin and/or members of their immediate families indirectly own all of the outstanding shares of Westok International Corporation ("Westok International"), one of such corporations.

The Company's obligation was to be limited to providing a guarantee of the joint venture's bank financing of \$2 million (U.S.) in return for the right to the first \$2 million (U.S.) of profits payable out of cash flow after repayment of all development costs, bank financing and a mortgage on the property held by a fourth corporation, Manchester Developments Inc. (Manchester), in which the Company understands Alex and Harry Rubin and members of their immediate families indirectly own all of the outstanding shares.

The joint venture agreement provides that if the Company has not previously received its \$2 million (U.S.) entitlement it will receive the balance at the rate of \$20,000 (U.S.) per acre on the first 100 acres of the last 150 acres sold.

The bank financing was to be limited to \$7.6 million (U.S.) with any additional required working capital to be provided by the other two joint venture partners. In 1983, the joint venture required additional working capital beyond \$1,772,446 (U.S.) provided by parties related to Westok International. The bank agreed to increase the financing to \$15 million (U.S.) with a maximum amount of \$10 million (U.S.) to be outstanding at any point in time and to release certain deposits which it was holding. In connection with this additional financing the Company guaranteed to the bank the payment of \$1.1 million (U.S.) of notes due to creditors of the joint venture and informally undertook to the bank to assume management of the project, and parties related to Westok International provided certain additional collateral security to the bank. Westok Holdings Limited agreed in writing to indemnify the Company against any costs, expenses and liabilities which the Company might from time to time incur under the guarantees to the bank referred to above.

During 1983, the joint venture arranged with other lending institutions new financing out of which the then bank financing was repaid with the result that the Company's guarantee of \$2 million (U.S.) and its other guarantees were released. The new financing was for a total of \$12.3 million (U.S.) of which the Company guaranteed

repayment of \$1 million (U.S.). In connection with the new financing, it was agreed that the Company would receive an additional \$1 million (U.S.) to be paid at the rate of \$5,238 (U.S.) for each acre sold after November 20, 1982. To December 31, 1984, \$129,321 (U.S.) has accrued pursuant to this provision but has not been recorded as income by the Company since it does not become payable by the joint venture until such time as the joint venture has funds available for distribution as defined.

The joint venture agreement prohibits the joint venture, except to the extent permitted by the Company, from paying any sums for work or services to parties related to the other two joint venture partners until the Company has received its agreed upon cash flow from the joint venture.

The joint venture agreement provides that advances made by the other two joint venture partners and parties related to them prior to May 8, 1983, can only be repaid if the Company is also repaid a pro rata amount as determined by the joint venture agreement. Prior to May 8, 1983, the sum of \$105,000 (U.S.), and subsequent to May 7, 1983, the sum of \$15,000 (U.S.), was loaned to the joint venture by a corporation related to the other two joint venture partners. Such corporation related to the other two joint venture partners was repaid the \$15,000 (U.S.) advance made subsequent to May 7, 1983, and was also repaid \$93,115 (U.S.) of the advance made prior to May 8, 1983, so that the Company should have received its pro rata payment in the amount of \$99,300 (U.S.) which payment was not made to the Company. In 1984, the Company formally advised the other two joint venture partners that they were in default under the joint venture agreement for not making the required pro rata payment to the Company. Subsequently, the Company entered into an interim arrangement with the other two joint venture partners, pending final resolution of the matter, which interim arrangement provides that while such interim arrangement remains in effect, a nominee of the Company will co-sign all joint venture cheques and the Company will not take any further proceedings in relation to the said default of the other two joint venture partners.

- (e) The Company has a substantial interest in a joint venture, for the development of land in the Township of Vaughan, Ontario. In 1984, Alex and Harry Rubin alleged for the first time that they were entitled to one-third of the profits of such joint venture, since its inception, on the basis of an ambiguous clause in the joint venture agreement. The profits since inception amount to approximately \$12,700,000 as at December 31, 1984 and there remains land in the joint venture for development. Legal proceedings are pending to interpret the clause in question. In the view of management, this claim of Alex and Harry Rubin is without merit.
- (f) In joint venture with Westok Holdings Limited the Company operates a hotel in Halifax, Nova Scotia. The hotel is managed by another corporation in which Alex and Harry Rubin or members of their immediate families have a substantial interest. Management fees of \$79,969, \$32,771 and \$84,693 were charged to the joint venture by such corporation in 1984, 1983 and 1982 respectively. In addition, 20% of the profit on the eventual sale of the hotel will accrue to such corporation, and the joint venture partners will equally share the remaining 80%.

