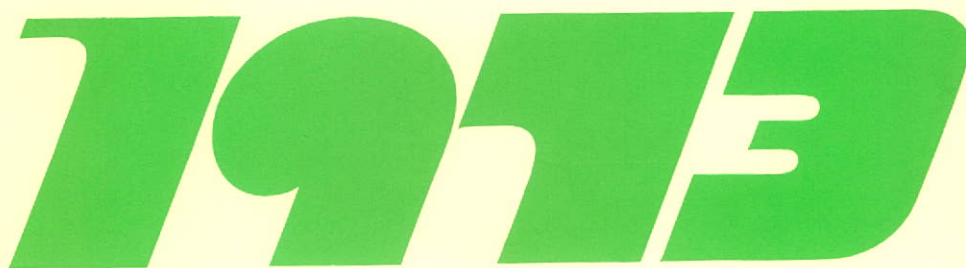


revenue properties company limited



annual report

revenue properties company limited

annual report

DIRECTORS

Richard A. Bain, Toronto

Watson W. Evans, Toronto

Maxwell Goldhar, Toronto

Paul W. Hellen, Toronto

Ken Kelman, Toronto

Gurston I. Rosenfeld, Toronto

C. Harris Tod, C.A., Toronto

Sara Tuberman, Toronto

Michael G. Wright, Montreal

OFFICERS

President: Maxwell Goldhar

Vice-President: C. Harris Tod, C.A.

Secretary: Richard A. Bain

Treasurer and Assistant Secretary: Sara Tuberman

Controller: Warren H. Bock, C.A.



AUDITORS

Thorne Gunn & Co.

PREFERENCE SHARES

Registrar & Transfer Agent
National Trust Company, Limited

COMMON SHARES

Registrar & Transfer Agent
National Trust Company, Limited
Co-Registrar & Co-Transfer Agent
Bankers Trust Company

SENIOR DEBENTURES

Trustee: The Royal Trust Company

SUBORDINATED DEBENTURES

Trustee: National Trust Company, Limited

HEAD OFFICE

44 King Street West, Toronto, Ontario M5H 1E2

revenue properties company limited

TO THE SHAREHOLDERS:

We are pleased to enclose the audited consolidated financial statements of your Company for the year ended December 31st, 1973.

You will note that our financial statements for the first time in five years are accompanied by an unqualified certificate by our auditors. Quite apart from the improvement in the value of real estate held, the financial health of the Company was a significant factor in allowing the auditors to remove their prior qualifications. This we believe is a major accomplishment in view of the difficulties that your Company experienced over the past few years.

Shares in your Company are once again being traded on the Toronto Stock Exchange. This also represents a major advance in re-establishing the credibility of your Company as a viable and on-going real estate company. We are hopeful that the American Stock Exchange will be encouraged to restore our shares for trading in the near future.

The net income for the year was \$1,744,000 equal to 13.2¢ per share over restated income for 1972 of \$1,420,000 or 12.1¢ per share. We have restated 1972 earnings because of a decision (with which the auditors agreed) to record the value of land in Uxbridge, Ontario known as Century City land, on the same basis as our other land held for development.

The 1973 income is affected for the first time in five years by the provision of \$130,000 for current income taxes. In the past two years we have reduced deferred income taxes by the application of book losses carried forward. At December 31st, 1973 we had absorbed all prior years' book losses and as a consequence we do not expect to make any significant extraordinary adjustments on account of income taxes in future years.

During the year we increased our liquidity from a deficit cash generation of nearly \$1.5 million in 1972 to a surplus cash generation of \$1.5 million in 1973. This was largely contributed to by the sale of 1.1 million shares of the Company and by funds realized on the expropriation of part of Century City lands by the federal government.

We are thus in a strong cash position at a time of high interest rates and have enhanced significantly our ability to take advantage of opportunities as they arise. This makes it possible to embark on a program of cautious expansion that will enable your Company to regain a significant position in the Canadian real estate industry.

Despite unprecedented demand for housing in Ontario, sales of our real estate held for development were off in 1973 mainly as a result of delays in government approvals for development projects. Nevertheless our activity in real estate development continues at a high level on our own account and in an increasing number of joint ventures with others. These latter operations are not recorded in our consolidated statements but are reported in note 7 which analyzes our equity in joint ventures and reflects our growing interest in this method of operation. It is perhaps significant to point out here that while our investment in joint ventures not consolidated at \$3.9 million is down from \$4.7 million, the assets involved increased substantially from \$13 million to \$21 million.

Cost of sales of real estate held for development remained at the same level as in 1972 despite a decline in revenue, a reflection in part of an upward spiral in the cost of servicing land in Ontario.

Rental income increased from \$9,057,000 to \$9,317,000 with a decrease in operating cost of approximately \$100,000. This reflects a higher rate of occupancy of our properties, some of our long term leases coming due and being renegotiated at current levels, and a better control of our operating expenses.

We reduced interest charges by \$600,000 during the year and at the same time held administrative costs to an increase of \$100,000 despite heavy inflationary pressure on salaries, enlargement of our development department and removal of our head office to larger premises.

During the year your Company made significant new moves in the acquisition and development of land. Your Company joined with Victoria Wood Development Corporation and Sifton Properties Limited to acquire approximately 150 acres in the Towns of Simcoe and

Port Dover, Ontario and plans are to build approximately 700 housing units within the next two years to accommodate the anticipated market demand due to the development of a new industrial complex in the Nanticoke area on the north shore of Lake Erie.

Your Company optioned approximately 14,000 acres of land for the development of a new city near the Nanticoke industrial development during the year. The proposed industrial complex, in which the first stages of a new Ontario Hydro generating plant are now producing electricity, will also see the start of construction on a milling complex by the Steel Company of Canada and of a petroleum refinery by Texaco Canada. The Ontario Government forecasts indicate a future population for the region of around 300,000 by the year 2000. Population now is about 85,000.

