revenue properties company limited

annual report 1980

AN OVERVIEW

Revenue Properties Company Limited, incorporated as a publicly owned company in 1961, directly and through subsidiaries, partnerships and joint ventures is actively engaged in all aspects of residential, commercial and industrial development including investment and property management. Operating throughout Canada, and in Florida in the United States, the Company owns or leases over 2,000 residential units, and 75 industrial and commercial properties containing approximately three million square feet. Revenue properties recently entered the petroleum exploration business through a partially owned subsidiary, Revenue Resources.

revenue properties company limited

CONTENTS

revenue properties company limited

CORPORATE INFORMATION

DIRECTORS

*Richard A. Bain, Toronto
Partner, Siegal, Fogler, Barristers and Solicitors

†Watson W. Evans, Toronto
Retired.

*†Maxwell Goldhar, Toronto
President, Revenue Properties Company Limited

Paul W. Hellen, Toronto
Solicitor, 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, Montreal
Chief Executive Officer, Les Aménagements Revcon

*Member of Executive Committee
†Member of Audit Committee

OFFICERS

President: Maxwell Goldhar
Vice-President: Paul W. Hellen
Vice-President: E. William Selkirk
Vice-President: Michael G. Wright
Secretary: Richard A. Bain
Chief Financial Officer: Peter W. Grater
Treasurer and Assistant Secretary: Sara Tuberman
Controller: Eve M. Bodman

AUDITORS

Thorne Riddell

COMMON SHARES

Registrar & Transfer Agent
National Trust Company, Limited
Co-Registrar & Co-Transfer Agent
The Canadian Bank of Commerce Trust Company

SENIOR DEBENTURES

Trustee: The Royal Trust Company

SUBORDINATED DEBENTURES

Trustee: National Trust Company, Limited

HEAD OFFICE

44 King Street West, Suite 1619, Toronto, Ontario M5H 3A3

FORM 10-K

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

president's report

FINANCIAL REVIEW

1980 has been a successful year for Revenue Properties resulting in a profit of $1,599,000 or 11.3¢ per share, compared with a loss of $266,000 or 1.9¢ per share in 1979.

Throughout the year the Company sold some older, low return revenue producing buildings; two in Montreal, four in Toronto, and a motel on Hill Island, Ontario, generating a $1,672,000 gross profit, compared to a gross profit of $961,000 from buildings sold in 1979.

Gross profit from rental operations increased from $3,616,000 in 1979 to $3,830,000 in 1980. This increase is a result of a particularly strong rental market in Toronto, and, after a few depressed years, a now steadily improving rental market in Montreal. The optimism generated by the oil industry's successes off the coast of Newfoundland is reflected in the steadily improving rental market in Eastern Canada.

Serviced land sales increased in 1980. Sales of construction projects in 1980 decreased because of the sales of M.U.R.B. apartment buildings in 1979, and no such sales in 1980. Sales of surplus land were strong during the year.

High interest rates continue to be a negative factor in new projects and in the refinancing of properties owned and managed. Because of this, the Company is developing more creative methods of financing, in order to allow the Company to proceed with its projects.

RESIDENTIAL CONSTRUCTION

In addition to its housing development in Boucherville, Quebec, the Company is presently participating in a 53 unit housing project in Oakville, Ontario. The high interest rates have had an adverse effect on the housing market in general, and the Company, in common with the industry, has had a disappointing year in its house building activities.

The Company's luxury condominium joint venture project with Cadillac Fairview, 1166 Bay, in Toronto has been very successful. The project is completely sold out with occupancy scheduled for the summer of 1981.

In Vero Beach, Florida, the Company's 30 unit luxury condominium building presently under construction, is scheduled for occupancy in August 1981. Twenty-nine of the units have been sold to date.

LAND DEVELOPMENT

Sales of serviced land in the Company's joint venture project in Vaughan Township, near the northern Metropolitan Toronto boundary, are progressing well. Sales of all the lots in Phases I and II were completed in 1980. It is anticipated that Phase 3 will be sold in 1981 and that servicing and sales of the final phase will commence thereafter.

Servicing of the Company's land in Ajax, Ontario was delayed by ratepayer opposition. The project is presently in the final approval stages and is expected to commence in 1981. The first two phases consist of 220 lots.

INDUSTRIAL AND COMMERCIAL

The 72,051 square foot low rise Meadowvale office complex in Mississauga, Ontario has been completed. The Company reached the rental objectives set and earned the maximum performance bonus of $619,000.

NEW PROJECTS

The Company has recently entered into the petroleum exploration and development business through a partially owned subsidiary, Revenue Resources (Canada) Inc. As its first venture, Revenue Resources has acquired a ten percent working interest in an exploration drilling programme in the Austin Chalk trend in Gonzales County, Texas. The first well appears to be economic, and is now undergoing production tests. The Company has committed to invest $1 million of the initial $1.5 million share capital of Revenue Resources (Canada) Inc.

The Company has agreed to purchase in joint venture, a one-half interest in the 320 room Hotel Nova Scotian in Halifax, Nova Scotia, and renovations are planned following completion of the purchase.

Construction of two low rise office complexes, similar to the Company's successful Meadowvale Court project is planned for the greater Metropolitan Toronto area. Construction of the first complex, which is on land adjacent to Meadowvale Court, is scheduled to commence in the spring of 1981. The second project, located in Markham, will begin in 1982.

With the first luxury condominium project in Vero Beach successfully underway, the Company entered into a joint venture to develop a second luxury condominium project. Construction of this 94 unit project, which is already substantially reserved, is scheduled to commence in May 1981. Various other properties and development opportunities in the Florida area are being investigated.

Encouraged by the success of the 1166 Bay project, the Company has two more luxury condominium projects presently in the planning stages. One is in downtown Toronto, and the other in Old Montreal.

Through a joint venture, the Company has a one-half interest in a 78 acre industrial park development in Lloydminster, Saskatchewan. A number of lots have been presold and servicing is expected to commence in 1981. Another development, with the same joint venture partner, a shopping centre in Bonnyville, Alberta, has been deferred pending the outcome of the oil pricing negotiations between the Federal and Provincial governments and an assessment of their effect on the nearby proposed Cold Lake heavy oil plant.