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- (g) In 1982, M.G. Wright was appointed President of the Company and, in order to terminate a partnership between the Company and M.G. Wright Construction Limited, a corporation owned by M.G. Wright, the Company purchased all of the shares of M.G. Wright Construction Limited, which owned a 25% interest in the partnership. The remaining 75% was already owned by the Company. The cost of the shares purchased was \$1. Assets and liabilities acquired were as follows:

Real estate assets.....	\$3,744
Other assets.....	65
	<u>\$3,809</u>
Liabilities.....	<u>\$3,809</u>

- (h) Certain directors and officers and their associates owned 28% of Revenue Resources (Canada) Inc. which held the Company's petroleum and natural gas interests. The Company owned the remaining 72% of the shares.

During 1983 the Company exchanged its investment in Revenue Resources (Canada) Inc. for 143,036 common shares of Carlyle Energy Limited and warrants to purchase 143,036 common shares for \$2.66 per share until August 31, 1988. The Company intends to retain this investment as a long term investment.

Maxwell Goldhar, Chairman of the Company, is an officer, director and a major shareholder of Carlyle Energy Limited.

As a result of the above transaction the operating results of the oil and gas operations have been segregated from the consolidated amounts and shown as discontinued operations. The 1982 financial statements were restated to reflect the oil and gas operations as discontinued and to present the company's investment in Revenue Resources (Canada) Inc. on the equity basis. Such restatement had no effect on net income or total shareholders' equity.

18. 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 revenue producing real estate. 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 annual amounts over 40 years.

During 1977 the Company adopted the sinking fund method of depreciation in order to make the Company's financial statements comparable to others in the Canadian real estate industry. Previously the Company followed a 40 year straight-line method of depreciation.

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- (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 13. Under United States accounting principles, these leases would have been capitalized.

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

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Loss based on Canadian accounting principles	\$(5,619)	\$(1,310)	\$(1,075)
Net changes due to depreciation method			
Depreciation expense	(755)	(736)	(751)
Revenue producing real estate — cost of sales	250	70	229
Deferred income taxes	258	333	261
Net changes due to capitalization of capital leases			
Interest expense	(495)	(558)	(1,238)
Amortization expense	(605)	(605)	(881)
Property operating expenses	1,318	1,318	2,202
Disposal of capital leases	—	1,690	—
Deferred income taxes	(111)	(923)	(41)
Loss based on United States accounting principles	<u>\$(5,759)</u>	<u>\$ (721)</u>	<u>\$(1,294)</u>
Loss per share			
Canadian accounting principles	<u>(39.7¢)</u>	<u>(9.2¢)</u>	<u>(7.6¢)</u>
United States accounting principles	<u>(40.7¢)</u>	<u>(5.1¢)</u>	<u>(9.1¢)</u>

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

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Retained earnings (deficit) at beginning of year as reported	\$ (389)	\$ 921	\$ 1,996
Effect of changes			
Depreciation method	(4,637)	(4,304)	(4,043)
Capitalization of capital leases	(1,322)	(2,244)	(2,286)
Deficit at beginning of year based on United States accounting principles	(6,348)	(5,627)	(4,333)
Loss based on United States accounting principles	<u>(5,759)</u>	<u>(721)</u>	<u>(1,294)</u>
Deficit at end of year based on United States accounting principles	(12,107)	(6,348)	(5,627)
Retained earnings (deficit) as reported under			
Canadian accounting principles	<u>(6,008)</u>	<u>(389)</u>	<u>921</u>
Cumulative effect of changes net of income taxes . .	<u>\$(6,099)</u>	<u>\$(5,959)</u>	<u>\$(6,548)</u>

**revenue
properties
company
limited**

**FIVE YEAR
SUMMARY OF
OPERATIONS**
Years ended December 31

	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
	(in thousands of dollars, except per share amounts)				
Rental operations					
Income from revenue producing real estate	\$20,616	\$21,830	\$21,183	\$20,051	\$16,262
Property operating expenses	13,674	15,226	15,128	13,958	11,943
Depreciation	932	1,035	813	651	489
	6,010	5,569	5,242	5,442	3,830
Sales of revenue producing real estate and interest in management contract	3,816	5,852	2,213	7,582	4,040
Cost of sales	1,711	1,233	925	5,121	2,368
	2,105	4,619	1,288	2,461	1,672
Sales of construction, land held for and under development and surplus land	15,295	16,624	13,776	29,218	15,826
Cost of sales	17,441	17,219	12,996	24,874	12,678
	(2,146)	(595)	780	4,344	3,148
Other income	1,043	1,095	1,890	1,985	1,433
Gross profit from operations	7,012	10,688	9,200	14,232	10,083
Interest expense less amounts capitalized	7,589	6,811	6,929	7,889	5,644
Other expenses	3,397	2,994	3,234	2,522	2,251
Provision for loss on real estate and carrying costs expensed	3,621	736	1,609	1,383	115
Income (loss) from continuing operations before income taxes	(7,595)	147	(2,572)	2,438	2,073
Deferred income tax (recovery)	(1,976)	693	(1,656)	548	474
Income (loss) from continuing operations	(5,619)	(546)	(916)	1,890	1,599
Income (loss) from discontinued operations (net of income taxes (recovery) of (\$267,000) in 1983; (\$113,000) in 1982; \$121,000 in 1981)	—	(764)	(159)	106	—
Net income (loss) for year	\$ (5,619)	\$ (1,310)	\$ (1,075)	\$ 1,996	\$ 1,599
Interest capitalized	\$ 3,407	\$ 3,939	\$ 5,924	\$ 6,504	\$ 4,843
Earnings (loss) per share					
Earnings (loss) from continuing operations	(39.7¢)	(3.9¢)	(6.5¢)	13.3¢	11.3¢
Earnings (loss) for the year	(39.7¢)	(9.2¢)	(7.6¢)	14.1¢	11.3¢
Weighted average number of shares (in thousands)	14,166	14,166	14,166	14,166	14,166