The first options expired on October 31st, 1973, and approximately 11,000 acres were subsequently re-optioned to May 30th, 1974.

In Oakville, your Company is engaged in a joint venture for the development of a 185 acre site which will include a shopping centre and approximately 400 housing units. Approximately \$2 million has been advanced to the municipality for the installation of water services, and development is well under way. Your Company has a 37½% interest in the first 5 acres of the development and a 15% interest in the remainder.

In Port Elgin we built and sold approximately 30 houses.

In Toronto, we have completed construction of and are beginning to rent a 218 suite apartment unit at Jane St. and Wilson Ave. and have commenced construction of a second unit. We expect to start construction immediately on a third unit in the same location. All of these are joint ventures in which we have a two-thirds interest.

Also in Toronto we have, in joint ventures, built and are building approximately 400 townhouses, of which 204 in the first joint venture have all been sold.

In Orangeville, a growing community 30 miles northwest of Toronto, we intend to proceed with the development of a local shopping centre this year. And in Guelph, Ontario, we have registered a plan of subdivision and plan to build, in a joint venture, approximately 165 housing units and a local shopping centre.

In Montreal, we completed development and have fully leased our industrial park at Dorval and have acquired six acres of land for commercial and industrial development this year in Pointe Claire. We also have acquired, since December 31st, 1973, 150 acres of land in the Montreal suburb of Boucherville for the construction of housing and buildings to accommodate light industry.

The Company is awaiting results of an action before the Federal Court for additional compensation for approximately 1,100 acres in Uxbridge, Ontario, expropriated by the Federal Government for use in the development of a second international airport to serve the Metropolitan Toronto Region.

On April 9th, 1974, the government of Ontario brought down a budget which included draft legislation creating a land speculation tax. If the legislation is passed as drafted, we do not expect that it will have any adverse effect on the operations of the Company.

We have continued to strengthen our management team and your directors anticipate that the future will present opportunities for growth and the continued development of your Company.

On Behalf of the Board of Directors



MAXWELL GOLDHAR,
President.

revenue properties company limited

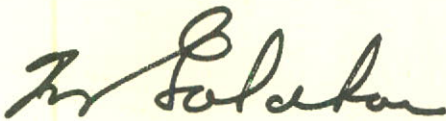
(Incorporated under the laws of Ontario)

and subsidiaries

ASSETS

	1973	1972
Cash and short-term deposits	\$ 3,054,158	\$ 1,009,328
Cash in escrow	272,772	770,033
Accounts, rents and other receivables (note 3)	2,682,590	2,355,424
Prepaid expenses	576,353	520,911
Mortgages receivable (note 4)	10,836,888	14,226,562
Balances receivable for land sold under agreements of purchase and sale ..	1,914,476	5,036,838
Real estate held for development or sale (note 5)	24,313,803	23,832,086
Revenue producing real estate (note 6)	32,188,975	31,681,110
Investment in and advances to joint ventures not consolidated (note 7) ...	3,983,930	4,652,406
Investment in and advances to associated company (note 8)	290,438	941,646
Sundry investments and advances, at equity	165,462	136,302
Debenture financing costs less amortization	110,126	132,438

Approved by the Board



Director



Director

\$80,389,971 \$85,295,084

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1973

(with comparative figures at December 31, 1972 as restated)

LIABILITIES

	1973	1972
Bank indebtedness, secured	\$ 256,822	\$ 279,580
Accounts payable and accrued liabilities	4,285,782	5,617,409
Due to shareholders (note 9)	1,628,000	1,628,000
Estimated completion costs for land sold	457,515	467,486
Loans payable secured by mortgages receivable (note 10)	5,896,082	7,997,582
Other secured loans payable	—	915,750
Mortgages payable secured by land sold under agreements of purchase and sale (note 11)	100,000	2,435,611
Mortgages payable on real estate held for development or sale (note 11)	8,160,736	8,215,563
Mortgages payable on revenue producing real estate (note 11)	22,284,121	22,015,199
9% Convertible sinking fund debentures (note 12)	11,928,625	12,237,060
7½% Convertible subordinated sinking fund debentures (note 13)	921,000	986,000
	<u>55,918,683</u>	<u>62,795,240</u>
Deferred income (note 14)	3,550,134	4,703,122
Deferred income taxes (note 2(e))	1,588,700	1,192,200
	<u>61,057,517</u>	<u>68,690,562</u>

SHAREHOLDERS' EQUITY

Capital stock (note 15)		
Authorized		
291,852.5 6% Cumulative, non-voting second preference shares, par value \$10, redeemable at par (313,977.5 in 1972)		
20,000,000 Common shares without par value		
Issued and outstanding		
14,144,897 Common shares (13,062,897 shares in 1972)	27,321,479	26,116,729
Appropriation for second preference shares reserved for issuance as stock dividends	—	224,150
Deficit	(7,989,025)	(9,736,357)
Capital stock less deficit	<u>19,332,454</u>	<u>16,604,522</u>
	<u>\$80,389,971</u>	<u>\$85,295,084</u>

Lease and similar obligations, contingent liabilities and legal proceedings
(notes 16, 17 and 18).

revenue properties company limited

and subsidiaries

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1973

(with comparative figures for 1972 as restated)

