

FirstCity



First City Financial Corporation Ltd.

Annual Report

1985

OCT 05 1987 MANAGEMENT

1001 St. Patrick St. W.,  
Toronto, Ontario, Canada  
M5A 1G5

## *Corporate Profile*

First City Financial Corporation Ltd. is a diversified holding and investment company with major subsidiaries operating in the financial, real estate and manufacturing sectors throughout North America. The Company also holds sizable investment positions in Canada's energy and communications industries. Based in Vancouver, Canada, First City Financial is a public company whose common shares are listed on the Toronto Stock Exchange (FCY). Total assets at December 31, 1985 exceeded \$3.7 billion.

First City Financial's principal Canadian subsidiaries include First City Trust Company, a full-service financial institution with a nationwide branch network, and First City Development Corp. Ltd., a real estate company active in both Canada and the United States. The Company's 69% owned, New York Stock Exchange listed subsidiary, First City Industries Inc., (FCY) has additional real estate operations as well as a major presence in the U.S. manufacturing sector through Scovill Inc. Based in Connecticut, Scovill is a diversified manufacturer and marketer of consumer, housing and industrial products.

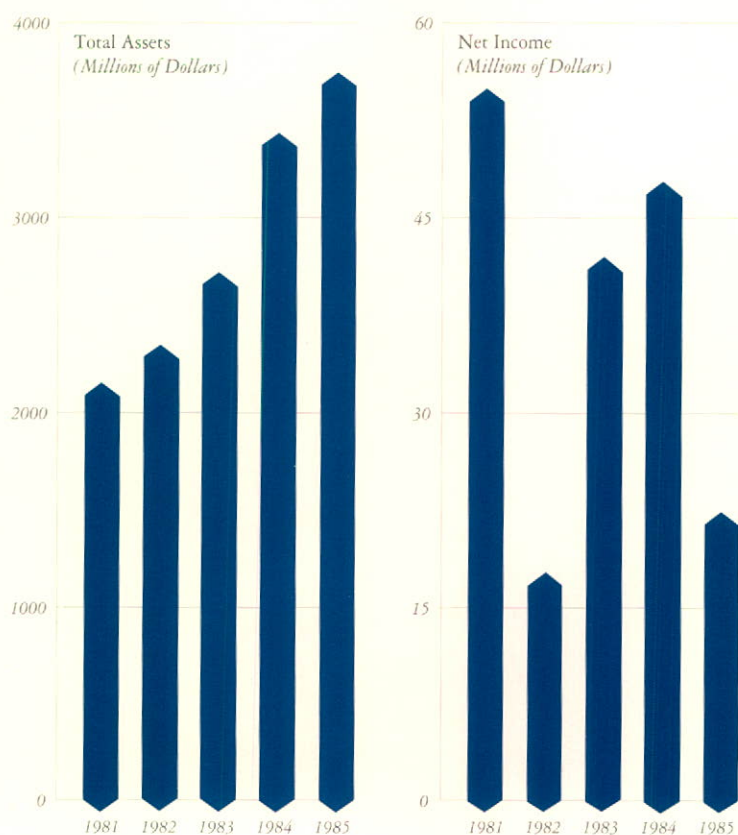
## *Annual Meeting*

Shareholders are invited to attend the Annual General Meeting of First City Financial which will be held at 9:00 a.m. on Friday, May 2, 1986 at the Calgary Convention Centre in Calgary, Alberta.

## Financial Highlights

(In Millions of Dollars – except per share figures)

	1985	1984
For the Year Ended December 31,		
Gross Revenue	\$ 713.7	\$ 644.6
Net Income	22.4	47.7
Earnings Per Share		
Before extraordinary items	1.26	2.52
After extraordinary items	1.12	2.37
At Year End		
Total Assets	\$3,749.6	\$3,447.6
Shareholders' Equity	317.6	286.1
Book Value Per Share	16.17	14.18



## Table of Contents

### FIRST CITY FINANCIAL CORPORATION LTD.

Letter to Shareholders	2
Review of Operations	7
Ten Year Summary	14
Financial Statements	16
FIRST CITY TRUST COMPANY	33
FIRST CITY INDUSTRIES INC.	39
CORPORATE DIRECTORY	45

## *Letter to Shareholders*

1985 was a year of considerable change and expansion for First City Financial, highlighted by the achievement of several key corporate objectives in both Canada and the United States. In Canada, the Company's principal Canadian subsidiary, First City Trust Company, produced strong earnings from its financial intermediary operations and also successfully completed a major restructuring of its business activities. In the U.S., First City took a sizable step on its diversification path by establishing a substantial presence in the industrial sector.

The trust company's 1985 results are particularly gratifying in light of the fact that consumer confidence in Canada's financial services industry was shaken during the year by the failures of several regionally-based institutions. Despite this unsettled environment, First City Trust experienced an expansion of its customer base across the country and enjoyed deposit growth in excess of \$161 million. Additionally, demand for both commercial and residential mortgages continued to increase, and the leasing division had a record year in terms of profit and asset growth.

Another key factor influencing the trust company's earnings was a dramatic 56% decline in loan losses. This resulted primarily from corporate measures initiated in 1984 to address the company's non-performing loans coupled with the strengthening of the western Canadian economy in 1985. By dealing aggressively with its repossessed properties and actively monitoring its ongoing loan portfolio, First City Trust reduced its arrears by 56%. Because of the improved quality of the assets on the balance sheet, further declines in loan losses are projected for 1986.

The completion of a corporate restructuring in 1985 will enable the trust company to sharpen its focus on conventional financial and fiduciary services. As previously reported, this restructuring centered on the sale of a major portion of the trust company's real estate operations to First City Financial. As a result, the 69% interest in First City Industries Inc., a U.S. based real estate development company, and its manufacturing subsidiary, Scovill Inc., are now owned directly by First City Financial.

Through the purchase of Scovill in January 1985, First City has acquired a base of operations in the U.S. industrial sector from which it may further expand. Headquartered in Connecticut, Scovill produces and markets a diversified line of consumer, housing and industrial products. This U.S. \$540 million acquisition is First City's largest to date, and reflects the Company's ongoing strategy of diversifying into new areas of business that have a wider geographic scope of operation. It is also consistent with First City's objective of acquiring growth-oriented companies with professional management already in place. Scovill has additional strength in that many of its products enjoy leadership sales positions in their respective markets. The Scovill acquisition was structured as a leveraged buyout, with the majority of the purchase price financed through borrowings made directly by Scovill.



*Samuel Belzberg*

An integral part of First City's corporate philosophy is to build net worth by annually reinvesting a substantial portion of earnings back into the Company. Over the past five years, shareholders' equity has grown by 340%. In addition, First City continues to maintain a strong emphasis on liquidity to allow for maximum investment flexibility. At year-end, the Company had cash, short term investments and securities totalling \$969 million. In August 1985, as a part of this emphasis, First City successfully completed a U.S. \$53 million 7.75% dual currency bond issue, due in 1995. Net proceeds were added to working capital, thereby strengthening the Company's ability to finance new business and investment opportunities. This issue was underwritten in Switzerland, as were two earlier financings, in order to take advantage of a favourable interest rate climate in the European marketplace.

First City continues to put a high priority on honing its investment and analytical skills to keep abreast of developments in today's rapidly-changing marketplace. The importance of such activities is evidenced by the ongoing expansion of First City Capital Corporation, the Company's wholly-owned merchant banking subsidiary in New York. First City is also in the process of establishing a Canadian merchant banking subsidiary, which will be headquartered in Toronto.

First City Financial's securities and investment portfolio totalled \$584 million at December 31, 1985, an increase of \$67 million from the previous year. The Company's strategy with respect to its portfolio remains unchanged; that is, to conduct activities on the basis of two separate and distinct investment categories. The first involves traditional investments in a diversified group of common stocks, bonds and preferred shares. Revenue generated from such holdings is a regular and expected part of the Company's earnings. The second category involves First City's particular expertise in seeking out and investing in companies whose stock is undervalued or undiscovered in the marketplace. The latter is also an ongoing activity, however, it is not always predictable or regular because of the unique nature of each situation. Revenue derived from such investment positions can fluctuate dramatically and is not necessarily comparable from year to year.

First City believes that the prevailing market price for its common shares does not adequately reflect the underlying values of the Company's assets. For this reason, First City has obtained the approval of the Toronto Stock Exchange to purchase up to five per cent of its outstanding stock on or before December 9, 1986. Any purchases would be made through normal market transactions on the exchange. First City has 20,171,117 shares outstanding, of which 535,070 were purchased under the present bid and an earlier issuer bid which expired in December, 1985.

Subsequent to the year end, Daniel U. Pekarsky resigned his position as President and Chief Operating Officer of First City Financial and Vice Chairman of First City Trust. He will continue to sit on the Board of Directors of both companies and will also serve as a consultant to the Company. On behalf of the Company, its Board of Directors and its employees, I would like to acknowledge the significant contribution he has made to First City's growth and success.

The past year has been an exciting one for First City and we have a number of ambitious plans for 1986. The achievement of our goals is determined by the strengths of our people and we are proud to have such talented and hardworking employees throughout our operations.

Respectfully, on behalf of the Board of Directors,



SAMUEL BELZBERG  
*Chairman of the Board, President  
and Chief Executive Officer*

March 17, 1986  
Vancouver, British Columbia

## Corporate Overview



Note: This chart summarizes First City's major business interests and is not representative of the actual corporate structure.  
All subsidiaries are 100% owned except as indicated.



## *Review of Operations*

Income before extraordinary items for the year ended December 31, 1985 was \$25.1 million or \$1.26 per share compared with \$50.8 million or \$2.52 per share the previous year. The 1984 results included a substantial gain on the sale of an investment position in Gulf Corporation, which totalled \$32.5 million or \$1.61 per share after interest, taxes and associated costs. Excluding the Gulf gain, income before extraordinary items a year ago was \$18.3 million or \$0.91 per share.