SUPPLEMENTARY INFORMATION

Business

Revenue Properties Company Limited was incorporated under the laws of the Province of Ontario by letters patent dated August 24, 1961 and maintains its principal and head office at First Canadian Place, 100 King Street West, Toronto, Ontario M5X 1B1. As used herein, the term "the Company" includes Revenue Properties Company Limited, its consolidated subsidiaries and joint ventures.

On March 15, 1985, Mr. Harry Rubin, a director of the Company, on behalf of certain family trusts and corporations the beneficiaries of which are Alex J. Rubin, also a director of the Company, Harry Rubin and/or members of their immediate families (collectively, the "Rubin Interests"), served a notice, the effect of which is that the Voting Trust Agreement of June 8, 1981 terminated on April 15, 1985.

As a part of the extension in 1972 of the maturity of the senior debentures of the Company, the Rubin Interests had constituted a voting trust granting Mr. Maxwell Goldhar, Chairman of the Company, the power to vote all of their shares of the Company for the election of a Board of Directors of Mr. Goldhar's choice. Such voting trust was to expire when all of such debentures had been redeemed. Prior to the maturity of the last of such debentures, the Voting Trust Agreement of June 8, 1981 was entered into, which superceded the former voting trust agreement. Under the Voting Trust Agreement of June 8, 1981, the power to elect the directors of the Company is shared by Mr. Goldhar and by Harry Rubin as the nominee of the Rubin Interests. The Voting Trust Agreement provides that it is terminable by either Mr. Goldhar or the nominee of the Rubin Interests on 30 days' prior written notice, which is the provision pursuant to which Mr. Harry Rubin, as the nominee of the Rubin Interests, served such notice of termination.

The Class A shares of the Company are the only class of shares carrying the right to vote in an election of the directors. At present, the Rubin Interests own 1,380,801 Class A shares, or 29.26% of the total number of Class A shares of the Company which are outstanding. Corporations affiliated with Mr. Goldhar (collectively, the "Goldhar Interests") own a total of 368,600 Class A shares, or 7.8% of the total number of Class A shares of the Company which are outstanding. Presently, there are nine directors of the Company, seven of whom have no affiliation with any of the Rubin Interests. Six of such seven directors, including Mr. Goldhar, have served continuously as directors of the Company since 1972, when Mr. Goldhar became a director and was appointed Chief Executive Officer of the Company. The remaining two directors are Alex Rubin and Harry Rubin.

The remaining 62.94% of the Class A shares are believed by Management to be held by in excess of 6,000 beneficial shareholders. Because of the relative Class A shareholdings of the Rubin Interests (29.26%) and the Goldhar Interests (7.8%) and the broad, fragmented holdings of the balance of the Class A shares, it is quite possible that the Rubin Interests, by their termination of the Voting Trust Agreement, have acquired effective control of the Company, in that they may be able to outvote Management proxies and thereby elect a Board of Directors of their choice at the next annual meeting of shareholders, should they choose to do so.

The Company is a diversified real estate enterprise engaged in acquiring undeveloped land and subdividing and improving it for sale to other builders or for its own use; developing income producing commercial, industrial and residential properties, both for its own account and for sale to others; building and marketing single-family housing and condominiums; and providing a complete range of property management services for itself and others. The Company has also entered various forms of arrangements with outside parties who have particular strength or expertise in related areas, whereby, in return for investment of capital, supervision of construction, etc. the outside party acquires an interest in development lands or buildings which are constructed. The Company is engaged in the operation of rental properties and real estate development primarily in Canada.

During 1984, in addition to its rental operations, the Company was also engaged in the construction and marketing of 114 single-family homes in Ontario, 11 single-family homes in Quebec and 82 condominium units in Florida. The Company also sold in 1984 several serviced lots and land projects in Ontario and Quebec. At December 31, 1984, the Company had under construction in Ontario 32 single-family homes of which 25 homes were pre-sold, 1 single-family home in Quebec and 80 condominium units in Florida.

