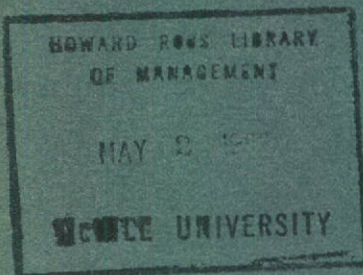


revenue properties
company limited



annual report 1979



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 approximately 80 industrial, commercial and residential properties containing three million square feet, and 2,187 residential units. Land development, industrial and housing construction is concentrated primarily in Ontario and Quebec. Revenue Properties has recently entered the U.S. market with a luxury condominium project to be built in Vero Beach, Florida.

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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
 - Sara Tuberman, Toronto,
Treasurer, Revenue Properties Company 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: John B. Good
Vice-President: E. William Selkirk
Secretary: Richard A. Bain
Chief Financial Officer: Peter W. Grater
Treasurer and Assistant Secretary: Sara Tuberman
Controller: Eve M. Bodman, C.A.

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

The operations of the Company for 1979 resulted in a loss of \$266,000 or 1.9¢ per share as compared with a profit of \$361,000 or 2.6¢ per share in 1978.

Gross profit from rental operations decreased to \$3,616,000 in 1979 from \$3,879,000 in 1978, due to a loss of income resulting from major renovations to a high rise apartment building and vacancies in the Company's industrial and office buildings in Dorval, Quebec and apartment buildings in Toronto, Ontario.

In 1979 the Company sold two revenue producing buildings, and two options to lease revenue producing buildings sold in prior years. These sales aggregated a gross profit of \$961,000 compared with two buildings sold in 1978 for a gross profit of \$450,000.

Sales of land held for and under development, construction projects and surplus land significantly increased to \$23,196,000 in 1979 from \$14,977,000 in 1978. This was due to increased construction sales.

Interest expense has increased as the result of mortgage interest on new buildings, and increases in the cost of money borrowed for current operating purposes.

RESIDENTIAL CONSTRUCTION

Although 1979 was a disappointing year for our house building activities, we are in the fortunate position of having only a few houses in inventory, and are constructing houses on a pre-sale basis only. The Company's future activities in the single family housing market are uncertain, due to the present economic conditions and low profit margins.

The Company's current major construction project is 1166 Bay, a 103 suite luxury condominium in downtown Toronto, which is a joint venture with Cadillac Fairview. Pre-sales are exceeding our expectations.

Since 1976 the Company has been constructing high-rise apartment buildings for sale to investors seeking tax shelter opportunities offered by the Income Tax Act of Canada to owners of Multiple Unit Residential Buildings or M.U.R.B.'s. During 1979, the Company sold through a joint venture in which it had a 50% interest, approximately 87% of one building and 71½% of another. The unsold portion of these buildings will be retained as revenue producing real estate. These sales involve cash flow guarantees to purchasers and the Company defers that portion of the sale price which is determined to be applicable to such guarantees. Since these M.U.R.B. projects are almost complete, the Company expects construction sales to be significantly lower in 1980.

LAND DEVELOPMENT

Sales of land held for development were unusually low in 1979. However, servicing of the Company's land in Vaughan Township is underway and it is anticipated that its development and sale will have a significant and favourable effect on the Company's earnings. A portion of this land has been pre-sold. It is expected that all material conditions will be met shortly at which time we will be able to recognize income on these sales.

Servicing of the Company's land in Ajax, east of Toronto, Ontario, is expected to commence in 1980. The first two phases consist of 264 lots.

revenue properties company limited

SURPLUS LANDS

We have been very successful in reducing our inventory of surplus land as market conditions allow. During 1977 the Company determined that a large portion of its land assembly in Uxbridge, Ontario, should be sold without development, and accordingly we reclassified this portion of the land as surplus, and ceased capitalizing interest and carrying charges related thereto. Sales are meeting our expectations and during 1979, surplus land was sold for \$2,409,000 compared with \$1,796,000 in 1978. Subsequent to the year end additional sales totalling \$1,070,000 have been made at a loss of approximately \$160,000. The Company has accordingly provided for this loss in 1979.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT

The Company also sold a 72,051 square foot office park, known as Meadowvale Court, which was syndicated through Burns, Fry Limited, members of the Toronto Stock Exchange. The syndication provides that the Company will guarantee a net cash flow from the project. The profit of \$343,000 on the sale has been deferred until the anticipated cost of the guarantee can be more precisely determined. In addition, the syndication provides that the Company will earn a maximum performance bonus of \$619,000 if it meets certain rental achievements by September 30, 1980.