REVENUE	1973	1972
Real estate sales		
Held for development or sale	\$ 7,007,355	\$ 8,178,339
Revenue producing	—	1,573,780
Construction	1,035,507	894,149
Rentals	9,317,696	9,057,826
Interest	1,400,274	1,376,001
Share of income of associated company before extraordinary item ...	—	126,889
Share of income (loss) of joint ventures not consolidated (note 7) ...	375,090	(13,322)
Income (loss) from sundry investments	243,418	(21,867)
	<u>19,379,340</u>	<u>21,171,795</u>
EXPENSES		
Real estate cost of sales		
Held for development or sale	5,226,421	5,287,729
Revenue producing	—	1,621,100
Construction	1,002,054	847,538
Property operating	6,418,895	6,511,731
Interest charges (note 19(a))	3,058,800	3,697,123
Administration and general	1,721,291	1,676,202
Depreciation	908,320	903,188
	<u>18,335,781</u>	<u>20,544,611</u>
Income before the undernoted items	1,043,559	627,184
Net transfer from deferred income	1,152,988	666,489
Income allocated to other participants of consolidated joint ventures	(311,043)	(237,607)
Gain on sale of investment in unconsolidated joint venture	385,438	—
Income before income taxes and extraordinary items	<u>2,270,942</u>	<u>1,056,066</u>
Income taxes (note 19(b))		
Current	130,000	—
Current-subject to reduction by application of losses carried forward	837,800	565,000
Deferred	396,500	(232,800)
	<u>1,364,300</u>	<u>332,200</u>
Income before extraordinary items	906,642	723,866
Extraordinary items		
Income tax reduction on application of prior years' losses	837,800	565,000
Share of income tax reduction on application of prior years' loss in associated company	—	131,000
Net income for the year	<u>\$ 1,744,442</u>	<u>\$ 1,419,866</u>
Earnings per share (note 19(c))		
Before extraordinary items	6.8¢	6.2¢
After extraordinary items	13.2¢	12.1¢

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1973

(with comparative figures for 1972 as restated)

	1973	1972
Deficit at beginning of year		
As previously reported	\$11,477,426	\$12,193,435
Adjustment of interest (note 2(a)(iii))	1,741,069	1,091,715
As restated	9,736,357	11,101,720
Net income for the year	1,744,442	1,419,866
Transfer from appropriation for second preference shares	2,890	—
	7,989,025	9,681,854
Capital reorganization expense	—	54,503
Deficit at end of year	\$ 7,989,025	\$ 9,736,357

AUDITORS' REPORT

To the Shareholders of Revenue Properties Company Limited

We have examined the consolidated balance sheet of Revenue Properties Company Limited and subsidiaries as at December 31, 1973 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, after giving retroactive effect to the change explained in note 2(a)(iii), have been applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 26, 1974

Thorne Gunn & Co.
Chartered Accountants

revenue properties company limited

and subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1973

(with comparative figures for 1972 as restated)

SOURCE OF FUNDS	1973	1972
Operations		
Net income for the year	\$ 1,744,442	\$ 1,419,866
Deferred income taxes and depreciation	1,304,820	670,388
Other items not involving funds	(1,894,636)	(697,998)
Funds from operations	<u>1,154,626</u>	<u>1,392,256</u>
Mortgages receivable		
Payments received	4,205,527	742,557
Mortgages sold	1,392,750	713,133
Payments received on agreements of purchase and sale	4,399,452	2,671,870
Land, development and related costs realized through sales	5,797,161	6,361,330
Expropriation of Century City lands	2,660,387	—
Investments realized	890,664	2,499,234
Loans and mortgages obtained	3,632,927	3,337,522
Issue of common shares	1,204,750	1,052,863
Net changes in other assets and liabilities	—	31,447
	<u>\$25,338,244</u>	<u>\$18,802,212</u>
APPLICATION OF FUNDS		
Mortgages receivable and agreements of purchase and sale of real estate	\$ 3,792,332	\$ 4,157,300
Real estate purchases, development and construction costs	4,512,819	4,282,720
Capitalized interest and carrying charges	2,763,919	2,232,374
Increase in accounts receivable	327,166	—
Investments made	—	568,380
Loans and mortgages payable		
Assumed by purchasers on sale of real estate	876,235	1,883,280
Paid by the Company	9,521,818	5,415,494
Sinking fund debentures	355,338	587,500
Redemption of second preference shares	221,250	—
Settlement of United States civil actions	—	1,145,178
Decrease in accounts payable	1,331,627	—
Net changes in other assets and liabilities	65,413	—
	<u>23,767,917</u>	<u>20,272,226</u>
INCREASE (DECREASE) in cash	<u>1,570,327</u>	<u>(1,470,014)</u>
	<u>\$25,338,244</u>	<u>\$18,802,212</u>

revenue properties company limited

and subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1973

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revenue properties company limited

Throughout these notes "the Company" refers to Revenue Properties Company Limited, its consolidated subsidiaries and its consolidated joint ventures unless the context indicates otherwise.

1. Principles of consolidation

- (a) The consolidated financial statements include the accounts of all companies in which Revenue Properties Company Limited holds more than 50% of the voting equity.

Consolidated companies include the following principal active subsidiaries:

	<u>Ownership %</u> <u>1973 and 1972</u>
Century City Developments Limited	76.25
One Thirty One Bloor West Limited	100
Revcon Developments Limited	100
Revcon Ontario Limited (formerly Revdale Construction Limited)	100
Revenue Properties Central Developments Limited	100
Rusuth Investments Limited	100
Savarin Investments Limited	100

The Rubin Development Corporation is no longer regarded as a principal active subsidiary.

- (b) The accounts of joint ventures which hold real estate for development or sale are not normally consolidated. The Company's investment in such joint ventures is reflected in the consolidated balance sheet as "Investment in an advances to joint ventures not consolidated" using the equity method.

All of the assets, liabilities, revenues and expenses of certain other joint ventures are included in the consolidated financial statements because these joint venture agreements provide that the Company (i) is responsible for all financing required and (ii) has a 100% interest in real estate held for development or sale, subject only to the participation by others in net profits or losses. The Company's participation in these joint ventures varies from 70% to 90%.