In all aspects of the Company's business pertaining to rental operations, acquisition, construction and development of real estate, the Company operates in highly competitive markets. The Company competes with developers and other buyers in the acquisition of development sites and for financing opportunities in the money market. With respect to the leasing and operation of developed properties, each project faces market competition from existing and future developments in its market area. The Company also competes with numerous housing and land developers, ranging from small local to regional and national builders and developers, some of which have greater sales and financial resources than the Company. Resales of homes also provide additional competition.

At December 31, 1984, the Company and its subsidiaries had approximately 107 full-time employees.

Legal Proceedings

Neither the company nor any of its subsidiaries is a party to any material pending legal proceedings except for the following:

1. The Company commenced legal proceedings against Westok Holdings Limited, the shares of which the Company understands are owned by Alex and Harry Rubin or members of their immediate families, in the Supreme Court of Ontario on June 29, 1984. The Company's claim, including interest to June 29, 1984, is in the amount of \$327,258, together with interest thereon from such date and the costs of the legal proceedings. The basis of the claim is that the Company had agreed to attempt to develop a condominium project with Westok Holdings Limited, which development was not proceeded with, and the Company commenced the legal proceedings to recover the share of the sums expended by the Company with regard to the proposed development which Westok Holdings Limited had agreed to reimburse to the Company, together with interest thereon at an agreed upon rate.

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2. Legal proceedings were commenced in the Supreme Court of Ontario on December 21, 1984, to resolve the claim of Mr. Alex Rubin and Mr. Harry Rubin that they are entitled to one-third of the profits of a joint venture for development of land in the Township of Vaughan, Ontario, from the date of inception of the joint venture, which claim is based on Alex and Harry Rubin's interpretation of the joint venture agreement. The Company has a substantial interest in the joint venture. The profits of the joint venture since inception amount to approximately \$12,700,000 as at December 31, 1984, and there remains land in the joint venture for development.
 3. The Company commenced legal proceedings against Mal de Mer, Inc., a company which the Company understands is controlled by Alex and Harry Rubin, in the Circuit Court of the 19th Judicial District in and for Indian River County, Florida on or about August 6, 1984. The Company's claim relates to a condominium project at Vero Beach, Florida, which the company is developing as a joint venture with other parties, including Mal de Mer, Inc. Mal de Mer, Inc. has not funded its required equity contribution, and on the date of the commencement of the legal proceedings was indebted to the Company in the amount of \$175,350 (U.S.) together with interest thereon in the amount of approximately \$13,700 (U.S.). The Company's claim is to recover such amounts, as well as other amounts which are owing, at the date of trial, from Mal de Mer, Inc. to the Company, together with interest thereon and the costs of the legal proceedings. Mal de Mer, Inc. has counterclaimed asking for an accounting of all payments made by Mal de Mer, Inc. to the joint venture, expenditures of the joint venture and any profits derived from the joint venture, and any damages which may be shown due to it as a result of such accounting.
 4. Toulon Development Corporation commenced legal proceedings against the Company in the Superior Court of Quebec on September 12, 1984, to obtain certain injunctive relief as a first step in enforcing as a binding agreement of purchase and sale a letter of intent signed by the Company to sell various properties in Quebec to Toulon Development Corporation, at a cash purchase price of \$11,500,000. On November 12, 1984, the Superior Court of Quebec delivered a judgment that Toulon Development Corporation's action be dismissed, as in the Court's opinion there was no binding agreement of purchase and sale between the Company and Toulon Development Corporation. Toulon Development Corporation is appealing the decision of the Superior Court of Quebec to the Quebec Court of Appeal.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

It is important to consider in reviewing the Company's performance that in common with other real estate development companies, our activities are mainly project oriented. Financial results for real estate development activities fluctuate from year to year as specific properties are sold.

Financial Condition and Liquidity

The Company is indebted to its principal banker under various credit facilities in an aggregate amount of approximately \$21,000,000. It is a condition of such credit facilities that voting control of the Class A shares of Revenue Properties owned by the Rubin Interests be maintained by Maxwell Goldhar under the Voting Trust arrangements which terminated on April 15, 1985 as discussed earlier. While Management does not anticipate that such bank will demand repayment of its loans, in the view of Management such bank would in all likelihood demand repayment of its loans if persons affiliated with the Rubin Interests were elected as a majority of the directors of Revenue Properties or Alex and Harry Rubin assumed control of the management of the Company. It is Management's view that if the repayment of the bank indebtedness was demanded because of such a change in the directors or control of management of the Company, the Company would be unable to borrow from other financial institutions the funds necessary to repay its bank indebtedness.