We enter 1981 in a strong financial position, confident of meeting the challenges ahead.

On behalf of the Board of Directors

Maxwell Goldhar, President

Toronto, Canada
March 31, 1981

revenue properties company limited
(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET
as at December 31

ASSETS	Note	1980 ($000's)	1979 ($000's)
Revenue producing real estate	2	**51,398**	49,754
Construction in progress	3	**13,452**	8,562
Land held for and under development	4	**32,351**	30,906
Surplus land	5	**1,979**	3,269
Accounts and mortgages receivable	6	**16,002**	11,801
Other Assets	7	**2,571**	2,427
Cash		**656**	760
		118,409	107,479
LIABILITIES			
Mortgages and loans payable on revenue producing real estate	8	**40,599**	38,258
Other loans and mortgages payable	9	**13,887**	11,227
Sinking fund debentures	10	**1,798**	3,683
Bank indebtedness	11	**25,207**	19,005
Accounts payable and accrued liabilities		**7,766**	7,530
		89,257	79,703
Deferred income	12	**2,851**	3,548
Deferred income taxes	18	**3,128**	2,654
		95,236	85,905
SHAREHOLDERS' EQUITY			
Capital stock	13	**27,336**	27,336
Deficit		**(4,163)**	(5,762)
		23,173	21,574
		118,409	107,479

Approved by the Board

Director

Director

revenue properties company limited

CONSOLIDATED STATEMENT OF INCOME
Years ended December 31

	1980 ($000's)		1979 ($000's)		1978 ($000's)	
Rental operations						
Income from revenue producing real estate		**16,262**		15,208		14,982
Property operating expenses	**11,943**		11,112		10,643	
Depreciation	**489**	**12,432**	480	11,592	460,	11,103
Gross profit		**3,830**		3,616		3,879
Sales of revenue producing real estate	**4,040**		1,662		1,187	
Cost of sales	**2,368**		701		737	
Gross profit		**1,672**		961		450
Sales of construction, land held for development and surplus land	**15,826**		23,196		14,977	
Cost of sales	**12,678**		22,780		14,565	
Gross profit		**3,148**		416		412
Interest and other income		**1,433**		961		926
Gross profit from operations		**10,083**		5,954		5,667
Deduct: Interest expense less amounts capitalized (Note 17 (a))	**5,644**		4,911		4,840	
Administration and general expenses	**2,366**		1,926		1,691	
Proceeds of lawsuit net of costs (Note 16)	**—**	**8,010**	—	6,837	(826)	5,705
Income (loss) before income taxes and extraordinary item		**2,073**		(883)		(38)
Deferred income taxes (Note 18)		**474**		(617)		(38)
Income (loss) before extraordinary item		**1,599**		(266)		—
Extraordinary item						
Deferred income tax reduction on recognition of prior years' timing differences		**—**		—		361
Net income (loss)		**1,599**		(266)		361
Earnings (loss) per share (Note 17 (b))						
Before extraordinary item		**11.3¢**		(1.9¢)		—
After extraordinary item		**11.3¢**		(1.9¢)		2.6¢

CONSOLIDATED STATEMENT OF DEFICIT
Years ended December 31

	1980 ($000's)	1979 ($000's)	1978 ($000's)
Deficit at beginning of year	**5,762**	5,496	5,857
Net (income) loss	**(1,599)**	266	(361)
Deficit at end of year	**4,163**	5,762	5,496

AUDITORS' REPORT
To the Shareholders of Revenue Properties Company Limited

We have examined the consolidated balance sheet of Revenue Properties Company Limited and subsidiaries, joint ventures and partnership as at December 31, 1980 and 1979 and the consolidated statements of income, deficit and changes in financial position for the three years ended December 31, 1980. 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 companies, joint ventures and partnership as at December 31, 1980 and 1979 and the results of their operations and the changes in their financial position for the three years ended December 31, 1980, in accordance with generally accepted accounting principles applied on a consistent basis.

Thorne Riddell
Chartered Accountants

Toronto, Canada
March 17, 1981

revenue properties company limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Years ended December 31

SOURCE OF CASH	**1980 ($000's)**	1979 ($000's)	1978 ($000's)
Net income (loss)	**1,599**	(266)	361
Items not requiring current cash outlay			
Depreciation	**489**	480	460
Deferred income taxes	**474**	(617)	(399)
Deferred income	**(575)**	(481)	(618)
Other	**238**	224	232
	2,225	(660)	36
Net increase in bank loans	**5,779**	6,959	(343)
Net increase in loans and mortgages payable	**5,001**	(8,887)	(167)
Decrease in surplus land	**1,242**	2,345	1,669
Net changes in other assets and liabilities	**170**	1,600	2,653
Issue of capital stock	**—**	12	—
	14,417	1,369	3,848
USE OF CASH			
Additions to revenue producing real estate and revenue producing real estate under construction	**911**	881	108
Increase in other projects under construction	**4,564**	(6,314)	2,200
Increase in land held for and under development	**3,182**	5,135	1,879
Increase in mortgages, notes and balances receivable for land sold under agreements of purchase and sale	**4,402**	(879)	(568)
Repayment of sinking fund debentures	**1,885**	2,401	1,889
Increase (decrease) in cash	**(527)**	145	(1,660)
	14,417	1,369	3,848

Cash is defined as:			
Cash	**656**	760	931
Bank indebtedness, unsecured	**1,675**	1,252	1,568
	(1,019)	(492)	(637)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Throughout these notes "the Company" refers to Revenue Properties Company Limited, its consolidated subsidiaries, joint ventures and partnership unless the context indicates otherwise. All dollar amounts included in these notes are expressed in Canadian Dollars.

1. **Summary of significant accounting policies**

(a) *General*

The Company is a member of the Canadian Institute of Public Real Estate Companies. The Company's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of that Institute.

(b) *Principles of consolidation*

The consolidated financial statements include the following:

— the accounts of all companies in which the Company holds more than 50% of the voting equity. The principal active subsidiaries are:

	Ownership %
Metropolitan Estates Corporation	100
Northgate Properties Inc.	100
One Thirty One Bloor West Limited	100
Revcon Developments Limited	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 mortgage 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 a reasonable maximum period of time.