Net income, after extraordinary items, was \$22.4 million or \$1.12 per share. An extraordinary loss of \$2.7 million or \$0.14 per share reflects the Company's share of extraordinary losses incurred by Aberford Resources Ltd., a 39% owned oil and gas affiliate. The prior year's results included an extraordinary loss of \$3.0 million or \$0.15 per share, consisting of a loss on the sale of a subsidiary which was partially offset by the benefit of a tax loss carry forward.

Total assets increased to \$3.7 billion at December 31, 1985, a growth of approximately \$300 million from the same date last year. This increase includes the Company's equity investment in Scovill Inc., the manufacturing firm acquired by First City Industries Inc. in January, 1985. Gross revenue was \$714 million compared with \$645 million the previous year. Total common shareholders' equity increased by \$32 million to \$318 million at year end. Book value per common share was \$16.17 compared with \$14.18 at the same date in 1984, an increase of more than 14%. Because the operations of Scovill are so significantly different than the balance of the First City group of companies, Scovill has been accounted for on an equity basis. At December 31, 1985, Scovill's total assets were U.S. \$782 million and for the year its gross revenue was U.S. \$555 million.

Although the Company did not achieve the earnings record established in 1984, particularly as a result of one significant investment gain in that year, cash flow was in excess of \$4.00 per share.

As noted in last year's annual report, we conducted a thorough review of all of our loan and receivables portfolios in 1984 and are pleased to note a significant \$25 million decrease in loan loss provisions in the current year. We continue to actively monitor these portfolios to ensure that this downward momentum in arrears and losses is maintained.

During 1985, we also began to diversify our investment activities, in particular by investing directly in specialized investment partnerships and other vehicles managed by third parties. Our New York merchant banking subsidiary, First City Capital

Corporation, has identified these opportunities and actively manages these and other U.S. securities portfolios for the Company. These investments have proved particularly profitable and provide an excellent basis for investment diversification. The Company has issued U.S. dollar denominated debt, and investments in U.S. assets provide an economic hedge against currency movements as well as U.S. dollar cash flow.

As noted further in this report, the Company's 69% owned subsidiary, First City Industries Inc., incurred a net loss of U.S. \$10.3 million compared with net income of U.S. \$11.2 million in 1984. This significant swing in income directly impacted the Company's earnings, and can be attributed to non-repetitive securities gains recorded in 1984 and to the cost of financing Industries' acquisition of Scovill Inc. in 1985.

The Company has previously reported a 20.9% ownership of H.H. Robertson Company, a U.S. based construction firm. Although we recently obtained proportionate representation on Robertson's Board of Directors and are presently working with the company to enhance its value for all of its shareholders, we felt it prudent to reduce the carrying value of our investment by approximately U.S. \$9 million in the fourth quarter.

#### FIRST CITY TRUST COMPANY

The Company's principal Canadian subsidiary, First City Trust, reported income before extraordinary items of \$17.4 million compared with \$40.9 million the previous year. As with its parent, the trust company's 1984 results included a sizable gain on the sale of an investment position in Gulf Corporation. Net extraordinary income of \$7.1 million was comprised of a \$7.8 million gain on the sale of a major portion of the trust company's real estate assets to its parent and an extraordinary loss of \$652,000. The latter reflects First City Trust's share of extraordinary losses incurred by Aberford Resources Ltd. The 1984 results included an extraordinary loss of \$3.1 million, consisting of a loss on the sale of a subsidiary which was partially offset by the benefit of a tax loss carry forward.

Earnings from First City Trust's financial intermediary operations increased significantly over 1984, reflecting improved spread income and higher volumes of leasing and mortgage business. In addition, loan losses declined sharply in 1985 to \$12 million from \$27 million the previous year. Condensed financial statements and other comments on this subsidiary's activities are contained on page 33 of this report.

#### FIRST CITY DEVELOPMENT CORP. LTD.

First City Development, the Company's wholly-owned real estate subsidiary, invests in, aids in the financing of and develops real estate throughout Canada and the United States. During 1985, the company invested in excess of \$250 million in new real estate ventures and generated gross real estate sales of \$271 million. The overall performance of North America's real estate industry was positively impacted by more stable interest rates and sustained economic growth. The company's residential real estate activity was favorably impacted as a result of these factors. First City Development's investment strategy continues to be focused on projects that can be completed within a one-to-three year time frame, in geographic areas demonstrating good growth potential. Particular emphasis is placed on participating in joint venture projects with local partners who have specialized knowledge of their respective marketplaces and product type, but lack all of the financial resources to undertake their projects.

During 1985, the company continued to increase its investment in the expanding San Francisco residential marketplace. In addition, growth was achieved in the company's shopping centre portfolio in both the U.S. and Canada. Major acquisitions included a 600,000 square foot commercial building in downtown Chicago, which has subsequently been sold on a syndicated basis, as well as the development of ten shopping centres in southern Ontario and Nova Scotia, some of which have been syndicated. In these types of transactions, the company often makes a developer's profit at the time of sale and generally maintains an ongoing residual interest in future profits from the sale of the project that ranges from 25% to 50%. Other new acquisitions included 250 acres of residential land in southern California and several multi-family sites in the Pacific Northwest.

First City Development is projecting substantial profits in 1986 from its Washington, Texas, California, and Arizona divisions, its Canadian shopping centre activities, and residential land development activities. In terms of new investments, the highest priority will be on acquiring real estate in strategic locations that contribute to a well-balanced, geographically-diversified portfolio, in conjunction with partners having financial strength and local expertise.

#### FIRST CITY INDUSTRIES INC.

(All Dollar References refer to U.S. Funds)

First City Industries Inc., the Company's 69% owned subsidiary, significantly expanded the scope of its operations in 1985 through the acquisition of Scovill Inc. This purchase has more than tripled Industries' total assets to in excess of \$960 million at year end. Gross revenue for the year increased to \$626 million from \$118 million for the 14 months ended December 31, 1984. Net loss for the year was \$10.3 million compared with net income of \$11.2 million for the 14 month period a year ago. Included in the 1984 results was a net gain of \$6.4 million on Industries' disposition of its investment in Gulf Corporation. The loss for 1985 can be attributed to a \$1.9 million loss incurred by Scovill and to the interest paid by Industries to finance the acquisition of Scovill. In addition, the Company has not recorded the future tax benefits available from a tax loss carry forward. This benefit will be reported as an extraordinary item when the losses are utilized.

Since the acquisition of Scovill, management has been concentrating on improving Scovill's cash flow and earnings by reducing its debt through the sale of selected divisions and non-essential assets and by reducing overhead and cash invested in current assets. We are projecting positive results from these activities for 1986.

During 1985, Industries' real estate operations continued to emphasize the build-out and sale of residential housing in southern California, Nevada and Arizona. The company delivered fewer housing units to these markets during the year as a result of the close-out of a number of subdivisions in California and reduced market demand in Arizona. The company is currently in the process of preparing new land sites for construction in California and also has newly designed product lines under construction in Arizona. Management anticipates that these activities and lower interest rates will increase this subsidiary's sales and profitability in the coming year.

Condensed financial statements and other comments on this subsidiary's activities are contained on page 39 of this report.

#### ABERFORD RESOURCES LTD.

First City has a substantial investment in Canada's energy sector through its 39% equity interest in Aberford Resources Ltd. Based in Calgary, Alberta, this publicly-listed company has sizable oil and gas properties throughout western Canada, in selected frontier regions of the country and in certain international areas.

In December, Aberford completed a corporate reorganization involving the transfer of all of its mineral assets to a newly-created public company, Abermin Corporation. Headquartered in Vancouver and operating independently, Abermin is managing and developing these assets which include precious and base metal properties as well as coal and uranium deposits in the western provinces, the Yukon and the Northwest Territories. As a result of the reorganization, First City also has a 39% interest in Abermin.

During 1985, Aberford's gross revenues before royalties increased to \$123.7 million from \$121.8 million the previous year. Cash flow from operations was \$50 million, a growth of 17% over the prior year's \$43 million. Income before extraordinary items was \$2.1 million compared with \$5.2 million the previous year. As previously reported, Aberford recorded two extraordinary items in its second quarter which consisted of a \$2.2 million foreign exchange loss on the early retirement of U.S. \$50 million in term notes and a \$4.7 million loss on the disposition of a U.S. mining property.

While the current outlook for crude oil and natural gas prices is extremely uncertain, Aberford's improved balance sheet and strong production base, combined with its cost cutting measures, will enable it to remain competitive. In this new environment, capital investment will be confined to continued development of the company's existing properties.

#### CANTEL INC.

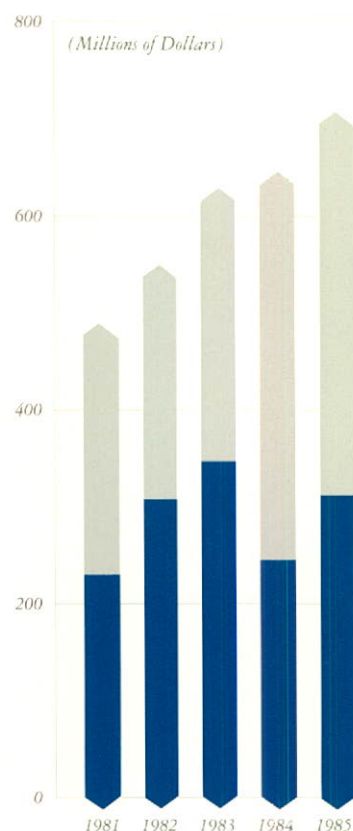
First City has a 30% interest in Cantel Inc. and is one of the founding partners of this privately-held, Canadian communications company. Headquartered in Montreal, Cantel was selected by the federal Department of Communications to provide a mobile cellular telephone service across Canada in competition with local telephone companies. Cellular telephone is a new form of radio telephone communications that is superior to traditional mobile phones.