The Company has substantial cash requirements which exceed the lines of credit arranged with its various banks. At December 31, 1984, the Company's unused lines of credit for general corporate purposes with various banks aggregated \$1,022,000. At December 31, 1983, and December 31, 1982, the Company had fully utilized its available lines of credit for general corporate purposes. The Company has a weak liquidity position primarily due to interest and carrying costs on projects not generating income.

It is the Company's intention to have firm commitments in place for financing new development projects prior to the project commencing.

The Company intends to generate cash adequate to meet its needs by the sale of income producing properties and land, periodic borrowings under short term credit facilities and renegotiating project loans. The Company has experienced that the sale of land projects without development is very difficult to achieve on reasonable terms. Due to the current economic environment, purchasers are not willing to commit large amounts to land projects which are substantially for the development of single family housing lots.

The Company's liquidity at any time is affected by a number of factors including the rate of closings of housing units and serviced lots, land development and construction activities and the ability to obtain new loans from its bankers. The Company anticipates that its principal bank will provide additional funding if the Company gives adequate security and demonstrates its ability in regard to repayments.

Results of Operations

For the year ended December 31, 1984, the Company reported a loss of \$5,619,000 from continuing operations compared with a loss of \$546,000 for 1983 and a loss of \$916,000 for 1982.

Gross rental revenues for the year ended December 31, 1984 were \$20,616,000 compared with \$21,830,000 for 1983 and \$21,183,000 for 1982. Gross profit from rental operations increased in 1984 to \$6,010,000 from \$5,569,000 in 1983 and from \$5,242,000 in 1982. The change in rental revenues in 1984 is due to two factors. A major revenue producing asset is being redeveloped and has been included in construction in progress in 1984. This decrease in revenues was partially offset by the achievement of higher occupancy rates in Toronto residential properties. It is expected that rental revenues will increase in 1985. This will be realized by the reduction of vacancies in industrial properties.

Four revenue producing buildings and a leasehold interest in a property were disposed during the year ended December 31, 1984 producing gross profit of \$2,105,000. During the same period in 1983, two revenue producing buildings and a management contract on nine properties were sold resulting in gross profit of \$4,619,000. In 1982, the Company sold five revenue producing buildings for a gross profit of \$1,288,000.

Sales of construction, land held for development and surplus land were \$15,295,000 in the year ended December 31, 1984 producing a loss of \$2,146,000. This compares with sales of \$16,624,000 and a loss of \$595,000 for the same period in 1983. For the year ended December 31, 1982, the Company had comparable sales of \$13,776,000 and gross profit of \$780,000. The loss for the years ended December 31, 1984 and 1983 are comprised of losses from the Boucherville, Vero Beach and Uxbridge projects and profits from the Vaughan Township project. The profits in 1982 were attributable to the 1166 Bay Street and the Vaughan Township projects. No further losses are expected on the Uxbridge projects because the final parcel of land will be sold at book value in early 1985. The Company has ceased housing construction in Boucherville. Profits are expected in 1985 on the sale of housing lots in this project. The Company also expects profits from the continued development of the Vaughan township and Ajax projects.

Of total interest cost of \$10,996,000 in the year ended December 31, 1984, \$7,589,000 was expensed and the balance of \$3,407,000 was capitalized to inventories. This compares with total interest cost of \$10,750,000 for the same period last year, of which \$6,811,000 was expensed and \$3,939,000 was capitalized to inventories. For the year ended December 31, 1982, total interest cost was \$12,853,000 of which \$6,929,000 was expensed and \$5,924,000 was capitalized to inventories.

Administration and general expenses were \$3,397,000 compared with \$2,994,000 for the same period in 1983 and \$2,833,000 in 1982. During the year ended December 31, 1983, the Company incurred \$229,000 in severance and termination costs. There were no similar expenses recorded in the same period this year. Increases in administration and general expenses resulted primarily from inflation.

Provision for loss and carrying costs expensed were \$3,621,000, \$736,000 and \$1,609,000 during the years ended December 31, 1984, 1983 and 1982 respectively. The expense in 1984 is comprised of \$2,491,000 for provision for loss on real estate, \$641,000 for provision

for bad debts and \$489,000 for real estate carrying costs expensed. The provision for loss on real estate was required because of declining real estate values of certain projects, the effect of depressed industry market conditions and the Company's decision to sell rather than develop certain properties. The Company will continue to expense carrying costs on several of its development and construction projects.

Capital Resources

The Company establishes separate lines of credit 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 Canadian Institute of Chartered Accountants 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, general recession in the market place and governmental controls. The long-term appreciation in revenue producing assets is expected to offset the impact of inflation.