NEW PROJECTS

The Company has entered into two joint ventures with Primesite Development, a company active in real estate development throughout western Canada. The joint ventures are for development of a 110,000 square foot shopping centre in Bonnyville, Alberta and for the development of a 78 acre industrial park in Lloydminster, Saskatchewan.

The Company has purchased a Florida ocean front site for the development of 30 luxury condominiums. Pre-sales are at a satisfactory level and construction will commence shortly.

We face operating conditions for 1980 that are perhaps the most difficult in the recent history of the real estate industry. We are contending with interest rates at an unprecedented level, which if they continue, will have a serious impact particularly on construction. Notwithstanding these conditions, your Company is now in a strong competitive position and we are confident that 1980 will be a good year for Revenue Properties.

On behalf of the Board of Directors



Maxwell Goldhar, President

Toronto, Canada,
March 31, 1980

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limited**

(Incorporated under
the laws of Ontario)

**CONSOLIDATED
BALANCE SHEET**

at at December 31

ASSETS	Note	1979 (\$000's)	1978 (\$000's)
Revenue producing real estate	2	49,754	46,698
Construction in progress	3	8,562	13,343
Land held for and under development	4	30,906	29,960
Surplus land	5	3,269	5,774
Accounts and mortgages receivable	6	11,801	13,207
Other assets	7	2,427	2,647
Cash	8	760	931
		<u>107,479</u>	<u>112,560</u>
LIABILITIES			
Mortgages and loans payable on revenue producing real estate	9	38,258	37,428
Other loans and mortgages payable	10	11,227	20,944
Sinking fund debentures	11	3,683	6,084
Bank indebtedness	12	19,005	12,362
Accounts payable and accrued liabilities		7,530	7,109
		79,703	83,927
Deferred income	13	3,548	3,534
Deferred income taxes	20	2,654	3,271
		<u>85,905</u>	<u>90,732</u>
SHAREHOLDERS' EQUITY			
Capital stock	14	27,336	27,324
Deficit		(5,762)	(5,496)
		<u>21,574</u>	<u>21,828</u>
		<u>107,479</u>	<u>112,560</u>

Approved by the Board



Director



Director

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**CONSOLIDATED
STATEMENT
OF INCOME**

Years ended December 31

	1979		1978
	(\$000's)		(\$000's)
Rental operations			
Income from revenue producing real estate	15,208		14,982
Property operating expenses	11,112	10,643	
Depreciation	480	460	11,103
Gross profit	3,616		3,879
Sales of revenue producing real estate	1,662	1,187	
Cost of sales	701	737	
Gross profit	961		450
Sales of construction, land held for development and surplus land	23,196	14,977	
Cost of sales	22,780	14,565	
Gross profit	416		412
Interest and other income	961		926
Gross profit from operations	5,954		5,667
Deduct: Interest expense less amounts capitalized (Note 18 (a))	4,911	4,840	
Administration and general expenses	1,926	1,691	
Proceeds of lawsuit net of costs (Note 17)	—	(826)	5,705
Loss before income taxes and extraordinary item	(883)		(38)
Deferred income taxes (Note 20)	(617)		(38)
Loss before extraordinary item	(266)		—
Extraordinary item			
Deferred income tax reduction on recognition of prior years' timing differences	—		361
Net income (loss)	(266)		361
Earnings (loss) per share (Note 18 (b))			
Before extraordinary item	(1.9¢)		—
After extraordinary item	(1.9¢)		2.6¢

CONSOLIDATED
STATEMENT
OF DEFICIT
Years ended December 31

	1979	1978
	(\$000's)	(\$000's)
Deficit at beginning of year	5,496	5,857
Net (income) loss	266	(361)
Deficit at end of year	<u>5,762</u>	<u>5,496</u>

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, 1979 and 1978 and the consolidated statements of income, deficit and changes in financial position for the years then ended. 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, 1979 and 1978 and the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Thorne Riddell