Cantel's cellular service was launched in July, 1985 and is currently available in nine metropolitan areas of the country. The system is expanding rapidly across Canada and ultimately will become a coast-to-coast cellular network allowing fully portable voice and data communications. The company also recently introduced its Cantel Data Service which enables cellular telephone subscribers to send and receive data between computers or data terminals using their cellular phones.

## Revenue

Gross revenue increased by \$69 million to \$714 million. Investment income increased by \$41 million and real estate revenue increased by \$68 million. Securities and investment gains decreased by \$46 million, reflecting the sale of a major stock position in Gulf Corporation in 1984.

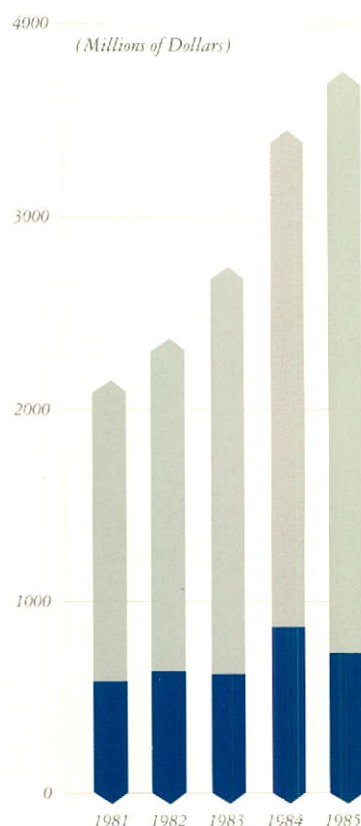
(In Millions of Dollars)	1981	1982	1983	1984	1985
Financial Services ■	268	250	288	397	402
Real Estate ■	222	302	345	248	312
Total	490	552	633	645	714



## Total Assets

As at December 31, 1985, total assets were \$3.7 billion, a growth of \$302 million from the previous year-end. This increase results from the equity investment in Scovill Inc. of \$191 million, a \$67 million expansion of the Company's securities portfolio and a \$179 million increase in First City Trust's loan portfolio. This asset growth has been financed in First City Trust by a corresponding increase in customer deposits, and elsewhere in the operation, through a combination of increases in equity and unsecured debt and use of cash. Over the past five years, total assets have grown at a compounded rate of 18%. The return on average assets for 1985 was 0.70% compared with 1.64% in 1984.

(In Millions of Dollars)	1981	1982	1983	1984	1985
Financial Services ■	1,574	1,736	2,125	2,598	3,046
Real Estate ■	575	635	613	850	704
Total	2,149	2,371	2,738	3,448	3,750

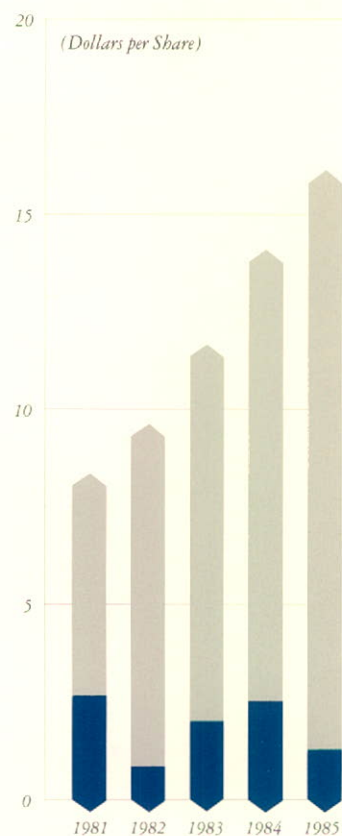


## Book Value and Earnings Per Share

Income before extraordinary items was \$25.1 million, a decrease from \$50.8 million for the previous year. Net income was \$22.4 million, compared with \$47.7 million in 1984.

The 1985 return on average equity was 8.3% compared with 19.4% in 1984 and for the past five years has averaged 20.0%.

(Dollars per Share)	1981	1982	1983	1984	1985
Earnings before Extraordinary Items	2.64	0.89	2.00	2.52	1.26
Book Value	8.47	9.68	11.74	14.18	16.17

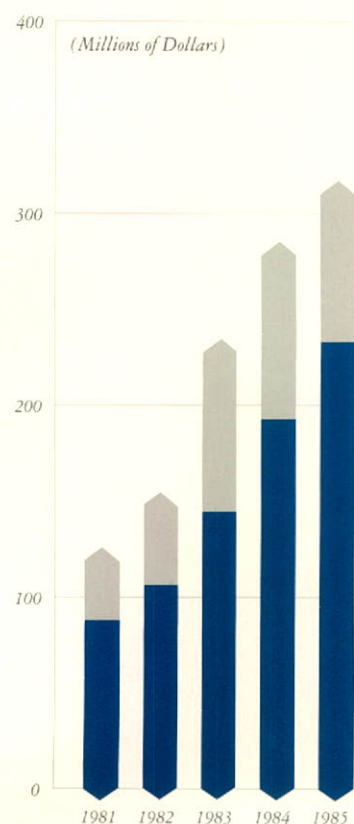


## Shareholders' Equity

Shareholders' equity grew by 11% to \$318 million.

The debt/equity ratio was 3.1:1 at year-end, the same as a year ago, including as debt all liabilities except customer deposits, deferred income taxes and minority interest. The ratio of shareholders' equity to assets at year-end was 8.47% compared with 8.30% last year. When unsecured debt is included, the ratios are 20.52% and 18.89% respectively.

(In Millions of Dollars)	1981	1982	1983	1984	1985
Paid up Capital	38	50	92	92	86
Retained Earnings	89	106	145	194	232
Total	127	156	237	286	318



## Ten Year Summary

(In Thousands of Dollars –  
except for per share figures)

	1985	1984	1983	1982
<b>Balance Sheet</b>				
<b>Assets</b>				
Cash and short				
term investments	\$ 385,600	\$ 512,445	\$ 194,181	\$ 97,748
Securities	583,544	516,966	365,728	241,374
Finance receivables and				
other loans	528,283	401,709	352,501	323,666
Mortgages	1,331,677	1,344,668	1,271,877	1,140,542
Real estate	419,708	409,031	321,796	360,328
Other assets	500,761	262,806	232,256	207,313
<b>Total</b>	<b>\$3,749,573</b>	<b>\$3,447,625</b>	<b>\$2,738,339</b>	<b>\$2,370,971</b>
<b>Liabilities and Equity</b>				
Deposits	\$2,343,853	\$2,182,580	\$1,864,003	\$1,561,268
Other liabilities	434,730	405,800	332,180	413,242
Term debt	552,753	479,685	220,917	162,235
	3,331,336	3,068,065	2,417,100	2,136,745
Deferred income taxes	32,223	22,584	22,779	18,240
Minority interest	68,421	70,916	61,533	59,404
Shareholders' equity	317,593	286,060	236,927	156,582
<b>Total</b>	<b>\$3,749,573</b>	<b>\$3,447,625</b>	<b>\$2,738,339</b>	<b>\$2,370,971</b>
<b>Income Statement</b>				
<b>Revenue</b>				
Mortgage, lease and loan				
interest and dividends	\$ 365,068	\$ 324,452	\$ 274,952	\$ 268,193
Real estate	271,076	202,604	305,179	254,604
Securities and investment				
gains	50,536	96,386	36,914	7,530
Fees and other income (A)	26,134	23,903	16,616	21,112
<b>Total Revenue</b>	<b>712,814</b>	<b>647,345</b>	<b>633,661</b>	<b>551,439</b>
<b>Expenses</b>				
Interest	324,231	267,138	227,231	247,832
Salaries	35,818	31,508	23,866	22,396
Real estate	252,055	181,276	275,908	223,165
Other (B)	67,776	90,621	55,745	39,213
<b>Total Expenses</b>	<b>679,880</b>	<b>570,543</b>	<b>582,750</b>	<b>532,606</b>
Income Taxes	7,855	26,020	13,454	4,700
<b>Income (before extraordinary items)</b>	<b>\$ 25,079</b>	<b>\$ 50,782</b>	<b>\$ 37,457</b>	<b>\$ 14,133</b>
<b>Per Common Share (C)</b>				
Earnings before extra-ordinary items	\$ 1.26	\$ 2.52	\$ 2.00	\$ 0.89
Dividends	\$ 0.30	\$ 0.2875	\$ 0.1625	\$ 0.15
Book value	\$ 16.17	\$ 14.18	\$ 11.74	\$ 9.68

(A) Includes share of affiliates' income (B) Includes minority interest (C) After reflecting 2:1 stock split in 1980 and 1984