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 due.

(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 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. Land held for and under development and construction in progress are translated at rates in effect at dates of acquisition. Revenues and expenses are translated at the weighted average rate during the year.

2. Revenue producing real estate

	1980 ($000's)	1979 ($000's)
Land, buildings and equipment at January 1, less accumulated depreciation of $3,575,000 (1979; $3,176,000)	**49,754**	46,698
Additions during year	**4,338**	4,532
	54,092	51,230
Less: Disposal at net book value	**2,205**	701
Transfer of property to land held for and under development	**—**	295
Depreciation expense for the year	**489**	480
Balance December 31, at cost, less accumulated depreciation of $3,340,000 (1979; $3,575,000)	**51,398**	49,754

The cost of freehold land included at December 31 in the above is $3,410,000 (1979; $3,460,000).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Construction in progress

	1980 ($000's)	1979 ($000's)
Revenue producing real estate		
Residential	**612**	1,833
Projects under construction and for sale		
Housing	**2,266**	2,422
Multiple unit residential buildings	**10,267**	4,130
Commercial	**307**	177
	13,452	8,562

4. Land held for and under development

	1980 ($000's)	1979 ($000's)
Balance, January 1	**30,906**	29,960
Additions during the year		
Acquisitions	**708**	2,557
Development costs	**4,784**	1,365
Interest	**2,977**	2,581
Other carrying charges	**443**	496
	39,818	36,959
Less:		
Transfers to or from revenue producing real estate and construction in progress	**1,737**	4,484
Cost of land sold	**5,730**	1,569
Balance, December 31	**32,351**	30,906

5. **Surplus land**

During 1977 the Company determined that a large part of its land assembly in Uxbridge, Ontario should be sold without development and accordingly reclassified this portion of the land as surplus land. The Company does not capitalize carrying costs and interest applicable to its investment in surplus land.

6. **Accounts and mortgages receivable**

	1980 ($000's)	1979 ($000's)
Mortgages and notes receivable	**8,457**	7,838
Balances receivable for land sold under agreements of purchase and sale	**4,386**	603
	12,843	8,441
Rents and other receivables	**2,196**	1,201
Amount due from partner (see below)	**963**	2,159
	16,002	11,801

The amount due from partner refers to M. G. Wright Construction Limited, a corporation controlled by M. G. Wright, a Vice-President and Director of the Company. This receivable is secured by 25% of the assets of the partnership and bears interest at 2% above the prime interest rate charged by Canadian chartered banks.

Mortgages and balances receivable, including $2,864,000 on certain properties leased back, bear interest at rates which vary from 6 to 12% (weighted average 10.4%), and mature at various dates to 1999 as follows:

	($000's)
1981	2,609
1982	3,194
1983	524
1984	558
1985	1,215
1986 and subsequent	4,479
	12,579
Second mortgages taken back on housing units sold mature at various dates to 1995 (interest rates vary from 6% to 11%)	264
	12,843

Certain mortgages receivable are pledged against loans payable (see Note 9).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Other assets

	1980 ($000's)	1979 ($000's)
Prepaid expenses and sundry assets	**1,482**	1,274
Costs recoverable from tenants	**757**	544
Investments at equity	**176**	119
Deferred currency adjustment	**156**	490
	2,571	2,427

8. Mortgages and loans payable on revenue producing real estate

Principal payments are due as follows:

	($000's)
1981	7,282
1982	3,652
1983	522
1984	4,254
1985	2,120
1986 and subsequent	22,769
	40,599

Fixed interest loans ($000's)	34,917
Range of interest	$6^1/_4$%-15%
Weighted average interest rate	10.0%
Variable interest loans ($000's)	5,682
Weighted average interest rate	20.2%

Interest rate on the variable interest loans is at 2% above the prime interest rate charged by Canadian chartered banks.

9. **Other loans and mortgages payable**

Principal payments are due as follows:

	Secured by			
	Real Estate ($000's)	Mortgages Receivable ($000's)	Due to Shareholders ($000's)	Total ($000's)
1981	1,875	1,470	340	3,685
1982	362	1,645	—	2,007
1983	294	—	—	294
1984	5	—	—	5
1985	5	—	—	5
1986 and subsequent	978	—	—	978
	3,519	3,115	340	6,974
Interim financing secured by certain properties under construction				6,913
				13,887
Latest year of maturity	1999	1982	1981	
Fixed interest loans ($000's)	2,397	—	340	
Range of interest rates	$6\frac{1}{2}\%$-$15\frac{1}{2}\%$	—	12%	
Weighted average interest rate	11.2%	—	12%	
Variable interest loans ($000's)	1,122	3,115	—	
Weighted average interest rate	21.3%	19.4%	—	

Interest rates on the variable interest loans vary from $1\frac{1}{2}\%$ to $3\frac{1}{2}\%$ above the prime interest rate charged by Canadian chartered banks.

10. Sinking fund debentures

	Maturity Date	1980 ($000's)	1979 ($000's)
9% convertible sinking fund debentures, secured			
Series B	June 1, 1981	**98**	310
Series C	Feb. 15, 1981	**438**	1,381
Series D	June 15, 1981	**341**	1,071
		877	2,762
$7\frac{1}{2}$% convertible subordinated sinking fund debentures,			
Series A	June 30, 1988	**921**	921
		1,798	3,683

(a) *9% convertible sinking fund debentures*

Convertible features

The principal amount may be converted into common shares at any time prior to maturity at the conversion price of $5.00 for one common share.

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

(b) *$7\frac{1}{2}$% Convertible subordinated sinking fund debentures — Series A*

(i) Convertible features

The debentures are convertible into common shares of the Company on or before June 30 in the years 1983 at $8.91 per share and 1988 at $10.57 per share. These conversion rates are subject to anti-dilution provisions.

(ii) Sinking fund requirements

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

(iii) Redemption

The debentures are redeemable at par (i) to meet sinking fund requirements, and (ii) at any other 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 125% of the conversion price then in effect.

(iv) Dividend restrictions

The payment of dividends is restricted by the terms of the Trust Indenture.