2. Accounting policies

(a) *Capitalization of costs*

- (i) Land held for development or sale — Acquisition costs, realty taxes, other direct carrying costs and appropriate interest are capitalized.

- (ii) Construction of buildings — Direct costs and appropriate overhead and interest are capitalized.

All estimated costs of servicing land which has been sold are accrued.

With respect to construction projects, the construction period is generally considered to have ended when a rental occupancy of approximately 70% has been achieved, providing that there have been no abnormal delays in construction or rental.

- (iii) Change in accounting practice — In the period April 1, 1970 to December 31, 1972 certain interest with respect to Century City Developments Limited was not capitalized because of the uncertainty of the future realizable value of the lands owned by this company. Because of changing conditions the Company decided to adopt its normal practice of capitalizing such interest (amounting to \$851,516 in 1973) and to adjust the financial statements retroactively as follows:

- by increasing interest capitalized and decreasing interest charges for 1972 by \$649,354
- by increasing in 1972 current taxes subject to reduction and increasing the income tax reduction on application of prior years' losses by \$325,000
- by decreasing the deficit and increasing real estate held for development or sale at the beginning of 1972 by \$1,091,715.

The adjustment to deficit does not show a related increase in tax expense of \$568,000 as the application of prior years' losses decreases the tax expense by a similar amount.

(b) *Recognition of income*

Income from the sale of real estate is recognized in accordance with the guidelines published by the Ontario Securities Commission in 1969.

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

(c) *Depreciation on revenue producing real estate*

Depreciation is provided using the straight-line method, based on the estimated useful lives of the various assets as follows:

Buildings	40-50 years
Furniture and equipment	10 years

(d) *Financing costs*

- (i) Costs incurred on the issue of debentures are amortized on a straight-line basis over the terms of the debentures with the unamortized balance of costs applicable to debentures redeemed or refinanced being written off as redemption or refinancing occurs.

At the end of a fiscal period the estimated currency adjustment (see notes 12(a) and 12(d)) which is applicable to those sinking fund payments falling due within one year is charged against income.

revenue properties company limited

(ii) Finders' fees and similar charges, which relate mainly to the obtaining of financing by way of mortgages and other loans payable of short-term durations, are written off as incurred except where they are capitalized as part of the cost of real estate held for development or sale.

(e) *Deferred income taxes*

Certain provisions of the Income Tax Act are used which have resulted in the deferral of income taxes otherwise currently payable. Such provisions relate mainly to (i) reserves deducted for tax purposes when real estate was sold and mortgages taken back as partial consideration, (ii) depreciation claimed for tax purposes in excess of depreciation recorded in the accounts and (iii) interest, overhead and other carrying charges deducted for tax purposes although capitalized in the accounts as a cost of real estate.

3. Accounts, rents and other receivables

	1973	1972
Subdivision deposits and construction contracts	\$ 618,141	\$ 900,401
Notes and loans	154,984	294,984
Interest	194,427	463,320
Rents and miscellaneous	1,029,952	696,719
Net receivable from expropriations	685,086	—
	<u>\$2,682,590</u>	<u>\$2,355,424</u>

4. Mortgages receivable

Mortgages on properties sold, including \$4,028,031 on certain properties leased back or managed (see note 16), mature at various dates to 1999. Interest rates vary from 5¼% to 9½%, weighted average 7.6%.

1974	\$ 324,902
1975	232,447
1976	778,062
1977	741,599
1978	295,553
1979 and subsequent	8,006,257
	<u>10,378,820</u>

Second mortgages on sold housing units mature at various dates to 1995
(interest rates vary from 6¾% to 10%)

458,068
\$10,836,888

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

5. Real estate held for development or sale

	1973	1972
Land		
Unimproved	\$21,755,780	\$19,587,041
Serviced	1,932,104	2,817,654
Serviced — leasehold interest	—	618,257
Housing units		
Land	126,500	377,282
Buildings	499,419	431,852
	<u>\$24,313,803</u>	<u>\$23,832,086</u>

Real estate held for development or sale is shown at cost less an accumulated provision for losses of \$364,396 (\$656,569 in 1972) in recognition of declines in value of certain properties. Unimproved and serviced freehold land at the balance sheet date was increased by carrying charges of \$2,344,677 (\$1,825,575 in 1972 as restated). See change in accounting practice note 2(a)(iii).

If the Ontario Government's land use planning as proposed in its Toronto Centered Region Plan is carried out, future development of the Company's 5,400 acres in the Uxbridge, Ontario area may be limited.

6. Revenue producing real estate

	1973	1972
Buildings and improvements, at cost	\$35,615,265	\$34,264,045
Furniture and equipment, at cost	486,957	448,623
	<u>36,102,222</u>	<u>34,712,668</u>
Less accumulated depreciation	7,004,611	6,122,922
	<u>29,097,611</u>	<u>28,589,746</u>
Land, at cost	3,091,364	3,091,364
	<u>\$32,188,975</u>	<u>\$31,681,110</u>

7. Investment in and advances to joint ventures not consolidated

	1973	1972
Mortgages receivable	\$ —	\$ 1,441,260
Other investments and advances, equity basis	3,983,930	3,211,146
	<u>\$ 3,983,930</u>	<u>\$ 4,652,406</u>

The Company's share of profits or losses in these joint ventures varies from 33% to 75% (40% to 75% in 1972).