1981	1980	1979	1978	1977	1976
\$ 116,946	\$ 63,529	\$ 35,232	\$ 22,452	\$ 34,692	\$ 19,399
240,596	255,696	139,232	99,530	53,324	52,596
274,977	142,382	94,146	44,327	25,421	21,628
959,530	728,153	627,083	496,017	372,538	292,131
383,933	295,073	277,873	138,394	12,815	2,537
173,247	130,035	37,949	25,719	6,884	7,880
<u>\$2,149,229</u>	<u>\$1,614,868</u>	<u>\$1,211,515</u>	<u>\$ 826,439</u>	<u>\$ 505,674</u>	<u>\$ 396,171</u>
\$1,446,703	\$1,075,975	\$ 821,986	\$ 612,045	\$ 425,307	\$ 338,916
413,627	371,739	255,206	92,217	26,631	25,471
110,170	52,315	58,070	50,337	13,267	10,358
<u>1,970,500</u>	<u>1,500,029</u>	<u>1,135,262</u>	<u>754,599</u>	<u>465,205</u>	<u>374,745</u>
15,137	21,379	17,003	15,611	3,865	3,425
36,336	21,243	22,496	24,735	9,478	3,605
127,256	72,217	36,754	31,494	27,126	14,396
<u>\$2,149,229</u>	<u>\$1,614,868</u>	<u>\$1,211,515</u>	<u>\$ 826,439</u>	<u>\$ 505,674</u>	<u>\$ 396,171</u>
\$ 225,002	\$ 128,555	\$ 82,120	\$ 58,547	\$ 44,342	\$ 36,304
189,543	103,072	120,975	20,470	—	—
45,245	6,331	567	2,806	3,821	1,628
26,418	19,539	5,710	4,059	3,516	4,769
<u>486,208</u>	<u>257,497</u>	<u>209,372</u>	<u>85,882</u>	<u>51,679</u>	<u>42,701</u>
224,301	118,891	80,153	48,372	34,062	29,005
20,573	13,482	9,418	5,641	3,452	2,737
165,587	84,406	94,146	15,064	—	—
31,156	21,578	17,236	8,980	7,168	5,696
<u>441,617</u>	<u>238,357</u>	<u>200,953</u>	<u>78,057</u>	<u>44,682</u>	<u>37,438</u>
175	3,934	2,396	2,787	2,858	2,366
<u>\$ 44,416</u>	<u>\$ 15,206</u>	<u>\$ 6,023</u>	<u>\$ 5,038</u>	<u>\$ 4,139</u>	<u>\$ 2,897</u>
\$ 2.64	\$ 1.32	\$ 0.54	\$ 0.45	\$ 0.44	\$ 0.51
\$ 0.10	\$ 0.09	\$ 0.075	\$ 0.06	\$ 0.05	\$ 0.045
<u>\$ 8.47</u>	<u>\$ 4.95</u>	<u>\$ 3.28</u>	<u>\$ 2.82</u>	<u>\$ 2.43</u>	<u>\$ 2.32</u>

*Consolidated Balance Sheet*

<i>December 31, 1985 (In Thousands of Dollars)</i>	<i>Note</i>	<i>1985</i>	<i>1984</i>
<b>Assets</b>			
Cash and short term investments		\$ 385,600	\$ 512,445
Securities	1	583,544	516,966
Finance receivables and other loans		528,283	401,709
Mortgages		1,331,677	1,344,668
Real estate	2	419,708	409,031
Accounts receivable		94,472	74,985
Investment in unconsolidated subsidiary and affiliated companies	3	280,560	69,029
Investment in and advances to joint ventures and partnerships	4	88,383	83,774
Fixed and other assets	5	37,346	35,018
		\$3,749,573	\$3,447,625
<b>Liabilities</b>			
Customer deposits		\$2,343,853	\$2,182,580
Bank indebtedness	6	300,194	282,407
Accounts payable and accrued liabilities		96,700	83,910
Due to related parties	7	33,224	35,825
Term debt	8	552,753	479,685
Deferred income		4,612	3,658
Deferred income taxes		32,223	22,584
Minority interest	9	68,421	70,916
		3,431,980	3,161,565
Contingencies	16		
<b>Shareholders' Equity</b>			
Capital stock	10	74,800	74,815
Contributed surplus		17,402	17,402
Retained earnings		199,537	183,168
Unrealized foreign exchange gain		32,329	10,675
		324,068	286,060
Less cost of common shares in treasury	10	6,475	—
		317,593	286,060
		\$3,749,573	\$3,447,625

Approved by the Board:

Samuel Belzberg  
*Chairman of the Board, President  
and Chief Executive Officer*

Frank D. Jones  
*Director*

*Consolidated Statement of Retained Earnings*

<i>Year Ended December 31, 1985 (In Thousands of Dollars)</i>	<i>1985</i>	<i>1984</i>
Balance, Beginning of Year	\$183,168	\$141,230
Net Income	22,385	47,743
	205,553	188,973
Dividends		
Preferred shares	6	6
Common shares	6,010	5,799
Balance, End of Year	\$199,537	\$183,168
Dividends per Common Share	\$ 0.30	\$ 0.2875

*Consolidated Statement of Income*

<i>Year Ended December 31, 1985 (In Thousands of Dollars)</i>	<i>Note</i>	<i>1985</i>	<i>1984</i>
<b>Revenue</b>			
Investments		\$365,068	\$324,452
Real estate		271,076	202,604
Securities and investment gains		50,536	96,386
Fees and other income		27,023	21,153
		713,703	644,595
<b>Expenses</b>			
Interest on customer deposits		255,551	239,579
Bank, term debt and other interest		68,680	27,559
Cost of real estate sold and property rental expenses		252,055	181,276
Salaries and employee benefits		35,818	31,508
Operating and administrative		42,969	37,375
Provision for losses		13,854	38,646
Depreciation and amortization		7,959	6,285
		676,886	562,228
Income from Operations Before Income Taxes		36,817	82,367
Income Taxes	11	7,855	26,020
Income from Operations		28,962	56,347
Share of Unconsolidated Subsidiary and Affiliates'			
Operating (Loss) Income	3	(889)	2,750
Income Before Minority Interest and Extraordinary Items		28,073	59,097
Minority Interest		2,994	8,315
Income Before Extraordinary Items		25,079	50,782
Extraordinary Items	12	(2,694)	(3,039)
Net Income		\$ 22,385	\$ 47,743
<b>Earnings per Common Share</b>			
Before extraordinary items	13	\$ 1.26	\$ 2.52
After extraordinary items		\$ 1.12	\$ 2.37

*Consolidated Statement of Changes in Financial Position*

Year Ended December 31, 1985 (In Thousands of Dollars)	1985	1984
<b>Sources of Cash</b>		
From operations		
Income before extraordinary items	\$ 25,079	\$ 50,782
Provision for losses	13,854	38,646
Provision for decline in market value of securities	11,583	8,895
Depreciation and amortization	7,959	6,285
Income taxes	7,855	205
Share of operating losses from joint ventures, partnerships and affiliates	179	4,086
Minority interest	2,994	8,315
Other non-cash items	10,544	11,530
	80,047	128,744
Increase in		
Customer deposits	161,273	318,577
Bank indebtedness	17,787	58,249
Accounts payable and accrued liabilities	13,109	3,372
Due to related parties	—	6,811
Term debt	68,814	256,893
Minority interest in unrealized foreign exchange gain	6,294	—
Unrealized foreign exchange gain	21,654	7,230
Decrease in investment in affiliated companies	—	18,069
Issue of common shares	—	3
Other	870	—
	369,848	797,948
<b>Uses of Cash</b>		
Increase in		
Securities	75,273	160,133
Finance receivables and other loans	126,574	49,257
Mortgages	8,863	111,437
Real estate	11,790	89,056
Accounts receivable	19,487	33,472
Investment in unconsolidated subsidiary company	193,247	—
Investment in affiliated companies	19,173	—
Investment in and advances to joint ventures and partnerships	3,899	10,268
Fixed and other assets	7,531	13,449
Decrease in due to related parties	2,601	—
Extraordinary items	2,694	3,039
Purchase of treasury stock	6,475	—
Dividends	6,016	5,805
Dividends paid to minority shareholders	10,022	3,007
Purchase of preferred shares by subsidiaries for cancellation	3,048	645
Other	—	116
	496,693	479,684
(Decrease) Increase in Cash and Short Term Investments	(126,845)	318,264
Cash and Short Term Investments, Beginning of Year	512,445	194,181
Cash and Short Term Investments, End of Year	\$385,600	\$512,445

## *Notes to the Consolidated Financial Statements*

*December 31, 1985 (All Tabular Figures are expressed in Thousands of Dollars)*

### **SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect the following policies:

### **BASIS OF CONSOLIDATION AND PRESENTATION**

The consolidated financial statements include the accounts of the company and certain of its subsidiaries. Scovill Inc., the subsidiary company discussed in Note 3 has not been consolidated as its operations are significantly different from those of the company. Certain subsidiary companies with fiscal year ends other than December 31 are consolidated using financial information for periods ending on November 30.

The company accounts for its investments in an unconsolidated subsidiary company, affiliated companies, joint ventures and partnerships using the equity method. Under this method, the company's share of earnings and losses of these entities is included in income and the company's investment therein adjusted by a like amount. Dividends received from the affiliated companies and drawings from joint ventures and partnerships reduce the investment accounts.

### **SECURITIES**

Bonds are carried at amortized cost and shares are carried at cost less provisions for permanent declines in value. Investments in partnership funds are carried at market value in accordance with generally accepted accounting principles relating to the recording of investment funds.

### **LOANS**

Mortgages and other loans are carried at the principal amount plus accrued interest, less repayments and provisions for losses.

Finance receivables are carried at the contract amount less repayments, unearned income and provisions for losses. Income is recognized in accordance with the financing method of accounting using the sum of the digits method.

### **REAL ESTATE**

Income properties are carried at cost. Where the income properties have been developed by the company, all costs incurred are capitalized until the property has been completed. A property is deemed completed when approximately 70% rental occupancy is achieved, subject to a reasonable maximum time period.

Housing completed and under development (including condominium housing) is valued at the lower of cost and estimated net realizable value. Land and foreclosed property is carried at the lower of cost and estimated net realizable value. Land held for income property development is carried at cost.

## *Notes to the Consolidated Financial Statements*

The company capitalizes direct carrying costs related to real estate projects including specific interest, property taxes, legal fees, and general and administrative expenses that are clearly identified with those projects. In addition, a portion of non-specific interest is allocated to projects. Net rental income from any project that is under development is capitalized until such time as that project is completed or sold. Capitalization ceases when a project is deemed to have reached its net realizable value.

Revenue from the sale of housing units is recognized when construction is completed, the unit is accepted by the purchaser and the purchaser has assumed all existing debt obligations related to the unit and an appropriate down payment has been received.

Revenue from the sale of land and income properties is recognized when all material requirements of the sale agreement have been met, risks of ownership have passed to the purchaser and an appropriate down payment has been received.