11. Bank indebtedness

The principal security for bank indebtedness is as follows:

	1980 ($000's)	1979 ($000's)
Unsecured	**1,675**	1,252
Construction in progress	**3,541**	1,419
Land held for and under development	**17,003**	11,403
Mortgages and notes receivable	**817**	100
Surplus lands	**425**	1,315
Revenue producing real estate	**1,746**	3,516
	25,207	19,005

At December 31, 1980, the Company's unused lines of credit with various banks aggregated $6,018,000 (1979 — $3,368,000).

Information regarding bank indebtedness is as follows:

Maximum debt outstanding at any quarter end	$25,207
Average debt outstanding at quarter ends	$23,840
Weighted average interest rate at year end	19.2%
Weighted average interest rate during the year	16.2%

12. Deferred income

	1980 ($000's)	1979 (000's)
Unamortized profit on sale and leaseback and similar transactions		
Balance, January 1	**2,747**	2,776
Additions through profit on construction sales with lease commitments attached thereto	**—**	116
Less: Amounts included in income	**(349)**	(145)
	(349)	(29)
Balance, December 31	**2,398**	2,747

Revenue attributed to cash flow guarantees and contracting profits applicable to anticipated operating losses, deferred to future years	**1980 ($000's)**	1979 ($000's)
Balance, January 1	**801**	758
Portion of the selling price of residential buildings attributed to cash flow guarantees	**—**	379
Less: Amounts included in income	**(348)**	(336)
	(348)	43
Balance, December 31	**453**	801
Total deferred income	**2,851**	3,548

Approximately $416,000 of the above balance will be taken into income in 1981.

13. Capital stock

(a) *Authorized*

— 291,852.5 6% Cumulative, non-voting second preference shares, par value $10, redeemable at par.

— 16,500,000 common shares without par value.

(b) *Issued and outstanding*

Common shares

	Shares	Amount
at December 31, 1980 and 1979	14,166,147	$27,336,000

(c) *Reserved*

The Company has reserved common shares for possible issue as follows:

	No. of Shares
$7^{1}/_{2}$% Convertible subordinated sinking fund debentures (i)	103,400
9% Convertible sinking fund debentures (ii)	175,400
	278,800

(i) $7^{1}/_{2}$% Convertible subordinated sinking fund debentures

The conversion of these debentures at $8.91 per share would result in the issue of 103,400 common shares. Additional common shares would be reserved if the conversion price were to decline as the result of future share issues at prices below $8.91 per share (see note 10 (b) (i)).

(ii) 9% Convertible sinking fund debentures

The conversion of these debentures, assuming the maximum currency adjustment applicable to Series C and D debentures would result in the issue of approximately 175,400 common shares.

(d) *Reclassification of common shares*

The Board of Directors approved in principal a re-classification of the Company's outstanding common shares on a basis whereby each outstanding common share will be changed into one-third of a voting Class "A" share and two-thirds of a non-voting Class "B" share. The Class "A" shares will carry one vote per share. Neither class shall be redeemable and except as regards voting rights and a nominal preference in liquidation, the two classes of shares will be equal in all respects.

In addition, there will be created two classes of 100,000,000 authorized non-voting preference shares each of which will be issuable in series, none of which will be outstanding following their creation. The Company has no immediate plans to issue any of the preference shares.

This re-classification is subject to approval by two-thirds of the votes cast at a meeting of the shareholders of the Company.

14. Lease commitments

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

	Total ($000's)	Capital Leases ($000's)	Operating Leases ($000's)
Gross rental expense — 1980	4,518	2,487	2,031
— 1979	4,403	2,363	2,040
Approximate annual rental expense for next 5 years	3,478	2,202	1,276
Aggregate rental expense over term of leases	60,354	26,765	33,589

Capital Leases

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

If the Company had capitalized its capital leases, the consolidated balance sheet would include:

	1980 ($000's)	1979 ($000's)
Property under capital lease, net of amortization	**15,626**	16,442
Obligations under capital leases	**15,626**	16,442

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 8.56%) and accordingly, net income would be unchanged.

The Company has not entered into any capital leases subsequent to December 31, 1978.

15. Contingent liabilities and commitments

a) The Company includes in its balance sheet the proportionate share 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 $34,000,000 as at December 31, 1980. 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.

b) Included in accounts payable are estimated costs totalling $1,500,000 to complete housing construction and servicing of lands sold. The Company has committed to an additional amount of $5,000,000 to complete housing construction and land under development not yet sold. The Company obtains commitments for financing on all residential construction projects. The unused portion of these commitments is in excess of the estimated costs to complete all housing units under construction.

c) The Company has entered into the petroleum exploration and development business through a partially-owned subsidiary. At December 31, 1980 the Company has committed to invest $1,000,000.

16. Proceeds of lawsuit

On January 30, 1974, Century City Developments Limited (a subsidiary of the Company) filed a claim in the Federal Court of Canada for additional compensation for approximately 1,100 acres of land expropriated by the Government of Canada in May, 1973 and for injurious affection to its land adjacent thereto. The claim was settled in June, 1978 for the sum of $1,150,000.

17. Consolidated statement of income

(a) *Interest*

Interest incurred during the year amounted to $10,487,000 (1979 — $9,426,000, 1978 — $8,545,000) and has been allocated as follows:

	1980 ($000's)	1979 ($000's)	1978 ($000's)
Capitalized			
Revenue producing real estate under construction	**132**	258	223
Construction in progress	**1,734**	1,676	1,110
Land held for and under development	**2,977**	2,581	2,372
	4,843	4,515	3,705
Expense			
Revenue producing real estate	**3,784**	3,503	3,423
Land held for and under development	**482**	—	—
Surplus land	**449**	568	720
Other	**929**	840	697
	5,644	4,911	4,840
	10,487	9,426	8,545

(b) *Earnings (loss) per share*

Earnings (loss) per share is calculated using the weighted average number of shares outstanding 14,166,147 in 1980, 14,155,763 in 1979 and 14,146,167 in 1978.

The conversion of all convertible debentures would not have a dilutive effect on earnings per share.

(c) *Remuneration*

Aggregate direct remuneration paid to directors and senior officers as defined by The Business Corporations Act of Ontario was $552,000 in 1980, $489,000 in 1979 and $344,000 in 1978.