The Company is contingently responsible for all the liabilities of the joint ventures, but the Company has recourse to all of each joint venture's assets as well as the assets of the other participants to the extent it is required to pay liabilities in excess of its proportionate share.

revenue properties company limited

JOINT VENTURES NOT CONSOLIDATED

Combined Balance Sheet

December 31, 1973

(with comparative figures at December 31, 1972)

ASSETS		
	1973	1972
Cash and short-term deposit	\$ 586,284	\$ 221,848
Accounts receivable and sundry assets	656,987	463,877
Balance receivable for land sold under agreements of purchase and sale	777,750	—
Mortgages receivable	340,756	566,772
Real estate held for development or sale, at cost (see (a) below)	18,862,238	11,607,532
	<u>\$21,224,015</u>	<u>\$12,860,029</u>
LIABILITIES		
Bank indebtedness, secured	\$ 692,327	\$ 344,190
Accounts payable and accrued liabilities	2,172,658	1,719,436
Purchasers' deposits	518,854	—
Loans and mortgages on real estate held for development or sale		
Payable to the Company	—	1,441,260
Payable to others (see (b) below)	11,245,093	4,493,563
Deferred income (see (c) below)	103,039	153,039
	<u>14,731,971</u>	<u>8,151,488</u>
PARTICIPANTS' EQUITY		
The Company	3,983,930	3,211,146
Others	2,508,114	1,497,395
	<u>6,492,044</u>	<u>4,708,541</u>
	<u>\$21,224,015</u>	<u>\$12,860,029</u>

JOINT VENTURES NOT CONSOLIDATED

Combined Statement of Income

Year ended December 31, 1973

(with comparative figures for 1972)

	1973	1972
Revenue		
Real estate sales	\$ 996,000	\$ 1,746,622
Rentals	1,311,384	1,489,023
Interest	63,425	61,760
	<u>2,370,809</u>	<u>3,297,405</u>
Expenses		
Real estate cost of sales	558,086	1,630,337
Property operating	1,298,829	1,711,741
Administration and general	20,640	9,015
	<u>1,877,555</u>	<u>3,351,093</u>
Income (loss) for the year before the undernoted item	493,254	(53,688)
Net transfer from deferred income (see (c) below)	50,000	—
Net income (loss) for the year	<u>\$ 543,254</u>	<u>\$ (53,688)</u>

JOINT VENTURES NOT CONSOLIDATED

Combined Statement of Participants' Equity

Year Ended December 31, 1973

(with comparative figures for 1972)

			1973	1972
	The Company	Others	Total	Total
Balance at beginning of year	\$3,211,146	\$1,497,395	\$4,708,541	\$4,229,565
Net contributions	397,694	842,555	1,240,249	532,664
	3,608,840	2,339,950	5,948,790	4,762,229
Net income (loss) for the year	375,090	168,164	543,254	(53,688)
Balance at end of year	<u>\$3,983,930</u>	<u>\$2,508,114</u>	<u>\$6,492,044</u>	<u>\$4,708,541</u>

Notes to the combined statements of joint ventures not consolidated

(a) *Real estate held for development or sale*

Land	1973	1972
Unimproved	\$ 6,327,217	\$ 6,800,732
Serviced	5,460,472	2,274,196
Serviced — leasehold interest	1,329,911	184,325
Industrial and commercial properties	3,145,905	2,348,279
Residential properties		
Under construction	2,598,733	—
	<u>\$18,862,238</u>	<u>\$11,607,532</u>

Unimproved and serviced freehold land at the balance sheet date was increased by carrying charges of \$289,785 (\$440,445 in 1972).

(b) *Loans and mortgages on real estate held for development or sale*

Mortgages payable mature at various dates to 2024. Interest rates vary from 6% to 11%, weighted average 8.6%.

1974	\$ 4,538,249
1975	2,157,676
1976	1,024,927
1977	898,825
1978	450,076
1979 and subsequent	2,175,340
	<u>\$11,245,093</u>

(c) *Deferred income*

Deferred income represents the gains on sale and leaseback transactions. One lease was terminated during the year and \$50,000 of the \$153,039 deferred at December 31, 1972 was taken into income during the year. The amount deferred at December 31, 1973 will be taken into income in 1974 when the remaining leaseback agreement is terminated (see (d) below).

(d) *Lease obligations*

Annual rents under a leaseback of an apartment project in a joint venture are \$400,000. As the vendor conditions contained in the sale agreement have been met, the leaseback will terminate on March 31, 1974.

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Long-term land leases expiring in 2067 were sold to a joint venture by the Company during 1973 and 1972 and the accumulated cost thereof is reflected in "Serviced land — leasehold interest" (see (a) above). The annual lease payments are \$115,000.

(e) *Interest on long-term debt*

The joint ventures incurred interest on long-term debt as follows:

	<u>1973</u>	<u>1972</u>
Charged to property operating	\$ 38,977	\$ 124,481
Capitalized	418,300	288,013
	<u>\$ 457,277</u>	<u>\$ 412,494</u>

8. Investment in and advances to associated company

	<u>1973</u>	<u>1972</u>
Century Homes of Barrie Limited (formerly Canadian Century Homes Limited)		
Shares, at cost	\$ 1,145	\$ 1,145
Advances and mortgages receivable	260,489	911,697
	261,634	912,842
Share of retained earnings	28,804	28,804
	<u>\$ 290,438</u>	<u>\$ 941,646</u>

The Company owns 50% of the outstanding voting common shares and 100% of the outstanding non-voting participating Class A shares of Century Homes of Barrie Limited, representing a 75% equity interest therein.