### FOREIGN CURRENCY TRANSLATION

Foreign currency assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Revenue and expenses are translated at the average monthly rate of exchange prevailing during the year. Gains or losses from exchange translations are included in income except for gains or losses resulting from the company's net investment in foreign subsidiaries and gains or losses from the translation of term debt. Gains or losses arising from investments in foreign subsidiaries are deferred as a separate component in the shareholders' equity section of the balance sheet while gains or losses arising from term debt are deferred and amortized over the remaining term of the debt.

### DEFERRED INCOME AND OTHER OPERATING REVENUE

Mortgage processing fees are recognized as income by the sum of the digits method over the term of the related mortgage to a maximum of five years. Other mortgage fees and other revenue are included in income as received.

Fee income from real estate equity financing loans is recorded at the time of making a firm commitment to fund a loan. Participation income is recognized as earned and reported by the borrower as stipulated in the loan agreement.

### DEPRECIATION AND AMORTIZATION

Operating income properties in Canada are depreciated principally on a 40 year sinking fund basis and in the United States on a straight-line basis over 40 years. The sinking fund depreciation charge, which increases annually, consists of a fixed annual sum together with an amount equivalent to interest compounded at the rate of 4% per annum.

Fixed assets are depreciated on a straight-line basis over their estimated useful lives, ranging from 5 to 60 years; leasehold improvements are amortized on a straight-line basis over the terms of the related leases.

Issuance costs connected with debt offerings are amortized on a straight-line basis over the term of the related debt.

*Notes to the Consolidated Financial Statements*

## NOTE 1 – SECURITIES

	1985		1984	
	Carrying Value	Market Value	Carrying Value	Market Value
Government and corporate bonds	\$141,607	\$140,669	\$153,637	\$151,296
Common shares	235,764	225,572	287,688	278,342
Preferred shares	61,776	58,327	66,081	57,422
Partnership funds	144,397	144,397	9,560	9,560
	\$583,544	\$568,965	\$516,966	\$496,620

## NOTE 2 – REAL ESTATE

	1985	1984
Income properties		
Under development	\$ 20,854	\$ 18,410
Operating – net of accumulated depreciation of \$937,000 (1984 – \$3,965,000)	62,067	54,346
Housing completed and under development	100,907	78,958
Land under development and held for sale	173,501	195,286
Real estate equity financing receivables	48,183	38,255
Foreclosed property	14,196	23,776
	\$419,708	\$409,031

Depreciation on income properties charged to income for the year amounted to \$1,111,000 (1984 – \$1,642,000).

## NOTE 3 – INVESTMENT IN UNCONSOLIDATED SUBSIDIARY AND AFFILIATED COMPANIES

	1984	Additions (Disposals)	Advances and Other	Share of Income (Loss)	Extra- ordinary Items	1985
Scovill Inc.						
– 69% owned	\$ —	\$193,247	\$ —	\$(2,602)	\$ —	\$190,645
Aberford Resources Ltd.						
– 39% owned	57,593	(6,971)	19,990	1,327	(2,694)	69,245
Abermin Corporation						
– 39% owned	—	6,971	—	—	—	6,971
Other	11,436	1,158	719	386	—	13,699
	\$69,029	\$194,405	\$20,709	\$ (889)	\$(2,694)	\$280,560



*Notes to the Consolidated Financial Statements*

During the year First City Industries Inc. ("FCI"), formerly First City Properties Inc., a 69% owned subsidiary, acquired all of the outstanding common shares of Scovill Inc., a U.S. manufacturing company. The total acquisition price of U.S. \$540 million was initially funded by FCI out of its existing cash balances, bank borrowings and an issue of FCI redeemable preferred shares. The acquisition has subsequently been refinanced by having Scovill arrange bank and term financing in the amount of U.S. \$425 million.

Effective December 31, 1985 the net mineral assets of Aberford Resources Ltd. were transferred to Abermin Corporation pursuant to an agreement dated October 25, 1985.

The following summary information has been taken from the financial statements of Scovill Inc., Aberford Resources Ltd. and Abermin Corporation as at December 31, 1985.

	<i>Scovill</i>	<i>Aberford</i>	<i>Abermin</i>
	<i>(U.S. Dollars)</i>		
Current assets	\$310,098	\$ 52,540	\$ 2,471
Property, plant and equipment	166,773	317,372	28,824
Trademarks and patents	69,350	—	—
Goodwill	150,526	—	—
Other assets	85,049	45,255	12,095
Current liabilities	153,805	47,977	1,640
Other liabilities	71,533	97,454	14,666
Long-term debt	418,700	166,000	—
Shareholders' equity	137,758	103,736	27,084
Revenue	554,705	123,723	—
Net loss	1,914	4,829	—

## NOTE 4 – INVESTMENT IN AND ADVANCES TO JOINT VENTURES AND PARTNERSHIPS

Subsidiary companies' share of real estate joint venture and partnership assets, liabilities, revenues and expenses are as follows:

	1985	1984
Assets	\$209,127	\$183,322
Liabilities	120,744	99,548
Revenues	38,738	48,181
Expenses	38,028	55,017

Included in real estate revenue in the consolidated statement of income for the year ended December 31, 1985 is the company's share of income from joint ventures and partnerships in the amount of \$710,000 (1984 – losses of \$6,836,000).

In certain joint ventures and partnerships the subsidiary companies are contingently liable for the remaining portion of liabilities. The amount of this contingent liability at December 31, 1985 is approximately \$71.3 million against which the subsidiary companies would have claims on the related assets which, in total, are sufficient to meet these obligations.

*Notes to the Consolidated Financial Statements*

## NOTE 5 – FIXED AND OTHER ASSETS

	1985	1984
Fixed assets		
Cost	\$26,014	\$21,193
Accumulated depreciation	10,506	7,940
	15,508	13,253
Prepaid expenses	4,610	4,691
Unamortized debt financing costs	13,277	12,708
Other	3,951	4,366
	\$37,346	\$35,018

## NOTE 6 – BANK INDEBTEDNESS

	1985	1984
On securities investments	\$ 4,195	\$ 34,126
On housing completed and under development	21,048	21,407
On land under development and held for sale	37,284	18,594
General – real estate	176,894	171,656
Unsecured	60,773	36,624
	\$300,194	\$282,407

The majority of the bank loans bear interest at rates which vary with bank prime rate; the weighted average rate of interest at December 31, 1985 was 10.1% (1984 – 11.6%).

The securities investments loans are secured by specific securities. Bank indebtedness on real estate is secured by charges on specific properties. The majority of the real estate general indebtedness is secured by a demand debenture providing a first floating charge over all the assets of two real estate subsidiaries, First City Development Corp. Ltd. and First City Realty Investment Ltd.

## NOTE 7 – DUE TO RELATED PARTIES

	1985	1984
Bel-Fran Investments Limited. and related corporations (controlling shareholders of the company)	\$33,224	\$35,825

The amounts have no specific terms of repayment and bear interest at a weighted average rate of 10.5% (1984 – 12.2%). Total interest charged for 1985 was \$3,691,000 (1984 – \$4,508,000).

*Notes to the Consolidated Financial Statements*

## NOTE 8 – TERM DEBT

	1985	1984
Secured		
On income properties	\$ 38,322	\$ 36,375
On housing and condominium conversions	21,921	16,337
On land	24,014	34,918
On mortgages receivable	16,709	26,839
Unsecured		
Subordinated notes – due 1987	14,350	14,350
Subordinated notes – due 1994	207,131	198,414
12.3% Subordinated notes	38,367	37,339
9% Sinking fund debentures, Series A	1,470	1,530
8¼% Bonds	31,562	31,990
Term notes	9,191	8,985
Dual currency 8¾% bonds	62,613	61,789
Dual currency 7¾% bonds	72,114	—
Accrued interest and other	14,989	10,819
	<b>\$552,753</b>	<b>\$479,685</b>

Secured term debt bears interest at a weighted average rate of 10.5% (1984 – 12.9%).

Subordinated notes totalling \$14,350,000 are due October 15, 1987, and as to \$13,500,000, bear interest at a rate, adjusted quarterly, equal to ¼% per annum over the prime rate of three Canadian chartered banks and as to \$850,000, at a rate of 15.5%.

Subordinated notes totalling \$207,131,000 have been issued by a subsidiary, First City Industries Inc. ("FCI") and bear interest at a weighted average rate of 11.5%. In conjunction with certain of these notes, 2,000,000 warrants have also been issued which are each convertible into one common share of FCI upon payment of U.S. \$16.50. Should all of these warrants be converted into common shares, the company's ownership in FCI would decrease from 69% to 56% and FCI shareholders' equity would increase by U.S. \$33 million. The warrants expire in January 1989.

The 12.3% subordinated notes are due August 31, 1988. At the date of issue, the notes had a face value of U.S. \$30,000,000 (Canadian – \$36,886,000). The notes are redeemable at par plus a decreasing premium until 1987.

The 9% debentures require sinking fund payments of \$150,000 annually to 1991 with \$750,000 due July 1992. The debentures are redeemable at par plus a decreasing premium until 1992.

The 8¼% bonds are due March 10, 1992, and are payable as to principal and interest in Swiss Francs. At the date of issue, the bonds had a face value of 50,000,000 Swiss Francs (Canadian – \$32,645,000). The bonds are redeemable at par plus a decreasing premium until 1991.

The term notes are due April 30, 1990 and bear interest at a rate of 1½% over U.S. bank prime rate to a maximum rate of 16½% and a minimum rate of 12½%. The company can redeem the notes at any time without penalty.

*Notes to the Consolidated Financial Statements*

The dual currency 8¾% bonds are payable as to principal in U.S. dollars and as to interest in Swiss Francs. At the date of issue, the bonds had a face value of 110,000,000 Swiss Francs (Canadian – \$61,488,000). These bonds are repayable in February 1992, which date may be extended to February 1994 at the bondholders' option.