Selected Financial Data

	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
	(in thousands of dollars, except per share amounts)				
Gross revenue	\$ 40,770	\$ 45,401	\$ 39,062	\$ 58,836	\$ 37,561
Income (loss) from continuing operations	(5,619)	(546)	(916)	1,890	1,599
Earnings (loss) from continuing operations per share	(39.7¢)	(3.9¢)	(6.5¢)	(13.3¢)	(11.3¢)
Total assets	119,464	122,189	127,892	127,561	118,409
Interest bearing debt	90,659	88,268	89,201	87,615	81,491
Capital lease obligations	5,987	6,810	13,776	14,740	15,626
Cash dividends per common share	none	none	none	none	none
Cash generated from (utilized in) continuing operations	(4,132)	793	(410)	3,690	2,225

Quarterly financial data (unaudited)

	Quarter				
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Year</u>
	(in thousands of dollars, except per share amounts)				
<u>1984</u>					
Gross revenue as previously reported ..	\$ 7,540	\$ 9,260	\$12,977		
Adjustment	(417)	(410)	(382)		
Adjusted gross revenue	<u>\$ 7,123</u>	<u>\$ 8,850</u>	<u>\$12,595</u>	<u>\$12,202</u>	<u>\$40,770</u>
Gross profit as previously reported	\$ 1,816	\$ 1,808	\$ 2,495		
Adjustment	(107)	(114)	57		
Adjusted gross profit	<u>\$ 1,709</u>	<u>\$ 1,694</u>	<u>\$ 2,552</u>	<u>\$ 1,057</u>	<u>\$ 7,012</u>
Loss from continuing operations as previously reported	\$ (1,898)	\$ (808)	\$ (1,702)		
Adjustment	41	38	121		
Adjusted loss from continuing operations	<u>\$ (1,857)</u>	<u>\$ (770)</u>	<u>\$ (1,581)</u>	<u>\$ (1,411)</u>	<u>\$ (5,619)</u>
Loss as previously reported	\$ (1,898)	\$ (808)	\$ (1,702)		
Adjustment	41	38	121		
Adjusted loss	<u>\$ (1,857)</u>	<u>\$ (770)</u>	<u>\$ (1,581)</u>	<u>\$ (1,411)</u>	<u>\$ (5,619)</u>
Loss per share from continuing operations as previously reported ...	(13.4¢)	(5.7¢)	(12.0¢)		
Adjustment3¢	.3¢	.8¢		
Adjusted loss per share	(13.1¢)	(5.4¢)	(11.2¢)	(9.7¢)	(39.7¢)

A major revenue producing asset undergoing redevelopment has been reclassified to construction in progress from revenue producing real estate. The Company, therefore, capitalized all revenues and expenses of this building from January 1, 1984. Previously issued quarterly reports had recorded these revenues and expenses in rental operations and have been adjusted as reflected above.

**revenue
properties
company
limited**

	Quarter				
	First	Second	Third	Fourth	Year
	(in thousands of dollars, except per share amounts)				
<u>1983</u>					
Gross revenue	\$ 8,204	\$12,130	\$11,466	\$13,601	\$45,401
Gross profit	1,293	2,116	1,510	5,769	10,688
Net income (loss) from continuing operations	(587)	(29)	(501)	571	(546)
Net income (loss)	(656)	(28)	(1,200)	574	(1,310)
Earnings (loss) per share from continuing operations	(4.1¢)	(0.2¢)	(3.6¢)	4.0¢	(3.9¢)
Earnings (loss)	(4.6¢)	(0.2¢)	(8.5¢)	4.1¢	(9.2¢)

Historic Canadian Dollar to United States Exchange Rates

Since June 1, 1970, the government of Canada has permitted a floating exchange rate to determine the value of the Canadian dollar against the United States dollar. 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, 1984 and the period January 1, 1985 to January 31, 1985 as reported by the Federal Reserve Bank of New York were as follows:

	Jan. 1 to Jan. 31/85	1984	1983	1982	1981	1980
High	\$0.7575	\$0.8054	\$0.8201	\$0.8396	\$0.8499	\$0.8754
Low	0.7534	0.7492	0.7993	0.7691	0.8048	0.8258
Average	0.7535	0.7710	0.8108	0.8088	0.8339	0.8547
Period end ..	0.7535	0.7566	0.8035	0.8132	0.8430	0.8372

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 the date shown:

<u>Title of Class</u>	<u>Number of Record Holders</u>	<u>Date</u>
Class A Shares (4,718,233)	6,793	January 31, 1985
Class B Shares (9,447,914)	6,950	January 31, 1985
7½% Convertible Subordinated Sinking Fund Debentures, Series A	44	January 31, 1985