9. Due to shareholders

The amount of \$1,628,000 is secured by an assignment of certain assets of the Company having a book value of approximately \$3,000,000 at December 31, 1973 and which are pledged against loans payable of \$1,150,000. The amount due to shareholders is repayable with interest at 12% per annum as follows:

February 1, 1975	\$ 788,000
February 1, 1976-78 inclusive	\$ 100,000 per annum
February 1, 1979	\$ 540,000

10. Loans payable

Loans payable mature as follows:

1974	\$3,121,082
1975	1,925,000
1976	850,000
	<u>\$5,896,082</u>
Range of interest rate	10½% to 12½%
Weighted average interest rate	11.4%

11. Mortgages payable

Mortgages payable mature as follows:

	Secured by		
	Land sold under agreements of purchase and sale	Real estate held for development or sale	Revenue producing real estate
Arrears re Century City (see note below)		\$ 2,228,741	
1974	\$ 100,000	1,677,430	\$ 6,437,259
1975		994,995	1,677,443
1976		2,486,282	1,754,836
1977		146,000	1,058,606
1978		272,500	1,105,478
1979 and subsequent		354,788	10,250,499
	<u>\$ 100,000</u>	<u>\$ 8,160,736</u>	<u>\$22,284,121</u>
Range of interest rates	10¼ %	6% to 12½ %	5¼ % to 12%
Weighted average interest rate	10¼ %	8.6%	9%
Latest maturity	1974	1995	1996

Certain payments on Century City mortgages have not been made since May 1970 (see arrears above), and interest is in arrears on such mortgages in the amount of approximately \$1,011,000 at December 31, 1973. In addition certain 1973 realty taxes have not been paid. Some mortgagees have commenced proceedings and issued writs of foreclosure to enforce their security. The Company is defending these actions.

12. 9% Convertible sinking fund debentures

	Principal		Maturity Date
	December 31, 1973	December 31, 1972	
(a) Series A	\$ 1,881,000	\$ 1,904,000	May 15, 1976
Series B	1,259,500	1,342,250	June 1, 1981
Series C	5,000,500	5,128,750	Feb. 15, 1981
Series D	3,678,500	3,807,500	June 15, 1981
	<u>11,819,500</u>	<u>12,182,500</u>	
Add currency adjustment (note 2(d)(i))	109,125	54,560	
	<u>\$11,928,625</u>	<u>\$12,237,060</u>	

(b) Sinking fund payments due November 15 annually

Series A	\$50,000 to 1975
Series B	Consolidated and shared by the Series B, C and D debentures rateably in proportion to the principal amount of each series outstanding on the October 5 immediately preceding the sinking fund payment date. Payments are \$500,000 in 1974 and 1975, and \$1,550,000 in 1976 to 1980 inclusive.
Series C	
Series D	

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Prior to December 31, 1972 the Company had purchased for cancellation \$46,000 principal amount of Series A debentures. During 1973 the Company purchased an additional \$23,000 principal amount of Series A debentures bringing the total principal amount available as a sinking fund credit to \$69,000. On November 15, 1973, \$50,000 of such principal amount was applied as a sinking fund credit leaving a balance of \$19,000 available at December 31, 1973.

The Company has satisfied its 1973 sinking fund payment requirements in respect of the 9% Convertible sinking fund debentures.

During 1973 the Company purchased \$92,000 Series B, C and D debentures. At December 31, 1973 the Company held \$265,500 such debentures which, as outlined in (c) below, cannot be used to meet sinking fund requirements but their purchase may be reimbursed from cash held by the trustee, subject to certain restrictions. The purchase of \$120,000 of such debentures was reimbursed during 1973 from cash so held.

(c) *Sinking fund credit*

Although all series of debentures may be purchased or redeemed at prices not in excess of their redemption prices, Series A debentures are the only series which qualify for sinking fund credit.

The Company may be reimbursed for its purchase of any series of debentures from cash held by the trustee, up to a maximum of 80% of the redemption price of the purchased debentures, provided that the aggregate reimbursements for Series B, C and D debentures in any one fiscal year is limited to 50% of that fiscal year's consolidated sinking fund payment.

(d) *Currency adjustment*

Series C and D principal and interest payments are subject to 25% maximum adjustment (increase or decrease) dependent upon the market exchange rates of Canadian and Federal Republic of Germany currencies (note 2 (d)(i)).

(e) *Convertible features*

Each series is subdivided into four equal separate sub-series. The principal amount of such sub-series (Series C and D sub-series being adjusted for the currency relationship noted in (d) above) may be converted into common shares at any time prior to maturity as shown below:

<u>Sub-series</u>	<u>Conversion price for one common share</u>
I	\$2.00
II	\$3.00
III	\$4.00
IV	\$5.00

The above conversion prices are subject to anti-dilution provisions.

(f) *Redemption*

The debentures are redeemable on or before maturity, in order of sub-series I to IV, at par plus accrued interest (adjusted for the currency adjustment noted in (d) above).

(g) *Security*

These debentures, Series A to D inclusive, rank equally and are secured by fixed and specific charges on certain mortgages receivable, certain revenue producing real estate, certain real estate held for development or sale and by a first floating charge on the assets and undertaking of Revenue Properties Company Limited. Substantially all of these mortgages receivable and real estate also secure various indebtedness which ranks in priority to this charge.

13. 7½% Convertible subordinated sinking fund debentures

(a) *Convertible features*

These 7½% convertible subordinated sinking fund debentures Series A in the amount of \$921,000 are due June 30, 1988 and are convertible into common shares of the Company on or before June 30 in the years 1978 at \$7.53 per share, 1983 at \$8.91 per share and 1988 at \$10.57 per share.

The conversion prices are subject to downward adjustment in the event that the Company issues any additional common shares, as defined, for a consideration per share different from the conversion price in effect immediately prior to the issuance of such shares. Of the shares reserved for possible issuance as set out in note 15(b) only those described in note 15(b)(iv) relating to the 9% convertible sinking fund debentures would affect the conversion prices. No debentures were converted during 1973.

(b) *Sinking fund requirements*

Under the terms of the Trust Indenture, a sinking fund is required to be established for the retirement of \$700,000 aggregate principal amount of the debentures on June 30 in each of the years 1979 to 1988 inclusive. Since debentures converted into common shares and otherwise cancelled, amounting to \$6,079,000 to December 31, 1973, can be applied against such sinking fund requirements, no sinking fund payments will be required until at least 1987. The Company purchased \$65,000 principal amount of debentures for cancellation during 1973.