(d) *Rent Controls*

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

revenue
properties
company
limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Deferred income taxes

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The expected tax expense differs from the actual tax expense as follows:

	1980		1979		1978	
	($000's)	**%**	($000's)	%	($000's)	%
Computed expected tax expense (recovery)	**1,036**	**50.0**	(441)	(50.0)	(19)	(50.0)
Change in expected tax expense (recovery) resulting from: non-taxable portion of capital gains	**(514)**	**(24.8)**	(260)	(29.5)	—	—
other sundry items	**(48)**	**(2.3)**	84	9.5	(19)	(50.0)
Tax expense (recovery)	**474**	**22.9**	(617)	(70.0)	(38)	(100.0)

19. Joint Venture Operations

The consolidated financial statements include the Company's interest in its joint ventures and partnership as follows:

	1980 ($000's)	1979 ($000's)
Assets	**42,510**	45,747
Liabilities	**42,077**	34,698
Equity and advances	**433**	11,049
	42,510	45,747
Revenues	**26,330**	17,793
Expenses	**21,755**	17,980
Income (loss) before income taxes	**4,575**	(187)

20. Related party transactions

Related party transactions are, in all circumstances, conducted at fair market value. The Company participates in numerous joint ventures and a partnership. In a number of these, directors and officers of the Company participate for their own account.

Directors' and officers' interests in these joint ventures are summarized as follows:

	1980 ($000's)	1979 ($000's)
Assets	**2,867**	4,101
Liabilities	**2,859**	4,288
Equity and advances	**8**	(187)
	2,867	4,101
Revenue	**3,883**	2,469
Expenses	**3,647**	2,486
Income (loss) before income taxes	**236**	(17)

The following is a summary of other significant transactions between the Company, its directors and officers:

1. During the year Revenue Properties Central Developments Limited purchased certain assets for $9.5 million from Revcon Developments, a partnership, 75% of which the Company owns, the 25% balance of which is owned by an officer and director of the Company.
2. Two directors of the Company have agreed to purchase one condominium unit each for a total of $560,000.
3. Subsequent to December 31, 1980, the Company:
   a) agreed to purchase in joint venture with another corporation owned by certain directors and officers, a hotel in Halifax, Nova Scotia. The commitments of such other corporations as regard the purchase total $1.6 million. The partners have agreed in principle that the hotel will be managed by another corporation in which such directors and officers have a substantial interest, for a fee which is to be negotiated.
   b) agreed to purchase two thirds of the shares of Revenue Resources (Canada) Inc. for $1 million, the other one third of the shares of which are to be purchased by certain directors and officers and their associates for a total of $500,000 and;
   c) agreed to enter into a joint venture with another corporation in which certain directors and officers have a substantial interest, the Company's obligation being to provide a guaranty of the joint venture's bank financing limited to $2 million (U.S.) in return for the right to the first $2 million (U.S.) of profits earned by the joint venture.

21. Quarterly financial data (unaudited)

	Quarter				
	First	Second	Third	Fourth	Year
1980	($000's)	($000's)	($000's)	($000's)	($000's)
Gross Revenue	10,134	7,557	7,295	12,575	37,561
Gross Profit	2,290	1,676	2,682	3,435	10,083
Net Income (loss)....	270	(138)	530	937	1,599
Earnings (loss) per share	1.9¢	(1.0¢)	3.7¢	6.7¢	11.3¢
1979					
Gross Revenue	8,430	7,918	13,552	11,127	41,027
Gross Profit	1,507	1,613	1,340	1,494	5,954
Net Income (loss)...........	(22)	(43)	(179)	(22)	(266)
Earnings (loss) per share	(0.2¢)	(0.3¢)	(1.3¢)	(0.1¢)	(1.9¢)

Market for the Company's Common Stock and Related Security Holder Matters

Approximate number of holders of record of each class of equity securities of the Company as at the dates shown:

Title of Class	Number of Record Holders	Date
Common shares without par value	8,654	December 31, 1980
9% Convertible Sinking Fund Debentures, Series B	5	December 31, 1980
9% Convertible Sinking Fund Debentures, Series C	8	December 31, 1980
9% Convertible Sinking Fund Debentures, Series D	8	December 31, 1980
7½% Convertible Subordinated Sinking Fund Debentures, Series A	42	December 31, 1980

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

	1980				1979			
	4th	**3rd**	**2nd**	**1st**	4th	3rd	2nd	1st
High	**3.30**	**2.25**	**2.05**	**2.47**	1.83	1.90	2.00	1.88
Low	**2.07**	**1.85**	**1.61**	**1.22**	1.16	1.63	1.62	1.29

No dividends have been paid since 1969 on common stock. The Trust Indenture relating to the 7½% convertible subordinated sinking fund debentures, Series A due June 30, 1988 places certain restrictions on the payment of dividends.

FIVE YEAR SUMMARY OF OPERATIONS

Years ended December 31

	1980 ($000's)	1979 ($000's)	1978 ($000's)	1977 ($000's)	1976 ($000's)
Rental operations					
Income from revenue producing real estate	16,262	15,208	14,982	12,767	12,235
Property operating expenses	11,943	11,112	10,643	8,621	7,912
Depreciation	489	480	460	436	389
	3,830	3,616	3,879	3,710	3,934
Sales of revenue producing real estate	4,040	1,662	1,187	3,475	4,218
Cost of sales	2,368	701	737	3,408	3,143
	1,672	961	450	67	1,075
Sales of construction, land held for and under development and surplus land	15,826	23,196	14,977	14,513	16,541
Cost of sales	12,678	22,780	14,565	14,263	15,398
	3,148	416	412	250	1,143
Other income	1,433	961	926	1,403	937
Gross profit from operations	10,083	5,954	5,667	5,430	7,089
Interest expense less amounts capitalized	5,644	4,911	4,840	4,210	3,447
Other expenses	2,366	1,926	1,691	1,956	1,936
Proceeds of lawsuit net of costs	—	—	(826)	—	—
Provision for loss on real estate	—	—	—	3,927	—
Income (loss) before income taxes and extraordinary item	2,073	(883)	(38)	(4,663)	1,706
Income taxes	474	(617)	(38)	(1,623)	721
Income (loss) before extraordinary item	1,599	(266)	—	(3,040)	985
Extraordinary item					
Deferred income tax reduction	—	—	361	205	141
Net income (loss) for the year	1,599	(266)	361	(2,835)	1,126
Interest capitalized	4,843	4,515	3,705	3,793	4,756
Earnings (loss) per share					
Before extraordinary item	11.3¢	(1.9¢)	—	(21.5¢)	7.0¢
After extraordinary item	11.3¢	(1.9¢)	2.6¢	(20.0¢)	8.0¢
Weighted average number of shares (in thousands)	14,166	14,156	14,146	14,146	14,146