Chartered Accountants

Toronto, Canada
March 25, 1980

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**CONSOLIDATED
STATEMENT
OF CHANGES
IN FINANCIAL
POSITION**

Years ended December 31

SOURCE OF CASH	1979 (\$000's)	1978 (\$000's)
Cash flow from operations	—	36
Decrease in other projects under construction	6,314	(2,200)
Increase in bank loans	6,959	(343)
Issue of capital stock	12	—
Net changes in other assets and liabilities	3,191	2,742
	<u>16,476</u>	<u>235</u>
USE OF CASH		
Cash used in operations	660	—
Increase in revenue producing real estate and revenue producing real estate under construction	881	108
Increase in land held for and under development and surplus land	2,790	210
Increase in mortgages receivable	712	(479)
Repayment of loans and mortgages payable	8,887	167
Repayment of sinking fund debentures	2,401	1,889
Increase in cash	145	(1,660)
	<u>16,476</u>	<u>235</u>
Cash is defined as:		
Cash	760	931
Bank indebtedness, unsecured	(1,252)	(1,568)
	<u>(492)</u>	<u>(637)</u>

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:

	<u>Ownership %</u>
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.

(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 and other income

Revenue is recorded as it is earned.

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 being taken back into income on a straight-line basis over the 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 asset and liability accounts 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 is translated at rates in effect at dates of acquisition. Revenues and expenses are translated at the average exchange rate during the year. Gains or losses from exchange translations are included in the statement of income.

2. Revenue producing real estate

	1979	1978
	(\$000's)	(\$000's)
Land, buildings and equipment at January 1, less accumulated depreciation of \$3,176,000 (1978; \$2,815,000)	46,698	47,281
Additions during year	4,532	590
	51,230	47,871
Less: Disposal at net book value	701	713
Transfer of property to land held for and under development	295	—
Depreciation expense for the year	480	460
Balance December 31, at cost, less accumulated depreciation of \$3,575,000 (1978; \$3,176,000)	49,754	46,698

The cost of freehold land included at December 31 in the above is \$3,460,000 (1978; \$2,627,000).

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NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS

3. Construction in progress

	1979	1978
	(\$000's)	(\$000's)
Revenue producing real estate		
Industrial and commercial	—	2,259
Residential	1,833	—
Other Projects		
Housing	2,422	3,930
Multiple unit residential buildings	4,130	6,256
Commercial	177	898
	<u>8,562</u>	<u>13,343</u>

4. Land held for and under development

	1979	1978
	(\$000's)	(\$000's)
Land		
Ontario	24,490	25,787
Quebec	4,602	4,173
Saskatchewan	1,004	—
Florida	810	—
	<u>30,906</u>	<u>29,960</u>

Land held for and under development is shown at cost and was increased during the year by interest and other carrying costs in the amount of \$4,442,000 (\$3,717,000 in 1978).

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 lands.

6. Accounts and mortgages receivable

	1979	1978
	(\$000's)	(\$000's)
Mortgages receivable	7,838	7,126
Balances receivable for land sold under agreements of purchase and sale	603	2,194
Rents and other receivables	1,201	1,960
Amount due from partner (see below)	2,159	1,927
	<u>11,801</u>	<u>13,207</u>

The partner is M. G. Wright Construction Limited, a corporation controlled by M. G. Wright who is a director of the Company. This receivable is secured by 25% of the assets of the partnership.

Mortgages receivable, including \$3,058,000 on certain properties leased back, bear interest at rates which vary from 6 to 16% (weighted average 9.2%), and mature at various dates to 1999 as follows:

	(\$000's)
1980	935
1981	635
1982	667
1983	338
1984	602
1985 and subsequent	4,153
	7,330
Second mortgages taken back on housing units sold mature at various dates to 1995 (interest rates vary from 6 ¹ / ₄ % to 12%)	508
	<u>7,838</u>

Certain mortgages receivable are pledged against loans payable (see note 10).

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NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS

7. Other assets

	1979	1978
	(\$000's)	(\$000's)
Prepaid expenses	1,274	1,033
Costs recoverable from tenants	544	449
Sundry investments at equity	119	237
Deferred currency adjustment	490	928
	<u>2,427</u>	<u>2,647</u>

8. Cash

	1979	1978
	(\$000's)	(\$000's)
Cash and short-term deposits	586	759
Cash in escrow	174	172
	<u>760</u>	<u>931</u>

9. Mortgages and loans payable on revenue producing real estate

Mortgages payable bear interest at rates which vary from 6¹/₄% to prime interest rate plus 4% (weighted average 10.1%), and mature at various dates to 2027 as follows:

	(\$000's)
1980	5,384
1981	1,715
1982	1,805
1983	1,207
1984	4,983
1985 and subsequent	<u>23,164</u>
	<u>38,258</u>

10. Other loans and mortgages payable

	Secured by		Due to Shareholders (\$000's)	Total (\$000's)
	Real Estate (\$000's)	Mortgages Receivable (\$000's)		
1980	2,226	1,738	100	4,064
1981	1,137	936	340	2,413
1982	79	—	—	79
1983	313	—	—	313
1984	23	—	—	23
1985 and subsequent	1,004	—	—	1,004
	<u>4,782</u>	<u>2,674</u>	<u>440</u>	<u>7,896</u>
Interim financing secured by certain properties under construction*				<u>3,331</u>
				<u>11,227</u>
Latest year of maturity	1992	1981	1981	
Fixed interest loans (\$000's)	1,782	—	440	
Range of interest rates	6½% - 15½%		12%	
Weighted average interest rate	10.0%	—	12%	
Variable interest loans (\$000's)	3,000	2,674	—	
Weighted average interest rate	17.6%	18.6%		

Interest rates on these loans vary from 0% to 5¼% above the prime interest rate charged by Canadian chartered banks.

The amount of \$440,000 due to certain shareholders is secured by a second assignment of certain assets of the Company.

*The Company obtains commitments for mortgage 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.

11. Sinking fund debentures

	Maturity Date	Principal (\$000's)	Payments Due		
			1980 (\$000's)	1981 (\$000's)	1988 (\$000's)
9% convertible sinking fund debentures					
Series B	June 1, 1981	310	211	99	—
Series C	Feb. 15, 1981	1,105	754	351	—
Series D	June 15, 1981	857	585	272	—
		<u>2,272</u>	<u>1,550</u>	<u>722</u>	<u>—</u>
Add currency adjustment (note (a) (ii) below)		490	340	150	—
		<u>2,762</u>	<u>1,890</u>	<u>872</u>	<u>—</u>
7½% convertible subordinated sinking fund debentures					
Series A	June 30, 1988	921	—	—	921
		<u>3,683</u>	<u>1,890</u>	<u>872</u>	<u>921</u>

(a) 9% convertible sinking fund debentures

(i) Convertible Features

The principal amount (Series C and D sub-series being adjusted for the currency relationship noted in (ii) below) 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.

(ii) Currency Adjustment

Series C and D principal and interest payments, including sinking fund payments, are subject to adjustment (limited to a 25% increase or decrease) depending on any changes in the relative values of the Canadian and Federal Republic of Germany currencies, calculated at the date of or immediately prior to payment.

The maximum adjustment is carried as a deferred charge and is charged to income during the year sinking fund payments and conversions are made. The currency adjustment at December 31, 1979 would have been approximately 155% but for the 25% limitation.

(iii) Redemption

The debentures are redeemable on or before maturity at par plus accrued interest (adjusted for the currency adjustment noted in (ii) above).

(iv) Security

Subsequent to December 31, 1979 certain security for the debentures was released and the debentures are now secured by a fixed charge on a revenue producing building and by a floating charge on the assets and undertaking of Revenue Properties Company Limited.

(b) *7 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) Subordination

These debentures are subordinated to the prior payment in full of the sinking fund debentures referred to above and of certain other prior indebtedness.

(v) Dividend Restrictions

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

revenue properties company limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Bank indebtedness	1979 (\$000's)	1978 (\$000's)
Unsecured	1,252	1,568
Secured by construction in progress	1,419	2,770
Secured by land held for and under development	11,403	1,400
Secured by balances receivable for land sold under agreements of purchase and sale	100	1,715
Secured by surplus lands	1,315	1,381
Secured by revenue producing real estate	3,516	3,528
	<u>19,005</u>	<u>12,362</u>

Bank loans are generally evidenced by demand notes and bear interest at rates ranging from prime plus 1% to prime plus 2% (weighted average interest rate at December 31, 1979 — 16.0%). As at December 31, 1979 the Company has unused established lines of credit in the amount of \$3,368,000.

In addition, the Company's bankers have issued letters of credit totalling \$2,236,000 to guarantee its performance.