(c) *Redemption*

These 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.

(d) *Subordination*

These debentures are subordinated to the prior payment in full of the sinking fund debentures referred to in note 12 and of certain other prior indebtedness.

(e) *Dividend restrictions*

There are restrictions concerning payment of dividends under the terms of the Trust Indenture.

14. Deferred income

Deferred income includes profits on certain transactions as follows:

	<u>1973</u>	<u>1972</u>
Deferred profit on sales to joint ventures in which the Company has an interest	\$ 501,329	\$1,516,690
Unamortized profit on sale and leaseback and similar transactions which will be amortized at the rate of approximately \$135,000 per annum	<u>3,048,805</u>	<u>3,186,432</u>
	<u>\$3,550,134</u>	<u>\$4,703,122</u>

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15. Capital stock

(a) During 1973, the Company issued 1,082,000 common shares as follows:

- (i) 1,062,000 common shares were issued for cash as the result of Series A 1961 warrants being exercised at \$1.1251 per share.

On the exercise of the Series A 1961 warrants, 22,125 second preference shares were issued and were immediately redeemed. The appropriation reserve and authorized preference share capital have been decreased accordingly.

- (ii) 20,000 common shares were issued for cash to an officer and director on exercise of options at \$.50 per share.

During 1972 the Company issued 2,100,827 common shares for cash as follows:

- (i) by exercise of warrants 4,200 shares
(ii) by rights offering 1,096,627 shares
(iii) by private placement 1,000,000 shares

(b) The Company has reserved 5,160,850 common shares for possible issue as follows:

- (i) 7½ % Convertible subordinated sinking fund debentures — \$921,000

The conversion of these debentures at \$7.53 per share would result in the issue of 122,300 common shares. Additional common shares would also be reserved if the conversion price were to decline as the result of future share issues at prices below \$7.53 per share (see note 13(a)).

- (ii) Series B. 1965 Warrants

Warrants to purchase 504,750 common shares at a price of \$2.17 per share, on or before June 1, 1975 are outstanding.

- (iii) Stock options

Options to purchase 42,000 common shares are held by three directors and officers as follows:

<u>Terms</u>	<u>Price</u>	<u>No. of Shares</u>
3,000 shares in each of the 4 five-year periods ending October 9, 1974 to 1977 inclusive	\$1.95	12,000
5,000 shares in the five-year period ending September 30, 1979	\$0.50	5,000
5,000 shares in each of the 5 five-year periods ending September 19, 1977 to 1981 inclusive	\$0.63	25,000

- (iv) 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 12(d), would result in the issue of approximately 4,491,800 common shares.

16. Lease and similar obligations

Payments	Sale and leasebacks (a)		Long-term land leases (b)	Management agreement (c)
	Leases in effect	If leases terminated or forfeited		
1974	\$ 1,833,000	\$ 326,000	\$ 242,000	\$ 716,000
1975	1,833,000	326,000	242,000	716,000
1976	1,829,000	322,000	242,000	716,000
1977	1,825,000	318,000	242,000	716,000
1978	1,815,000	308,000	241,000	716,000
1979 and subsequent .	18,060,000	1,356,000	17,179,000	12,984,000

- (a) Under certain of the lease agreements relating to revenue producing properties which were sold and leased back, the lessor is to be paid a percentage of rentals in excess of a specified amount.

Certain of the lease agreements contain clauses relating to the termination or forfeiture of the lease by the Company and cessation of all liability thereunder upon payment of a specific amount pertaining to each such lease, the total amount of such payments being \$1,745,000.

The rents included above for leases, whose latest year of expiry is 1999, are exclusive of participating rents, realty taxes, insurance, maintenance and repairs, and similar expenses.

- (b) The rents included above for long-term land leases, whose latest year of expiry is 2067, are exclusive of realty taxes.
- (c) The Company sold certain properties in prior years and entered into an agreement with the purchaser concerning operation and management by the Company of the properties until 1999. Under the agreement the Company is required to (i) pay annually to the purchaser a return of 8.25% to 9% before income taxes on the purchaser's invested equity, and (ii) make payments on the mortgages on the properties or, following discharge of any or all of the mortgages, pay annually 50% of the amounts previously payable thereon, to the purchaser. The aggregate of (i) and (ii) so payable are included in the payments detailed above. In addition, the purchaser is entitled to participate in net revenue, as defined, in excess of a stated amount for each of the properties.

The Company may terminate the contract and its liability thereunder by forfeiting a mortgage of \$350,000 taken back by the Company on the sale of the properties. That mortgage is included in "Mortgages receivable" in the consolidated balance sheet.

17. Contingent liabilities

- (a) The Company will be required to repurchase on May 15, 1974 a group of approximately 130 residential first mortgages, bearing interest at approximately 9%, maturing in 1994 and having an aggregate outstanding principal balance of approximately \$2,000,000 at December 31, 1973, at a price of \$98.25 per \$100 principal then outstanding. The company has received an offer to purchase these mortgages.
- (b) There are other miscellaneous contingent liabilities of the Company totalling \$350,000.
- (c) See also notes 7 and 18.