SUPPLEMENTARY INFORMATION
Years ended December 31

Business

The Company is an integrated real estate company which alone, in partnership or with joint ventures develops land and constructs industrial, commercial and residential buildings for sale, investment and lease.

Land development and construction activities vary significantly from period to period depending on market demand and availability of services and Government approvals for land development.

In common with most real estate development and construction companies, the Company finances these activities through bank loans and other term borrowings which are renewed as required. Investments in revenue producing real estate are financed with long term mortgages.

The Company has recently entered into the petroleum exploration and development business through a partially-owned subsidiary which has been incorporated for this purpose.

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

General

In 1980 the Securities Exchange Commission issued directives requiring certain discussion on the Company's financial condition and operations and dealing specifically with liquidity, capital resources and results of operations. The following is provided to assist the reader in assessing conditions affecting the Company's performance.

Liquidity

The continuing high, volatile interest rates and the resulting lack of long term mortgage financing is an important factor in the Company's future liquidity position. No longer can the Company, in common with the rest of the real estate industry, continue to carry land for any extended period of time. Developments which require minimum carrying costs and risk are favoured. Several of our major land holdings have reached the stage where they are being serviced and sold and this will have a significant favourable effect on the Company's liquidity position. It is important to note that development projects require various stages of governmental approval and involvement and this contributes greatly to the length of time required to initiate a development project. The Company's investment in revenue producing real estate is being critically re-evaluated. Accordingly, the Company is selling some of the older, low return buildings to finance the development of newer more profitable revenue producing projects. In summary, the Company has obtained necessary financing to commence and carry through the projects planned for 1981, and the Company's liquidity position is improving.

Capital Resources

Capital expenditures in the real estate industry, unlike industries such as manufacturing or resources, is not significant. The Company has minimal capital assets and does not contemplate material additions in the future.

Results of Operations

1980 was a successful year for the Company. Several major projects are in progress and will continue to contribute significantly to profitability. Sales of serviced land made a significant contribution to profits, and this trend is expected to continue. House building continues to be depressed and the Company's participation will be limited until there are more favourable market conditions. The Company presently has several luxury condominium projects under development and this area of activity is expected to contribute significantly to profits in future years. Construction of low rise office buildings for investment is also an area which is being actively investigated. The Company anticipates that the gross profit from rental operations will increase. The Company's diversification into the oil and gas industry is expected to provide a more stable operating base in the ever changing economic climate.

Selected Financial Data

	1980 ($000's)	1979 ($000's)	1978 ($000's)	1977 ($000's)	1976 ($000's)
Net operating revenues	**37,561**	41,027	32,072	32,158	33,931
Income (loss) from continuing operations	**1,599**	(266)	—	(3,040)	985
Income (loss) from continuing operations per share	**11.3¢**	(1.9¢)	—	(21.5¢)	7.0¢
Total assets	**118,409**	107,479	112,560	113,706	119,896
Long term obligations	**81,491**	72,173	76,818	78,653	79,931
Capital lease obligations	**15,626**	16,442	17,198	not required	
Cash dividends per common share	**none**	none	none	none	none
Cash flow from operations	**2,225**	(660)	36	(327)	2,032

revenue properties company limited

REVENUE PRODUCING PROPERTY OWNED

	Number of Residential Units Completed	Approximate Rental Area (Sq. ft.)	Company's Interest (%)	Land Lease Terminates
Industrial				
Toronto, Ontario		683,900	100	Owned
Montreal, Quebec		355,200	100	Owned
Montreal, Quebec		556,100	100	2019-2020
Commercial and Residential				
Toronto, Ontario				
The Colonnade	163	84,000	100	2060
Bloor Street	16	10,600	100	Owned
Yonge Street		7,400	100	2060
Jane Street	1,200		66.7	2067
Kipling Avenue	65		50	Owned
Valleywoods Road	102			2004
Cavell Avenue		6,100	100	Owned
Charles Street		9,300	75	2019
Montreal, Quebec		137,300	100	Owned
Saint John, New Brunswick		102,600	100	Owned
	1,546	1,952,500		

REVENUE PRODUCING PROPERTY SOLD AND LEASED BACK

	Number of Residential Units Completed	Approximate Rental Area (Sq. ft.)	Land Lease Terminates
Residential			
Toronto, Ontario	716		1989-2024
Halifax, Nova Scotia	240		1987
Saint John, New Brunswick	152		1999
Commercial			
Toronto, Ontario		9,200	1986
Halifax, Nova Scotia		143,500	1999
Saint John, New Brunswick		102,600	1992
Industrial			
Toronto, Ontario		646,600	1986-1999
Montreal, Quebec		83,000	1984-1985
	1,108	984,900	

LAND HELD FOR AND UNDER DEVELOPMENT

Location	Proposed Use	Approximate Number of Acres	% Company Profit Participation
Ontario			
Ajax	Residential	294	100
Guelph	Multiple	879	75
Mississauga	Commercial	8	75
Orangeville	Commercial	2	100
Pickering	Residential	80	100
Port Dover	Commercial & Residential	93	33.3
Simcoe	Residential	6	33.3
Toronto	Residential	1	100
Uxbridge	Multiple	514	100
Vaughan	Residential	108	44
Whitchurch/ Stouffville	Industrial	115	100
Saskatchewan			
Lloydminster	Industrial & Commercial	74	50
Quebec			
Boucherville	Multiple	256	75
Pointe Claire	Industrial & Commercial	7	100
Florida			
Vero Beach	Luxury Condominiums	7	55