The dual currency 7¾% bonds are payable as to principal in U.S. dollars and as to interest in Swiss Francs. At the date of issue, the bonds had a face value of 130,000,000 Swiss Francs (Canadian – \$72,057,000). These bonds are redeemable in August 1993 at the bondholders' or the company's option and otherwise are repayable in August 1995.

Term debt on housing and condominium conversions will be assumed by the purchasers of such units or discharged out of sale proceeds. Approximate repayments on all term debt are as follows:

On sale of housing and condominium conversions	\$ 21,921
1986	43,344
1987	29,207
1988	49,946
1989	18,865
1990	20,391
1991 and thereafter	369,079
	\$552,753

## NOTE 9 – MINORITY INTEREST

	1985	1984
Minority interest in subsidiary companies		
Common shareholders	\$39,875	\$39,269
Preferred shareholders	28,546	31,647
	\$68,421	\$70,916

## NOTE 10 – CAPITAL STOCK

## Preferred shares

The company is authorized to issue 25,000,000 First Preferred Shares without par value issuable in series and 25,000,000 Second Preferred Shares without par value issuable in series. The company's directors have designated 12,500,000 shares as \$0.6125 First Preferred Shares, Series A with an issue price of \$5.00 each and 12,500,000 shares as \$1.75 Convertible Second Preferred Shares, Series 1 with an issue price of \$20.00 each.

Each First Preferred Share, Series A is cumulative, redeemable at a maximum of \$5.25 per share and retractable at the option of the holder on September 15, 1991 at \$5.00 per share plus accrued and unpaid dividends.

*Notes to the Consolidated Financial Statements*

Each Convertible Second Preferred Share, Series 1 is cumulative, redeemable at a maximum of \$21.00 per share and convertible into common shares at the holder's option at any time prior to September 15, 1986 at \$12.00 per common share and thereafter up to September 15, 1991 at \$13.50 per common share.

	<i>First Preferred Shares</i>		<i>Second Preferred Shares</i>	
	<i>Number</i>	<i>Paid-up Value</i>	<i>Number</i>	<i>Paid-up Value</i>
Outstanding, December 31, 1984	2,200	\$11	3,000	\$60
Repurchased and cancelled	2,200	11	200	4
Outstanding, December 31, 1985	—	\$—	2,800	\$56

**Common shares**

The company is authorized to issue 50,000,000 Class A common shares without par value. As at December 31, 1985, 20,171,117 shares were issued and fully paid (1984 – 20,171,116 shares).

The company is also authorized to issue 50,000,000 Class B fractional voting shares without par value. As at December 31, 1985, there are no Class B fractional voting shares outstanding.

**Common shares in treasury**

The company purchased 526,470 of its Class A common shares pursuant to a Normal Course Issuer Bid under the Securities Act of Ontario, which commenced December 10, 1984 and terminated December 9, 1985. Under its present Normal Course Issuer Bid which commenced December 10, 1985 and which will terminate December 9, 1986 the company has purchased 8,600 shares to date. The company has a right to purchase an additional 973,632 shares under the current bid.

**Common shares reserved**

At December 31, 1985, 4,667 Class A common shares are reserved for issuance in respect of the conversion privilege attached to the Convertible Second Preferred Shares, Series 1.

**Stock options**

On May 3, 1985, the company granted to certain officers options to purchase a total of 125,000 common shares at a price of \$13.625. These options may be exercised at any time until May 2, 1990. To date, no such options have been exercised.

*Notes to the Consolidated Financial Statements*

## NOTE 11 – INCOME TAXES

Income taxes on operating income have been provided as follows:

	1985	1984
Current	\$ —	\$18,666
Deferred	7,855	7,354
	\$7,855	\$26,020

The provision for income taxes does not reflect the statutory income tax rates for the following reasons:

	1985		1984	
Income taxes on income from operations based on statutory rates	\$ 19,145	52.0%	\$ 42,831	52.0%
Non-taxable dividend income	(2,511)	(6.8)	(2,715)	(3.3)
Non-taxable capital gains	(15,662)	(42.5)	(14,210)	(17.2)
Other	6,883	18.6	114	0.1
Provision for income taxes	\$ 7,855	21.3%	\$ 26,020	31.6%

## NOTE 12 – EXTRAORDINARY ITEMS

	1985	1984
Share of affiliated company's extraordinary items	\$(2,694)	\$ —
Share of tax reduction of subsidiary from utilization of a loss carry forward	—	1,920
Loss on sale of affiliated company, net of income taxes	—	(4,959)
	\$(2,694)	\$(3,039)

## NOTE 13 – EARNINGS PER COMMON SHARE

Basic earnings per common share have been calculated on the weighted average number of shares outstanding during each year, net of treasury shares and after payment of preferred share dividends. Fully diluted earnings per common share are not significantly different from basic earnings per common share.

## NOTE 14 – INTEREST EXPENSE

In respect of real estate development operations of subsidiaries, interest for the year totalled \$85,683,000 (1984 – \$58,732,000) of which \$58,823,000 (1984 – \$23,479,000) was charged to operations with the remaining amount being capitalized.

## NOTE 15 – COMMITMENTS

The company's premises and certain equipment are held under long-term leases; the aggregate amount of rentals paid during the year was \$6,147,000 (1984 – \$4,515,000). The aggregate rentals payable under all leases currently in force during the next five years is approximately \$22 million.

Subsidiary companies involved in real estate development have lodged letters of credit aggregating \$33,800,000 with municipalities and utilities as collateral for the fulfillment of various business obligations. Standby letters of credit have been issued by the company in the amount of U.S. \$11,812,500 at December 31, 1985.

*Notes to the Consolidated Financial Statements*

## NOTE 16 – CONTINGENCIES

A subsidiary company is party to several actions commenced in the Supreme Court of British Columbia relating to a real estate project whereby several investors in the project are claiming for damages and for rescission of their agreements to purchase certain interests in the project and claims made by the subsidiary to enforce the agreements of purchase. The actions against the subsidiary involve claims for rescission of purchase agreements having an original aggregate purchase price of approximately \$10.5 million and unspecified damages. The subsidiary is contesting all of the actions against it and believes it has substantial defences to the claims.

In late 1985 the company received notices of reassessment from Revenue Canada, Taxation with respect to the 1978, 1979 and 1980 taxation years claiming additional taxes and interest of approximately \$4 million. The reassessments arise from the income tax treatment of various items including certain gains and losses from security transactions. The company has disputed all of the items reassessed and has filed Notices of Objection. The years 1981 through 1984 are currently under review by Revenue Canada, Taxation. At this time it is not possible to determine whether any liability will ultimately result from the reassessments or the review. Accordingly no provision has been made in the accounts. Any liability, if finally determined, will be accounted for as an adjustment to the income of applicable years.

## NOTE 17 – BUSINESS SEGMENT INFORMATION

Operations and identifiable assets by industry segment are as follows:

	1985	1984
Financial services		
Revenue from third parties	\$ 402,007	\$ 396,022
Income from operations	37,749	51,051
Identifiable assets	3,045,350	2,598,095
Real estate (including First City Industries Inc.)		
Revenue from third parties	\$ 311,696	\$ 248,573
Income from operations	(8,787)	5,296
Identifiable assets	704,223	849,530

Operations and identifiable assets by geographical segment are as follows:

	1985	1984
Canada		
Revenue from third parties	\$ 405,535	\$ 393,167
Income from operations	26,073	33,211
Identifiable assets	2,832,545	2,720,261
United States		
Revenue from third parties	\$ 308,168	\$ 251,428
Income from operations	2,889	23,136
Identifiable assets	917,028	727,364

## NOTE 18 – COMPARATIVE FIGURES

Certain comparative figures for the prior year have been reclassified to conform with the classifications used in 1985.

## *Auditors' Report*

To the Shareholders of  
First City Financial Corporation Ltd.:

We have examined the consolidated balance sheet of First City Financial Corporation Ltd. as at December 31, 1985 and the consolidated statements of income, retained earnings and of changes in financial position for the year 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 company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells  
Chartered Accountants  
Vancouver, British Columbia  
March 17, 1986



*First City Trust Company*



## *First City Trust Company*

First City Trust Company, owned 98.5% by First City Financial, operates a network of savings, leasing and mortgage branches across Canada. Established in Alberta in 1962, the Company today has 750 employees and assets totalling \$2.7 billion. Its corporate head office is in Calgary and its executive offices are in Vancouver.

First City Trust provides a full range of financial services including deposit taking, mortgages, personal and commercial lending, leasing and fiduciary services. Total customer deposits exceeded \$2.3 billion at December 31, 1985, representing a growth of \$161 million from the same date a year ago. Substantial gains were recorded in the Company's registered funds portfolio, reflecting the significant role that RRSP investments play in First City Trust's retail operations.

Its Canada-wide branch network was enhanced during 1985 by the addition of three new branches in growth-oriented marketplaces: Brampton, St. Catharines and Vancouver's Kerrisdale area. Major relocations were also completed at existing branches in Calgary, Edmonton and Guelph. The Company is currently in the process of installing an on-line computer system throughout its branch network which will facilitate the introduction of a range of new retail deposit products and services during 1986. In addition to its branches, First City Trust has one of the most extensive agent networks in Canada, with more than 2,500 independent financial consultants representing its products throughout the country.

1985 was a record year of profit and asset growth for First City Capital, the trust company's leasing division. Its gross portfolio of leases totalled \$430 million at year-end, representing an increase of more than 20% since December 31, 1984. Gross revenue from leases improved by almost 16% during the same period to total approximately \$50 million for the year.

First City Capital has been providing leasing services to Canadian business for more than 15 years and is a dominant force in the industry. It conducts its business through three operating groups which separate their activities according to whether the cost of the equipment to be leased is small, medium or large ticket. In addition, there are two specialized divisions providing leasing services to the medical profession and the oil and gas industry.