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18. Legal proceedings

Legal proceedings to which the Company is currently a party are outlined below:

- (a) A civil action in which the Company is named as a defendant and which claims damages of \$1,250,000 is still outstanding in the United States District Court for the District of Massachusetts. Little pre-trial discovery has been conducted in the action. However, it is the view of counsel, based upon the information presently known to it, that this claim against the Company presents no substantial adverse financial risk except for legal fees and other costs related thereto.
- (b) An action is pending in the Supreme Court of Ontario against the Company, Mr. Alex J. Rubin and Mr. Harry Rubin as defendants. The plaintiff seeks to recover \$3,955,000 with respect to a public offering of common shares and a proposed offering of convertible debentures, and to obtain a declaration that he is entitled to 10% of the dollar value of any future offerings in the United States by the Company. In the opinion of counsel, there is an excellent prospect of successfully defending the action.
- (c) On January 30, 1974, Century City Developments Limited filed a claim in the Federal Court of Canada for additional compensation for approximately 1,100 acres of lands expropriated by the Government of Canada in May, 1973 and for injurious affection to the balance of approximately 5,400 acres of land adjacent thereto.

Because of their contingent nature no provisions are made in the consolidated financial statements with respect to the unsettled actions referred to above.

- (d) See also note 11.

19. Consolidated statement of income

(a) Interest charges	1973	1972
Long-term debt		
Debentures (including the amortization of deferred financing costs and the currency adjustment included in note 12(a))	\$1,478,512	\$1,340,403
Mortgages	2,908,246	2,648,181
Other	974,559	1,248,439
Short-term debt	25,706	14,405
	<u>5,387,023</u>	<u>5,251,428</u>
Less amounts capitalized	<u>2,328,223</u>	<u>1,554,305</u>
	<u>\$3,058,800</u>	<u>\$3,697,123</u>

- (b) Income taxes

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences in 1973 and the tax effect of each were as follows:

Excess of tax over book depreciation	\$ 88,400
Net increase in carrying costs of real estate expensed on tax returns and capitalized on the books	157,000
Prior years' timing differences resulting in tax losses which were applied in the current year	534,200
Net differences resulting from method of deferring incomes for tax and book purposes	(262,700)
Operating loss in a subsidiary company for which future recovery of taxes was provided	(120,100)
Sundry other items	(300)
Deferred tax expense	<u>\$ 396,500</u>

The Company does not anticipate any reduction in deferred income taxes payable in any of the succeeding three years.

Gross tax expense amounted to \$1,364,300 (an effective rate of 60.1%), an amount greater than the amount of \$1,158,200 computed by applying the combined Canadian federal and provincial tax rate of 51% to income before tax. The reasons for this difference are as follows:

	<u>Amount</u>	<u>Percentage of pretax income</u>
Computed "expected" tax expense	\$1,158,200	51.0%
Increase to expected tax expense resulting from		
Operating loss in a subsidiary company for which no future recovery of taxes was provided	126,300	5.6%
Sundry other items	79,800	3.5%
Tax expense	<u>\$1,364,300</u>	<u>60.1%</u>

During the year the Company and certain subsidiaries earned profits which would have been subject to current income taxes except for the application of prior years' losses; such applications resulted in a reduction of income taxes of \$837,800.

(c) Earnings per share

Earnings per share is calculated using the weighted average number of shares outstanding of 13,241,564 in 1973 (11,746,380 in 1972).

The conversion of all convertible debentures or the exercise of outstanding warrants or options would not have a dilutive effect on earnings per share in 1973, and consequently fully diluted earnings per share is not provided.

(d) Salaries and directors' fees of \$262,020 were paid to directors and senior officers in 1973 (\$220,228 in 1972).

20. Restatement and reclassification of 1972 comparative figures

Deficit and real estate held for development or sale at the beginning of the year and the 1972 comparative figures have been restated to reflect the adjustment of interest outlined in note 2(a)(iii).

In addition, the 1972 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1973.

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SUMMARY OF PRINCIPAL HOLDINGS

	Number of Residential Units	Rentable Area (approx. sq. ft.)	% Company Participation
Income-producing property owned			
<i>Industrial:</i>			
Toronto, Ontario and vicinity		1,370,500	100
Montreal, Quebec		767,300	100
<i>Commercial and Residential:</i>			
Montreal, Quebec		69,900	100
City Hall, Saint John, New Brunswick		201,400	100
The Colonnade, Toronto	156	74,200	100
110 Adelaide Street, Toronto		29,500	100
	<u>156</u>	<u>2,512,800</u>	
Income-producing property sold and leased back			
<i>Residential:</i>			
Toronto, Ontario	563		100
Halifax, Nova Scotia	240		100
Saint John, New Brunswick	152		100
<i>Commercial:</i>			
Halifax, Nova Scotia		148,500	100
Toronto, Ontario		106,800	100
<i>Industrial:</i>			
Toronto, Ontario		668,800	100
Montreal, Quebec		159,300	100
	<u>1,111</u>	<u>3,596,200</u>	
<i>Housing units under construction at year end:</i>			
Toronto, Ontario	400		40
Port Elgin, Ontario	20		100
	<u>420</u>		

Land held for development or sale

	<u>Zoned</u>	<u>Approx. Number of Acres</u>	<u>Proposed Use</u>	<u>% Company Participation</u>
<i>To be developed in 1974:</i>				
Orangeville, Ontario	Yes	9	Commercial & Residential	70
Guelph, Ontario	Yes	15	Commercial & Residential	75
Montreal, Quebec	Yes	31	Commercial & Industrial	100
Toronto, Ontario	Yes	9	Residential	100
Oakville, Ontario	Yes	5	Commercial & Residential	37.5
Simcoe, Ontario	Yes	75	Residential	33.3
<i>For future development:</i>				
Guelph, Ontario	No	875	Multiple use	75
Vaughan, Ontario	No	215	Multiple use	40
Port Dover, Ontario	No	93	Multiple use	33.3
Acton, Ontario	No	94	Residential	75
Pickering, Ontario	No	294	Multiple use	75
Oakville, Ontario	No	180	Multiple use	18.75
Uxbridge, Ontario	No	5,400	Multiple use	76.25
Toronto, Ontario	Yes	0.6	Commercial & Residential	50