SURPLUS LAND

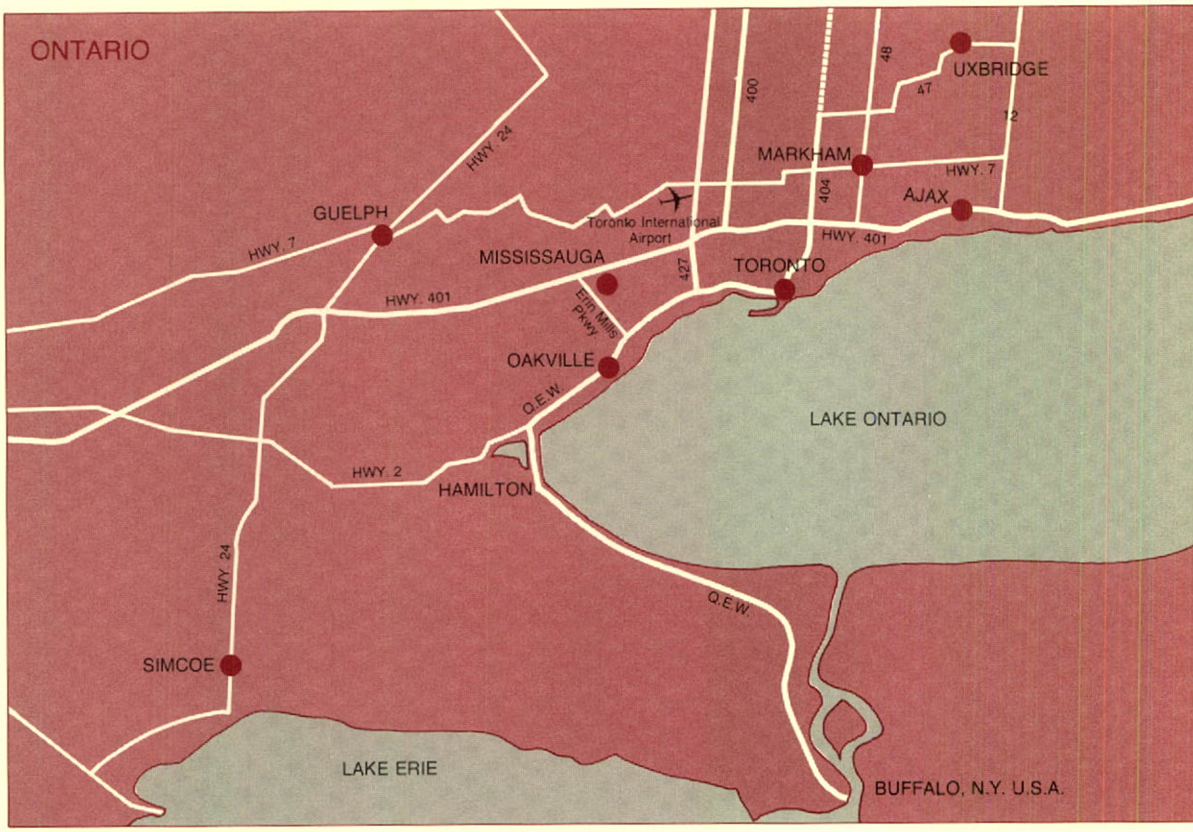
Location	Proposed Use	Approximate Number of Acres	% Company Profit Participation
Ontario			
Uxbridge	Sale without development	965	100
		3,409	