Already operating a coast-to-coast network of offices, First City Capital has been hiring additional sales representatives in marketplaces throughout the country where it sees strong growth potential.

First City Trust offers a wide variety of mortgage services through its mortgage branches. During 1985, this Division experienced considerable increases in both commercial and multi-family rental projects, particularly in central and eastern Canada. Total new mortgage fundings reached \$334 million, of which \$268 million involved commercial projects.

Intense competition among Canadian financial institutions for residential mortgages persisted throughout 1985, producing narrower interest spreads for housing loans. As a result, the Division has focused its efforts on providing specialized construction financing for commercial projects as well as fixed rate commercial mortgages to the real estate industry. This emphasis will be maintained and further developed during the coming year.

The Mortgage Division also initiated a number of syndications of large commercial properties with other lenders in 1985, including both banks and trust companies. Through such transactions, First City Trust plays an integral role in major commercial projects and is able to spread the financial risks involved.

In response to sustained economic growth in central and eastern Canada and to increase its share of business in those marketplaces, the Mortgage Division has built a strong marketing team in Ontario, Quebec and the Maritimes. As a western-based company, First City Trust continues to have a strong market share in western Canada. The Division now has the capability of meeting the commercial and multi-family mortgage needs of builders, developers and property owners in all major cities across Canada.

Condensed consolidated financial statements on First City Trust follow this summary. Additional information on the Trust Company can be obtained by requesting a copy of its annual report.

*Condensed Consolidated Balance Sheet*

<i>December 31, 1985 (In Thousands of Dollars)</i>	<i>1985</i>	<i>1984</i> <i>(Note)</i>
<b>Assets</b>		
Cash and short term investments	\$ 337,793	\$ 282,023
Securities	304,695	259,280
Mortgages, leases and other loans	1,761,536	1,582,523
Real estate	204,924	226,331
Net assets sold to parent company	—	50,090
Other	74,135	147,648
	<u>\$2,683,083</u>	<u>\$2,547,895</u>
<b>Liabilities</b>		
Customer deposits	\$2,343,853	\$2,182,580
Bank indebtedness	102,918	98,587
Term debt	59,313	56,766
Other	25,230	45,122
	<u>2,531,314</u>	<u>2,383,055</u>
<b>Shareholders' Equity</b>		
Preferred shares	30,420	33,294
Common shareholders' equity	121,349	131,546
	<u>151,769</u>	<u>164,840</u>
	<u>\$2,683,083</u>	<u>\$2,547,895</u>

*Note: After giving effect to the restructuring and sale of a real estate subsidiary to the Company's parent company.*

*Condensed Consolidated Statement of Income*

<i>Year Ended December 31, 1985 (In Thousands of Dollars)</i>	1985	1984
Revenue		
Investments	\$305,452	\$310,264
Real estate	55,631	202,604
Securities and investment gains	26,040	67,143
Fees and other	18,904	20,446
	406,027	600,457
Expenses		
Interest	265,445	265,125
Real estate	55,361	181,276
Salaries and operating	50,709	63,277
Provision for losses	11,952	27,146
	383,467	536,824
Income From Operations	22,560	63,633
Income Taxes	5,635	19,346
	16,925	44,287
Affiliates' Income and Minority Interest	455	(3,340)
Extraordinary Items	7,151	(3,090)
Net Income	\$ 24,531	\$ 37,857

*First City Industries Inc.*





## *First City Industries Inc.*

(All Dollar References refer to U.S. Funds)

First City Industries Inc., in which the Company has a 69% equity interest, is the parent of a group of companies engaged in manufacturing, real estate development and securities investments. Prior to 1985, Industries was principally involved in real estate development, though it had begun to explore new investment and acquisition opportunities. In January 1985, Industries acquired 94% of the outstanding common stock of Scovill Inc., which was subsequently increased to 100%. The total purchase cost, including related expenses, was approximately \$540 million. Industries financed the acquisition through cash balances and unsecured bank lines, a \$255 million margin debt facility and a \$60 million preferred share issue. In August 1985, Industries restructured the acquisition financing by having Scovill enter into a \$225 million term loan facility and issue \$200 million in Subordinated Debentures and Notes. Proceeds were used to reduce Industries' equity investment to \$125 million.

At the time of the acquisition, Industries was committed to reducing Scovill's acquisition debt through the sale of certain of its business segments. In October 1985, Scovill successfully completed the sale of its wholly-owned subsidiary, Schrader Bellows Inc., for a total purchase price of \$90 million. In March 1986, Scovill signed an agreement to sell Schrader Automotive Inc., a second wholly-owned subsidiary, for a total cash purchase price of \$39 million plus the assumption of debt. The Company will continue to review other business and asset sales in keeping with its stated plan of debt reduction and cash flow improvement.

Scovill is the successor company to a business that had been operating since 1802. At December 31, 1985, Scovill had plants and subsidiaries employing more than 10,000 people in 15 different countries. The Company's strategy is to concentrate on its product lines that hold, or are capable of achieving, leading market sales positions.

#### HAMILTON BEACH

Hamilton Beach is a leading manufacturer and marketer of moderately-priced, small electric kitchen appliances. Its manufacturing facilities are located primarily in the United States. Major product lines include food processors, blenders, electric knives, hand and stand mixers, irons, slow cookers, coffee makers and corn poppers. Approximately 80% of these products are sold under the Hamilton Beach trademark, with the remainder marketed under private labels on a contract basis to mass merchandisers. Hamilton Beach products are sold to distributors for resale through catalogue showrooms, chain discount stores and mass merchandisers.

In June 1985, Scovill exercised an option to acquire 19.9% of the outstanding shares of Moulinex S.A., a leading French manufacturer of small household appliances. The shares, which are listed on the Paris Stock Exchange (Bourse de Paris), were purchased for approximately \$33 million. Scovill has since formed a joint venture between Hamilton Beach and Moulinex to sell the latter company's appliances in the U.S. under the Hamilton Beach Moulinex tradename. The effective date for such sales to begin was January 1, 1986. In addition, it is contemplated that Moulinex facilities in France will supply lower cost components for Hamilton Beach's domestic appliances as well as provide products for Hamilton Beach to sell internationally.

#### YALE SECURITY

Yale Security is a leading manufacturer and marketer of an extensive line of security products, door hardware and closers under the trademarks Yale, Norton, FAS and Yaletronics. Products are sold worldwide through hardware wholesalers and distributors, retail outlets and builders' hardware specialists. Approximately 37% of 1985 sales were accounted for by Yale's foreign units, primarily those located in England and Italy.

In 1982, Yale Security introduced Yaletronics, an advanced electronic security system for hotels, motels and other commercial establishments. It replaces traditional keys with disposable card keys generated by a computer system. To date, the Yaletronics system has been installed in more than 200 hotels. Scovill recently acquired Amtron, a software company specializing in access control programs. Scovill believes that as a result of this acquisition, Yale will continue to increase its participation in the expanding electronic monitoring security systems market.

#### NUTONE

NuTone manufactures and sells a line of built-in electrical housing products primarily in the U.S. under the NuTone trademark. These products are designed for use in new homes and apartments, for renovations and for remodelling. Products include door chimes, intercoms, exhaust fans, heaters, paddle fans, bathroom vanities and accessories, ventilating range hoods, food centres, central vacuum cleaners and radio, stereo and security systems.

NuTone products are sold to electrical products distributors, plumbing, heating, ventilation and air conditioning wholesalers as well as trade suppliers through what Scovill believes is the largest direct sales force in the industry. In addition, NuTone products are sold through approximately 800 NuTone installer-dealers.

#### SCOVILL APPAREL FASTENERS

Scovill Apparel Fasteners and its foreign subsidiaries are leading manufacturers and sellers of fasteners, snaps, metal tack buttons, rivets and burrs, and metal and plastic zippers for the apparel trades and for various non-apparel applications. Approximately 80% of Apparel Fasteners' products are sold directly to apparel manufacturers for inclusion in their finished garments. Apparel Fasteners' products are sold world-wide under the trademarks Gripper, Whippersnap and Sportsnap. As a service to customers, Apparel Fasteners also provides a line of specially designed machines which attach the metal buttons and fasteners.

Scovill Apparel Fasteners operates ten manufacturing facilities, of which two are located in the U.S. Approximately 54% of sales are domestic, with foreign units, principally in Mexico, accounting for remaining sales.

#### FIRST CITY PROPERTIES INC.

First City Industries conducts its real estate operations through First City Properties Inc., a wholly-owned subsidiary. Its activities, which involve both single and multi-family residential development, encompass many aspects of real estate development including land acquisition, site planning and preparation, zoning changes, environmental and other regulatory approvals, construction of on-site and off-site improvements, and the design, construction and sale of the projects themselves.

Properties' single-family residential development and construction operations consist of projects in southern California, Nevada and Arizona. Such projects include those for which Properties acts for its own account, develops through joint ventures, or manages the development and construction on behalf of a third party. Properties constructs both attached and detached residential units including houses, townhomes and condominiums. These units are built and sold in the medium and lower price ranges. Marketing techniques include the use of landscaped and furnished show homes, on-site sales offices, brochures, direct mail pieces and newspaper and outdoor display advertising. Properties is involved to a lesser extent in the development of multi-family projects, principally in southern California.

Properties also engages in land development by acquiring unimproved land for use in its single and multi-family projects, industrial and commercial activities, as well as for sale to others.

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First City Industries' common shares are listed on the New York and Pacific stock exchanges. Condensed consolidated financial statements follow this summary. Additional information on First City Industries and its operating subsidiaries can be obtained by requesting a copy of its annual report.