13. Deferred income	1979 (\$000's)	1978 (\$000's)
<i>Unamortized profit on sale and leaseback and similar transactions</i>		
Balance, January 1	2,776	2,969
Additions through profit and construction sales with lease commitments attached thereto	116	—
Less: Amounts included in income	(145)	(193)
	<u>(29)</u>	<u>(193)</u>
Balance, December 31	2,747	2,776
<i>Revenue attributed to cash flow guarantees and contracting profits applicable to anticipated operating losses, deferred to future years</i>		
Balance, January 1	758	966
Portion of the selling price of residential buildings attributed to cash flow guarantees	379	218
Less: Amounts included in income	(336)	(426)
	<u>43</u>	<u>(208)</u>
Balance, December 31	801	758
Total deferred income	<u>3,548</u>	<u>3,534</u>

Approximately \$519,000 of the above balance will be taken into income in 1980.

14. 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 (\$000's)
December 31, 1978	14,146,147	\$27,324
Issued on exercise of stock options	20,000	12
December 31, 1979	<u>14,166,147</u>	<u>\$27,336</u>

(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)	552,400
	<u>655,800</u>

(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 11 (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 as set out in note 11 (a) (ii) would result in the issue of approximately 552,400 common shares.

15. Lease commitments

The Company is the lessee under a number of cancellable and non cancellable leases. Gross rental expense was \$4,403,000 in 1979 (\$4,345,000 in 1978). The gross income from the sublease of these assets and leasehold improvements attached thereto was \$12,881,000 (\$12,268,000 in 1978).

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The Canadian Institute of Chartered Accountants has introduced criteria, applicable to leases entered into after January 1, 1979, providing for the capitalization of leases which transfer to the lessee substantially all of the risks and benefits of ownership. The company accounts for a number of leases entered into prior to January 1, 1979 as operating leases, which leases meet capital lease criteria; had these been capitalized the consolidated balance sheet would have included "Property under capital lease", net of accumulated amortization of \$16,442,000 as at December 31, 1979 and \$17,198,000 as at December 31, 1978, and a corresponding "Obligation under lease commitments" of \$16,442,000 as at December 31, 1979 and \$17,198,000 as at December 31, 1978. Amortization is calculated on the sinking fund method over the term of the leases, employing the interest rate implicit in the leases (weighted average rate 8.56%) and accordingly, net income would be unchanged.

The minimum lease payments of the Company as lessee as of December 31, 1979 for all non cancellable leases are as follows:

	Operating Leases which meet Capital Leases Criteria (\$000's)	Non Cancellable Operating Leases (\$000's)
1980	2,202	2,110
1981	2,202	2,110
1982	2,202	2,110
1983	2,202	934
1984	2,202	908
1985 and later years	<u>17,957</u>	<u>24,208</u>
	<u>28,967</u>	<u>32,380</u>

Obligations for lease agreements, which have options to cancel upon the payment of a specified amount pertaining to each, are not included above. The total amount of such payments, were all such leases to be terminated, is \$634,000.

16. Contingent liabilities

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 \$23,000,000 as at December 31, 1979. 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. 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.

18. Consolidated statement of income

(a) *Interest*

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

	1979	1978
	(\$000's)	(\$000's)
Capitalized		
Revenue producing real estate under construction	258	223
Construction in progress	1,676	1,110
Land held for and under development	2,581	2,372
	4,515	3,705
Expense		
Revenue producing real estate	3,503	3,423
Surplus land	568	720
Other	840	697
	4,911	4,840
	9,426	8,545

(b) *Earnings (loss) per share*

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

The conversion of all convertible debentures or the exercise of outstanding options 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 \$489,000 in 1979 (\$344,500 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.

NOTES TO
CONSOLIDATED
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STATEMENTS

19. Quarterly financial data (unaudited)

	Quarter				Year
	First	Second	Third	Fourth	
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
<u>1979</u>					
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¢)
<u>1978</u>					
Gross Revenue	5,853	6,181	6,642	13,396	32,072
Gross Profit	1,513	1,436	1,419	1,299	5,667
Net Income					
(loss)	(153)	736	(231)	9	361
Earnings (loss)					
per share	(1.1¢)	5.2¢	(1.6¢)	0.1¢	2.6¢

20. 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 recovery differs from the actual tax recovery as follows:

	1979		1978	
	(\$000's)	%	(\$000's)	%
Computed expected tax recovery	(441)	(50.0)	(19)	(50.0)
Change in expected tax recovery resulting from:				
— non-taxable portion of capital gains ..	(260)	(29.5)	—	—
— other sundry items	84	9.5	(19)	(50.0)
Tax recovery	<u>(617)</u>	<u>(70.0)</u>	<u>(38)</u>	<u>(100.0)</u>