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

<u>Class A</u>	<u>1984</u>				<u>1983</u>			
	<u>4th</u>	<u>3rd</u>	<u>2nd</u>	<u>1st</u>	<u>4th</u>	<u>3rd</u>	<u>2nd</u>	<u>1st</u>
High	\$1.49	\$1.55	\$1.75	\$2.02	\$1.85	\$2.10	\$2.30	\$1.70
Low	0.86	1.20	1.50	1.56	1.46	1.50	1.40	1.19
<u>Class B</u>	<u>1984</u>				<u>1983</u>			
	<u>4th</u>	<u>3rd</u>	<u>2nd</u>	<u>1st</u>	<u>4th</u>	<u>3rd</u>	<u>2nd</u>	<u>1st</u>
High	\$0.71	\$0.91	\$1.40	\$1.60	\$1.45	\$1.83	\$1.95	\$1.35
Low	0.41	0.70	0.80	1.15	0.90	1.25	1.10	0.72

No dividends have been paid since 1969 on common stock. Under the terms of the trust indenture relating to the 7½% 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.

**revenue
properties
company
limited**

REVENUE
PRODUCING
PROPERTY
OWNED

as at December 31, 1984

	Year Completed	Number of Buildings	Rentable Area (Approx. Sq. Ft.)	No. of Residential Units	Land Lease Terminates	Company's Interest		
						%	Sq. Ft.	No. of Residential Units
Industrial Buildings								
Toronto, Ontario	1961/70	4	324,000		Owned	100	324,000	
Toronto, Ontario	1972	1	54,100		Owned	50	27,000	
Pte. Claire, Quebec	1974/80	2	87,200		Owned	100	87,200	
La Salle, Quebec	1964/69	2	57,900		Owned	100	57,900	
Dorval, Quebec	1967/74	13	575,200		2019/20	100	575,200	
Commercial and Residential Buildings								
Toronto, Ontario	1981	1	18,900		Owned	100	18,900	
Toronto, Ontario	1976	1	9,300		2019	75	7,000	
Toronto, Ontario	1970/78	2	13,600		2027/40	100	13,600	
Mississauga, Ontario	1983	1	86,000		Owned	100	86,000	
Dorval, Quebec	1969/73	3	69,900		2019/20	100	69,900	
Pte. Claire, Quebec	1980	1	67,500		Owned	100	67,500	
Saint John, N.B.	1971	1	205,000		Owned	50	102,500	
Halifax, N.S.	1930	1	5,000	314	Owned	50	2,500	157
Jane St., Toronto, Ont.	1974/77	4		1,200	2067	66 $\frac{2}{3}$		800
Saint John, N.B.	1966	1		152	Owned	100		152
		<u>38</u>	<u>1,573,600</u>	<u>1,666</u>			<u>1,439,200</u>	<u>1,109</u>

REVENUE
PRODUCING
PROPERTY
SOLD AND
LEASED BACK

	Year Completed	Number of Buildings	Rentable Area (Approx. Sq. Ft.)	No. of Residential Units	Lease Terminates	Company's Interest		
						%	Sq. Ft.	No. of Residential Units
Industrial Buildings								
Toronto, Ontario	1966/69	7	387,000		1986/99	100	387,000	
Toronto, Ontario	1967	2	74,000		1987	50	37,000	
Pte. Claire, Quebec	1979	1	53,800		1985	100	53,800	
Commercial and Residential Buildings								
Toronto, Ontario	1966	1	9,200		1986	100	9,200	
Saint John, N.B.	1971	1	205,000		1992	50	102,500	
Halifax, N.S.	1961	1		240	1987	100		240
Toronto, Ontario	1977/78	2		728	2024	50		364
Toronto, Ontario	1965/66	2		352	1989/97	100		352
Toronto, Ontario	1965	1		102	2064	100		102
		<u>18</u>	<u>729,000</u>	<u>1,422</u>			<u>589,500</u>	<u>1,058</u>

LAND HELD FOR
AND UNDER
DEVELOPMENT
as at December 31, 1984

<u>Location</u>	<u>Proposed Use</u>	<u>Approximate Number of Acres</u>	<u>% Company Profit Participation</u>
Ontario			
Ajax	Shopping Centre	3	100
Ajax	Residential	233	100
Guelph	Multiple	834	75
Orangeville	Commercial	2	100
Port Dover	Commercial & Residential	93	33.3
Simcoe	Residential	6	33.3
Toronto	Residential	1	100
Vaughan	Residential	42	44
Whitchurch/Stouffville	Residential	98	100
Quebec			
Boucherville	Multiple	227	100
Pointe Claire	Industrial & Commercial	5	100
		<u>1,544</u>	

CONSTRUCTION
IN PROGRESS

<u>Location</u>	<u>Type</u>	<u>Number of Units</u>	
Ontario			
Ajax	Housing	32	100
Quebec			
Boucherville	Housing	1	100
Florida			
Vero Beach	Condominiums	79	50
Vero Beach	Condominiums	1	100
		<u>Square Feet or Residential Units Under Construction</u>	
Ontario			
Queen St., Toronto	Commercial	18,900 sq. ft.	100
Bloor St., Toronto	Commercial/Retail	94,313 sq. ft.	100
Bloor St., Toronto	Residential	157 units	100
Quebec			
Pointe Claire	Commercial	11,393 sq. ft.	100

DEVELOPMENT
PROJECTS

AJAX, ONTARIO

Housing:

Sales volume in our Picov Estates development continues to be good. Phase I consisting of 104 homes is sold out and 113 of the 117 homes in Phase II are now sold. The Company sold 77 homes in Phase II during 1984 and currently has purchase commitments for an additional 36 homes.