*Condensed Consolidated Balance Sheet*

<i>December 31, 1985 (In Thousands of U.S. Dollars)</i>	1985	1984
<b>Current Assets</b>		
Cash	\$ 41,210	\$122,422
Accounts receivable	115,188	8,419
Inventories	223,274	88,982
Net assets related to discontinued operations	53,266	—
Other	16,811	39,199
	449,749	259,022
Unconsolidated Affiliates	88,072	8,625
Property, Plant and Equipment	167,449	1,007
Goodwill	150,526	—
Trademarks and Patents	69,350	—
Other	42,698	45,561
	\$967,844	\$314,215
<b>Current Liabilities</b>		
Notes payable	\$ 53,970	\$ 36,031
Accounts payable	131,192	14,869
	185,162	50,900
<b>Long Term Liabilities</b>		
Notes payable	233,538	23,163
Subordinated debt	345,526	145,087
Other	71,855	694
	650,919	168,944
<b>Shareholders' Equity</b>		
Preferred shares	40,000	—
Common shareholders' equity	91,763	94,371
	131,763	94,371
	\$967,844	\$314,215

*Condensed Consolidated Statement of Income*

<i>Periods Ended December 31 (In Thousands of U.S. Dollars)</i>	1985	1984
	<i>(12 months)</i>	<i>(14 months)</i>
Revenue		
Sales	\$612,085	\$ 84,395
Interest and other	13,537	33,843
	625,622	118,238
Costs and Expenses		
Cost of sales	440,343	76,358
Selling, general and administrative	128,345	9,295
Interest	60,684	14,001
Other	7,001	—
	636,373	99,654
Income (Loss) Before Income Taxes	(10,751)	18,584
Income Taxes	1,058	8,606
Income (Loss) From Continuing Operations	(11,809)	9,978
Discontinued Operations	1,535	—
Extraordinary Item	—	1,179
Net Income (Loss)	\$ (10,274)	\$ 11,157

# Corporate Directory

## FIRST CITY FINANCIAL CORPORATION LTD.

### BOARD OF DIRECTORS

Senator David A. Croll, *Q.C.*  
*Honourary Chairman of  
the Board*  
Toronto, Ontario

Samuel Belzberg\*†  
*Chairman of the Board*  
Vancouver, B.C.

Hyman Belzberg  
Calgary, Alberta

William Belzberg\*  
Los Angeles, California

V. Edward Daughney  
Vancouver, B.C.

W. Bernard Herman, *Q.C.*†  
Toronto, Ontario

Frank D. Jones, *Q.C.*†  
Edmonton, Alberta

Senator William M. Kelly  
Toronto, Ontario

Garth C. Kennedy  
Regina, Saskatchewan

Morley Koffman, *Q.C.*\*  
Vancouver, B.C.

Irving Ludmer  
Montreal, Quebec

Roderick R. McDaniel  
Calgary, Alberta

Daniel U. Pekarsky  
Vancouver, B.C.

Joseph H., Shoctor, *C.M., Q.C.*  
Edmonton, Alberta

Steven Shulman  
New York, N.Y.

Kenneth D. Taylor  
New York, N.Y.

†Audit Committee

\*Executive Committee

## CORPORATE OFFICERS

Samuel Belzberg  
*President and Chief  
Executive Officer*

W. Gordon Lancaster  
*Executive Vice President*

Lawrence Fox  
*Senior Vice President,  
Finance and Treasurer*

John D. McAlduff  
*Senior Vice President*

Hyman Belzberg  
*Vice President*

William Belzberg  
*Vice President*

Brent S. Belzberg  
*Vice President*

Marc Belzberg  
*Vice President*

Aidan Hughes  
*Controller*

Tim D. Hammill  
*Corporate Counsel and  
Secretary*

Gayle Stewart-Gray  
*Manager, Public Affairs*

## FIRST CITY TRUST COMPANY

### BOARD OF DIRECTORS

Senator David A. Croll, *Q.C.*  
*Honourary Chairman of  
the Board*

Samuel Belzberg\*  
*Chairman of the Board*  
Vancouver, B.C.

V. Edward Daughney\*†  
Vancouver, B.C.

Hyman Belzberg\*  
Calgary, Alberta

Brent S. Belzberg  
Vancouver, B.C.

Robert J. Graham  
Toronto, Ontario

W. Bernard Herman, *Q.C.*†  
Toronto, Ontario

Frank D. Jones, *Q.C.*†  
Edmonton, Alberta

Morley Koffman, *Q.C.*\*  
Vancouver, B.C.

W. Gordon Lancaster  
Vancouver, B.C.

Roderick R. McDaniel  
Calgary, Alberta

Daniel U. Pekarsky  
Vancouver, B.C.

Joseph H. Shoctor, *C.M., Q.C.*  
Edmonton, Alberta

Jack C. Stradwick, Jr.  
Burlington, Ontario

H.J. Michael Watson  
Hamilton, Ontario

## SENIOR OFFICERS

Samuel Belzberg  
*Chief Executive Officer*

V. Edward Daughney  
*President and Chief  
Operating Officer*

Wolf Bergelt  
*Senior Vice President, Finance*

Jack A. Carley  
*Senior Vice President,  
Branch Operations*

Robert J. Graham  
*President, First City  
Capital Ltd.*

Frank L. Harper  
*Senior Vice President  
and Treasurer*

Alan Spiro  
*Senior Vice President,  
Mortgages*

Tim D. Hammill  
*Corporate Counsel and  
Secretary*

Gayle Stewart-Gray  
*Manager, Public Affairs*

## FIRST CITY CAPITAL CORPORATION

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10022

(212) 750-0200

Samuel Belzberg  
*Chairman*

Steven Shulman  
*President and Chief  
Operating Officer*

Richard E. Bennett  
*Vice Chairman*

Marc Belzberg  
*Director*

## FIRST CITY DEVELOPMENT CORP. LTD.

### HEAD OFFICE:

2300-10025 Jasper Ave.  
Edmonton, Alberta  
T5J 1T1  
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### EXECUTIVE OFFICE:

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## Corporate Directory

### BOARD OF DIRECTORS

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Richard M. Craddock  
Edmonton, Alberta

V. Edward Daughney  
Vancouver, B.C.

David B. Margolus  
Edmonton, Alberta

James D. Snowdon  
Edmonton, Alberta

### CORPORATE OFFICERS:

Brent S. Belzberg  
*President and Chief Executive Officer*

James C. Griffiths  
*Senior Vice President, Finance*

David G. Nairne  
*Vice President*

David Sutin  
*Vice President*

George Schaefer  
*Vice President*

Robert Mudie  
*Vice President, Contoller*

### FIRST CITY SHOPPING CENTRE DIVISION

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(416) 477-9200

John Preston  
*President*

### TORONTO DIVISION

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(416) 925-2851

Terry Whalen  
*Senior Vice President*

Somer Rumm  
*Senior Vice President, Land*

### PACIFIC NORTHWEST REGION

G. Neil Hokonson  
*Senior Vice President*

Vancouver  
Division

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Gabor Elias  
*Senior Vice President*

Edwin C. Alm  
*Vice President*

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*Partner*

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Group  
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Richard Van der Peyl  
*Vice President*

Pacific Bellevue  
Group  
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Bellevue, Washington  
98004  
(206) 462-1000

Luis Guincher  
*President*

### FIRST CITY — LANE

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75248  
(214) 931-1964

Michael R. Lane  
*President*

### FIRST CITY DEVELOPMENTS CORP. OF BOSTON

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Boston, Massachusetts  
02110  
(617) 367-8610

Gregory A. Rand  
*President*

### FIRST SOUTHWEST

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Newport Beach, California  
92660  
(714) 476-8762

William D. Foote  
*President*

### PHOENIX GROUP

7245 East Loma Lane  
Scottsdale, Arizona  
95258  
(602) 948-3736

Daryl R. Burton  
*Vice President*

### FIRST CITY INDUSTRIES INC.

#### BOARD OF DIRECTORS

William Belzberg  
*Chairman of the Board*  
Los Angeles, California

William F. Andrews  
Waterbury, Connecticut

Keenan Behrle  
Los Angeles, California

Samuel Belzberg  
Vancouver, B.C.

Brent S. Belzberg  
Vancouver, B.C.

Miles L. Berger  
Chicago, Illinois

John D. McAlduff  
Vancouver, B.C.

Byron Menides  
Worcester, Massachusetts

Steven Shulman  
New York, N.Y.

#### SENIOR OFFICERS:

William Belzberg  
*President and Chief Executive Officer*

John C. Crum  
*Senior Vice President, Secretary, Treasurer and Chief Financial Officer*

Keenan Behrle  
*Assistant Secretary*

### CLARION CAPITAL CORPORATION

201-1801 East 12th St.  
Cleveland, Ohio  
44114  
(216) 687-1096

Morton A. Cohen  
*Chairman of the Board*



## *General Information*

### FIRST CITY FINANCIAL CORPORATION LTD.

#### HEAD OFFICE:

First City Building  
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### FIRST CITY TRUST COMPANY

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### FIRST CITY INDUSTRIES INC.

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90211  
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### SCOVILL INC.

500 Chase Parkway  
Waterbury, Connecticut  
06708  
(203) 757-6061

### ABERFORD RESOURCES LTD.

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Calgary, Alberta  
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(403) 290-5811

### CANTEL INC.

6315 Cote de Liesse  
St. Laurent, Quebec  
H4T 1E5  
(514) 340-9220

### STOCK EXCHANGE LISTINGS

#### FIRST CITY FINANCIAL-FCY

Toronto Stock Exchange

#### FIRST CITY TRUST-ECT

Toronto Stock Exchange

#### FIRST CITY INDUSTRIES INC.-FCY

New York Stock Exchange  
Pacific Stock Exchange

#### CLARION CAPITAL CORPORATION-CLRN

NASDAQ

#### ABERFORD RESOURCES LTD.-ABC

Toronto Stock Exchange  
Montreal Stock Exchange