21. Joint venture operations

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

	1979	1978
	(\$000's)	(\$000's)
Assets		
Revenue producing real estate	21,511	18,591
Construction in progress	7,458	10,882
Land held for and under development	10,944	11,327
Accounts and mortgages receivable	5,090	6,170
Other assets	184	166
Cash	560	599
Total assets	<u>45,747</u>	<u>47,735</u>
Liabilities		
Mortgages and loans payable on revenue producing real estate	19,158	17,250
Other loans and mortgages payable	5,202	9,600
Bank indebtedness	5,604	2,795
Accounts payable and accrued liabilities	4,146	3,700
	34,110	33,345
Deferred income	588	758
	34,698	34,103
Investment in joint ventures	11,049	13,632
Total liabilities and investment	<u>45,747</u>	<u>47,735</u>
Revenues	17,793	14,781
Expenses	17,980	14,788
Loss before income taxes	<u>(187)</u>	<u>(7)</u>

1979 and 1978 share trading

The following is a summary of trading on the Toronto Stock Exchange per share by quarters:

	1979				1978			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
High	1.83	1.90	2.00	1.88	1.60	1.24	1.23	.93
Low	1.16	1.63	1.62	1.29	1.12	1.01	.83	.75

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

	1979 (\$000's)	1978 (\$000's)	1977 (\$000's)	1976 (\$000's)	1975 (\$000's)
Rental operations					
Income from revenue producing					
real estate	15,208	14,982	12,767	12,235	11,229
Property operating expenses	11,112	10,643	8,621	7,912	7,207
Depreciation	480	460	436	389	362
	<u>3,616</u>	<u>3,879</u>	<u>3,710</u>	<u>3,934</u>	<u>3,660</u>
Sales of revenue producing					
real estate	1,662	1,187	3,475	4,218	4,329
Cost of sales	701	737	3,408	3,143	3,956
	<u>961</u>	<u>450</u>	<u>67</u>	<u>1,075</u>	<u>373</u>
Sales of construction, land held for and under development and surplus land	23,196	14,977	14,513	16,541	4,726
Cost of sales	22,780	14,565	14,263	15,398	4,089
	<u>416</u>	<u>412</u>	<u>250</u>	<u>1,143</u>	<u>637</u>
Other income	961	926	1,403	937	1,133
Gross profit from operations	5,954	5,667	5,430	7,089	5,803
Interest expense less amounts capitalized	4,911	4,840	4,210	3,447	3,134
Other expenses	1,926	1,691	1,956	1,936	1,661
Proceeds of lawsuit net of costs	—	(826)	—	—	—
Provision for loss on real estate	—	—	3,927	—	—
Income (loss) before income taxes and extraordinary item	(883)	(38)	(4,663)	1,706	1,008
Income taxes	(617)	(38)	(1,623)	721	363
Income (loss) before extraordinary item	(266)	—	(3,040)	985	645
Extraordinary item					
Deferred income tax reduction	—	361	205	141	70
Net income (loss) for the year	<u>(266)</u>	<u>361</u>	<u>(2,835)</u>	<u>1,126</u>	<u>715</u>
Interest capitalized	4,515	3,705	3,793	4,756	3,675
Earnings (loss) per share					
Before extraordinary item	(1.9¢)	—	(21.5¢)	7.0¢	4.5¢
After extraordinary item	(1.9¢)	2.6¢	(20.0¢)	8.0¢	5.0¢
Weighted average number of shares (in thousands)	14,156	14,146	14,146	14,146	14,146

summary of principal holdings

Company's
Proportionate share
December 31, 1979

REVENUE PRODUCING PROPERTY OWNED

	Number of Residential Units Completed	Approximate Rental Area (sq. ft.)
Industrial		
Toronto, Ontario		732,200
Montreal, Quebec		958,000
Commercial and Residential		
Toronto, Ontario		
The Colonnade	163	84,000
Bloor Street	16	10,600
Yonge Street		7,400
Jane Street	799	—
Cavell Avenue		6,100
Charles Street		7,000
Montreal, Quebec		69,900
Saint John, New Brunswick		102,650
Hill Island (Lansdowne), Ontario		50 unit motel