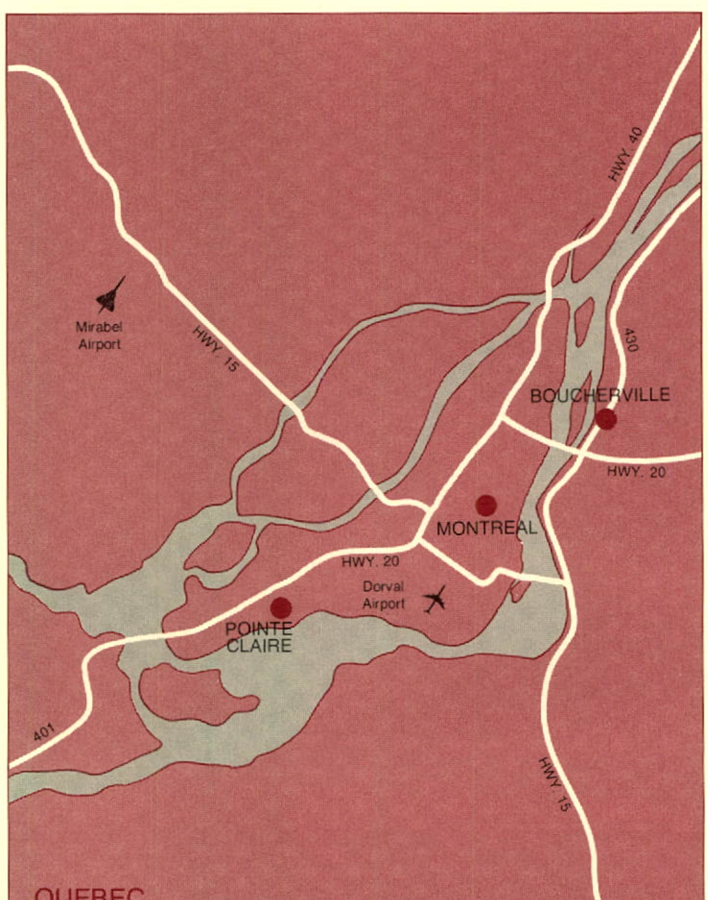
CONSTRUCTION IN PROGRESS

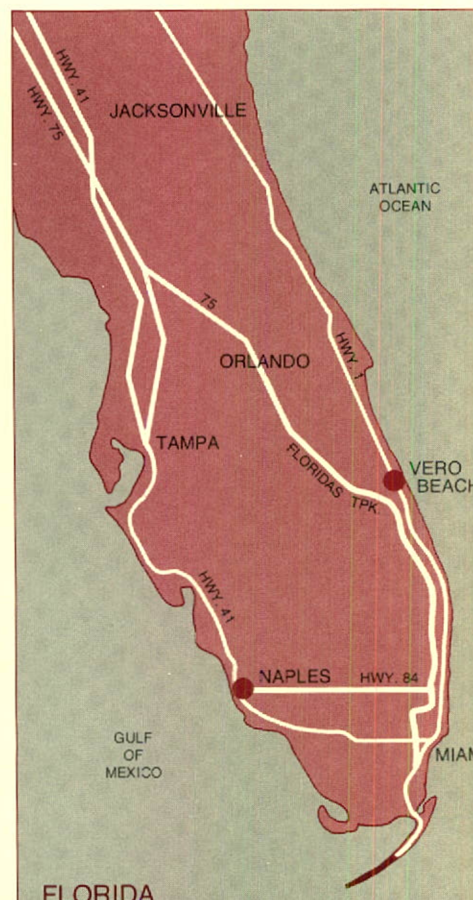
Location	Type	Number of Units	% Company Profit Participation
Ontario			
Oakville	Housing	45	37.5
Port Dover	Housing	20	100
Etobicoke	Residential rental	30	50
Toronto	Luxury Condominiums	103	40
Quebec			
Boucherville	Housing	39	75
Florida			
Vero Beach	Luxury Condominiums	30	100
		Square Feet Under Construction	
Ontario			
Toronto	Commercial	14,000	40

revenue properties company limited

● The accompanying maps show the general location of a number of the Company's principal development projects.







development projects

AJAX ONTARIO	**Residential** Registration of Phases I and II of this 294 acre residential project is expected by May 1981, and servicing will begin shortly thereafter.
BONNYVILLE ALBERTA	**Shopping Centre** A $10 million shopping centre is to be developed jointly with Primesite Developments Limited in Bonnyville, 150 miles northeast of Edmonton, near the proposed Cold Lake heavy oil plant. Construction of this project has been delayed by the lack of an oil pricing agreement between the Federal and Alberta governments, which has resulted in a reluctance on the part of anchor tenants to make a commitment to the development.
BOUCHERVILLE QUEBEC	**Residential and Industrial** Servicing to provide an additional 168 residential lots and servicing of industrial lands will be completed by mid 1981.
BROCKVILLE ONTARIO	**Downtown Redevelopment** The site for Brockville's downtown revitalization project has been chosen, and negotiations are underway with prospective tenants.
BURLINGTON ONTARIO	**Burloak Industrial Park** The Company has entered into a management contract on 300 acres of industrial land in Burlington, Ontario. The first phase of this project consisting of approximately 50 acres has been approved. A presale programme is underway, the success of which will determine whether or not servicing of these lands will be undertaken in 1981.
GUELPH ONTARIO	**Residential Land Development** Servicing of an approved subdivision of 28 single family lots will be undertaken in the spring of 1981. A large low density residential development and golf course is in the planning stages on lands owned by the Company.
HALIFAX NOVA SCOTIA	**Hotel** The Company, in a joint venture with Westok Holdings Ltd., has agreed to purchase the Hotel Nova Scotian from the Canadian National Railway Company. This 320 room hotel in downtown Halifax will be managed by the Bond Place Hotel Group. Renovations are planned for the hotel and its facilities.
LLOYDMINSTER SASKATCHEWAN	**Industrial and Commercial Park** All necessary approvals for this 74 acre industrial and commercial park in Lloydminster have now been received. The project is a joint venture with Primesite Developments Limited.
MARKHAM ONTARIO	**Office Complex** The Company has recently purchased 5 acres of land in Markham, where a low density office complex will be constructed.
MISSISSAUGA ONTARIO	**Office Complex** Construction is scheduled to start shortly on the second phase of Meadowvale Court. This $7 million office complex of twelve single storey office buildings will contain 86,024 square feet and should be completed for occupancy in the spring of 1982.

revenue properties company limited

MONTREAL QUEBEC

Condominiums — Old Montreal

Substantial renovation is scheduled to start this year on a $7 million 6-storey building to contain 60 suites ranging from 1,280 to 1,400 square feet. Completion and occupancy is scheduled for the summer of 1982.

NAPLES FLORIDA

Golf and Country Club

A golf and country club facility known as the Quail Creek Country Club is being developed jointly with Westok Holdings in Naples, Florida. The first phase in the development of this 640 acre property is the construction of a 36 hole golf course, and the servicing of 69 residential lots abutting the course. Construction commenced in January 1981.

OAKVILLE ONTARIO

Residential

Construction of 53 freehold townhouses commenced in September 1980, with completion scheduled for July 1981. Sales are most satisfactory.

POINTE CLAIRE QUEBEC

Shopping Centre

Construction of a $5 million shopping centre is scheduled to start in mid 1981.

TORONTO ONTARIO

Condominium — 1166 Bay

Construction of this $30 million project, a joint venture with Cadillac Fairview, is on schedule. All 103 suites have been sold with occupancy commencing in June 1981. The leasing programme for the 14,000 sq. ft. of commercial space on the first floor level has started.

TORONTO ONTARIO

Office & Commercial

Restoration of the Dominion Brewery Building, at 496 Queen Street East, is scheduled to commence in 1981 on a phased basis. This will ultimately result in 200,000 sq. ft. of office and commercial space.

TORONTO ONTARIO

Residential Land Development

This project is located between Bathurst and Yonge Streets, north of Steeles Avenue on the northern boundary of Metro Toronto. The first and second phases of the project, consisting of 452 lots have been registered and sold. Registration of Phase 3 is expected in the spring of 1981. 356 lots in this phase have been presold. Phase 3 also includes 68 lots for semi-detached homes, and sites for two apartment buildings each containing 210 units.

UXBRIDGE/ PICKERING

Residential

The Company is attempting to register plans of subdivision for estate lots on those lands not categorized as surplus.

VERO BEACH FLORIDA

Condominiums

Construction of Riomar Sands, a 30 unit luxury condominium building is well underway with closing expected in June 1981. Almost all units have been sold.

Presales and reservations for Seacove, a 42 unit condominium building, and 1616 South Ocean Drive, a 52 unit condominium building are satisfactory. Construction on these ocean front sites is scheduled to start in the spring of 1981.