Land Development:

Picov Estates Phase III (430 units) will be registered in late summer, 1985. Development of Phase IV (500 units) is also proceeding. The Company is continuing to develop the remaining lands with the intent of enhancing value for possible sale as unserviced land.

GUELPH,
ONTARIO

A large low density industrial and residential development and golf course is under active consideration for this site at this time. Discussions are taking place with municipal authorities and it is expected that a development course will be defined in 1985.

STOUFFVILLE,
ONTARIO

This project known as Westfield Estates consists of 93 estate lots. Servicing commenced in late 1984. To date, purchase commitments have been received on 45 of the 93 lots.

TORONTO,
ONTARIO

Land Development:

The Torlease project is located between Bathurst and Yonge Streets just north of Steeles Avenue, adjacent to the northern boundary of Metropolitan Toronto. Phase IV, consisting of 212 low density units has been serviced and purchase commitments have been received. Additional acreage is held on Yonge Street and is currently being rezoned to permit a high density residential and commercial development.

The Colonnade:

Plans for major redevelopment of the Colonnade to a hotel met with municipal opposition. Various redevelopment alternatives are now under consideration. Work is expected to commence in the summer of 1985.

Office and Commercial:

The second phase of the restoration of the Brewery Square has been completed. An existing tenant has occupied 60% of the space and leasing activities are underway for the remaining space.

BOUCHERVILLE,
QUEBEC

Residential:

The Company sold 10 houses during 1984. House building operations have been terminated.

Land Development:

The market for serviced lots has improved. The Company intends to sell lots to builders during 1985.

POINTE CLAIRE,
QUEBEC

Construction of a 12,000 sq. ft. pre-leased restaurant is nearing completion. Long term financing is in place for the construction of the remainder of this commercial project. Development is scheduled to begin in the summer of 1985.

NAPLES,
FLORIDA

Golf and Country Club:

In a joint venture with Westok Holdings Limited, a golf and country club facility known as Quail Creek Country Club has been developed in Naples, Florida. A 36 hole golf course and construction of the main clubhouse have been completed. To date, approximately 453 golfing memberships, 186 social memberships and 87 lots have been sold. The Company's obligation is limited to guaranteeing certain financing of the joint venture for which it will receive \$3 million U.S.

VERO BEACH,
FLORIDA

Condominiums:

Seacove, a 42 unit condominium building and 1616 Ocean Drive, a 52 unit condominium building were completed in 1982. 18 units have been sold to date and the Company has undertaken aesthetic improvements to make the project more marketable.

**CORPORATE
INFORMATION**

DIRECTORS

- *Richard A. Bain, Q.C., Toronto
Partner, Fogler Rubinoff, Barristers and Solicitors
- †Arthur H. Crockett, Toronto
Director, Bank of Nova Scotia
- †Watson W. Evans, Toronto
Retired
- *†Maxwell Goldhar, Toronto
Chairman of the Board, Revenue Properties Company Limited
- *Ken Kelman, Toronto
Vice-President, First Canada Financial Corporation Limited
- †Gurston I. Rosenfeld, Toronto
President, Guardian Growth Financial Services Limited
- Alex J. Rubin, Toronto
President, Westok Holdings Limited
- Harry Rubin, Toronto
Secretary, Westok Holdings Limited
- *Michael G. Wright, Toronto
President, Revenue Properties Company Limited
- *Member of Executive Committee
- †Member of Audit Committee

OFFICERS

- Chairman of the Board: Maxwell Goldhar
- President: Michael G. Wright
- Secretary: Richard A. Bain
- Executive Vice-President: Pierre Alexander
- Treasurer and Assistant Secretary: Sara Tuberman

AUDITORS

Thorne Riddell

COMMON SHARES

- Registrar & Transfer Agent
The National Victoria and Grey Trust Company
- Co-Registrar & Co-Transfer Agent
The Canadian Bank of Commerce Trust Company

SUBORDINATED DEBENTURES

Trustee: The National Victoria and Grey Trust Company

PRINCIPAL AND REGISTERED OFFICE

First Canadian Place
100 King Street West, Suite 3300, Toronto, Ontario M5X 1B1

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 principal office.