REVENUE PRODUCING PROPERTY SOLD AND LEASED BACK

Residential		
Toronto, Ontario	817	
Halifax, Nova Scotia	240	
Saint John, New Brunswick	152	
Commercial		
Toronto, Ontario		9,200
Halifax, Nova Scotia		143,500
Saint John, New Brunswick		102,650
Industrial		
Toronto, Ontario		646,600
Montreal, Quebec		83,000
	<u>2,187</u>	<u>2,962,800</u>

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LAND HELD FOR
AND UNDER
DEVELOPMENT

<u>Location</u>	<u>Proposed Use</u>	<u>Approximate Number of Acres</u>	<u>% Company Profit Participation</u>
Ontario			
Ajax	Multiple	294	100
Guelph	Multiple	879	75
Mississauga	High Rise Office Building	8	75
Oakville	Residential	4	37.5
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	Residential	614	100
Vaughan	Multiple	215	44
Whitchurch- Stouffville	Industrial	115	100
Saskatchewan			
Lloydminster	Industrial & Commercial	74	50
Quebec			
Boucherville	Multiple	264	75
Pointe Claire	Industrial & Commercial	7	75
Florida			
Vero Beach	Luxury Condominiums	3	100

SURPLUS LAND

Ontario			
Uxbridge	Sale without development	<u>1,695</u>	100
		<u>4,354</u>	

CONSTRUCTION
IN PROGRESS

<u>Location</u>	<u>Type</u>	<u>Number of Units</u>	
Ontario			
Goodwood	Housing	2	100
Port Dover	Housing	26	100
Etobicoke	Residential rental	95	50
Toronto	Luxury Condominiums	103	40
Quebec			
Boucherville	Housing	37	75
		<u>Square Feet Under Construction</u>	
Ontario			
Toronto	Commercial	14,000	40

development projects

Below is a brief description of some of the major projects in which the Company is presently involved.

VAUGHAN ONTARIO

Residential Land Development

The Company has a 44% interest in 215 acres of land between Bathurst and Yonge Streets, north of Steeles Avenue on the northern boundary of Metro Toronto. The first phase of this project, consisting of approximately 270 lots has been pre-sold, with registration of the subdivision plan expected by April 1980.

TORONTO ONTARIO

Luxury Condominiums — 1166 Bay

In a joint venture with Cadillac Fairview, construction started on this \$30 million luxury condominium building in August 1979. This 22-storey building, with 14,000 square feet of commercial space on the first floor level, will consist of 103 suites ranging from 2005 square feet to 2210 square feet. Occupancy is scheduled for 1981.

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. Construction is scheduled to start in late 1980 or early 1981.

LLOYDMINSTER SASKATCHEWAN

Industrial Park

Construction is scheduled to start this year on a 78 acre industrial and commercial park in Lloydminster. This \$35 million project is a joint venture with Primesite Developments Limited.

BROCKVILLE ONTARIO

Downtown Brockville Redevelopment

The Company's revitalization proposal for Brockville's downtown business core and waterfront area has received approval in principle from City Council.

Finalization of this project is contingent on the City receiving funding from the Provincial Government under the Downtown Revitalization Programme.

VERO BEACH FLORIDA

Luxury Condominiums — Riomar Sands

Pre-sales of Riomar Sands, a 30 unit luxury condominium building, are most satisfactory. Construction of this ocean front site is scheduled to start in 1980.

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AJAX
ONTARIO

Residential Land Development

Phase one of this 294 acres residential projects will be serviced in 1980. The remaining phases will be developed as the market dictates.

GUELPH
ONTARIO

Residential Land Development

Servicing will commence this summer on 28 single family lots which will be sold to builders. Consideration is being given to a large low density residential development centered around a golf course on lands owned by the Company on the outskirts of Guelph. Other lands owned by the Company in the City will be developed as market conditions permit.

BOUCHERVILLE
QUEBEC

Residential & Industrial

During 1979 101 houses were sold in the Company's Boucherville development.

Additional servicing of the Company's industrial park in Boucherville will be completed by June 1980.

MISSISSAUGA
ONTARIO

Commercial High Rise

The Company has purchased land for a commercial high-rise building which will be undertaken when financing & investment possibilities are realized.

Office Complex — Meadowvale Court

Leasing of this low rise office complex is being affected by soft conditions in the suburban office rental market. However, full occupancy of the project is anticipated by the end of 1980.

OAKVILLE
ONTARIO

Residential

Servicing of 58 residential lots has begun in which the Company has a 37½% profit participation.

UXBRIDGE/
PICKERING

Residential

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

