

FirstCity



Profile

First City Financial Corporation Ltd. is the parent of a group of companies participating in financial services, real estate and investment activities throughout North America. Its principal Canadian operating subsidiary is First City Trust Company, a full-service financial institution with branches nationwide. Another major subsidiary, First City Development Corp. Ltd., is active in real estate development both in Canada and the United States. The Company has also established a substantial industrial presence in the U.S. through the acquisition of Scovill Inc. in January, 1985. Scovill is a leading manufacturer of consumer products based in Waterbury, Connecticut. Additionally, First City holds a 39% interest in Aberford Resources Ltd., a Canadian oil and gas company, and approximately 25% of Cantel Inc., a communications company developing a cellular mobile telephone network across Canada. The common shares of First City Financial are listed on the Toronto Stock Exchange (FCY) and Head Office is located in Vancouver, Canada.

Annual Meetings

First City shareholders are invited to attend the Company's Annual General Meetings to be held as follows:

FIRST CITY FINANCIAL
CORPORATION LTD.

FIRST CITY TRUST COMPANY

Friday, May 3, 1985
Calgary Convention Centre
Calgary, Alberta

Financial Highlights

FIRST CITY FINANCIAL CORPORATION LTD.

(In Millions of Dollars – except per share figures)	1984	1983	% Increase
For the Year Ended December 31,			
Gross Revenue	\$ 676.2	\$ 646.9	4.5
Net Income	47.7	42.2	13.2
Earnings Per Share			
Before extraordinary items	2.52	2.00	26.0
After extraordinary items	2.37	2.25	5.3
Cash Flow Per Share	6.18	3.64	69.8
At Year End			
Total Assets	\$3,447.6	\$2,738.3	25.9
Shareholders' Equity	286.1	236.9	20.7
Book Value Per Share	14.18	11.74	20.8

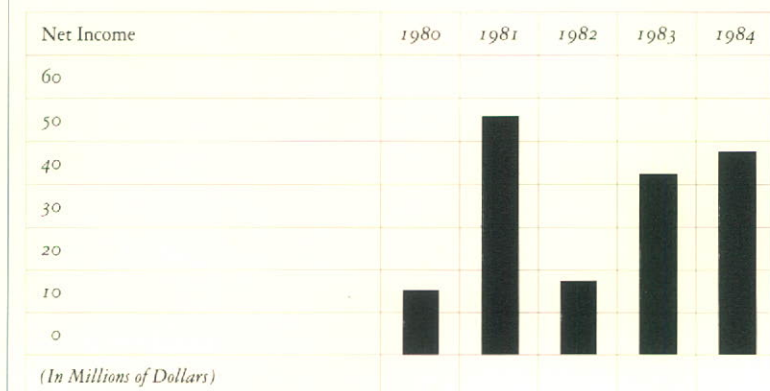
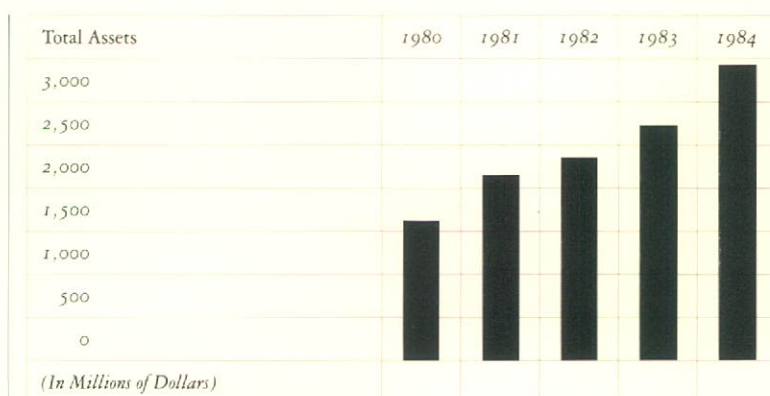


Table of Contents

Report to Shareholders	2
FIRST CITY FINANCIAL CORPORATION LTD.	
Review of Operations/Outlook	9
Financial Statements	14
Five Year Summary	28
FIRST CITY TRUST COMPANY	
Review of Operations/Outlook	31
Financial Statements	38
Five Year Summary	51
DIRECTORY	52

OCT 05 1987

MANAGEMENT
FIRST CITY
Brook St., W.,
Montreal, Quebec, Canada
H3A 1G5

Report to Shareholders

1984 was a year in which the economies of both Canada and the United States continued to gain momentum following the severe 1981-82 recession. The recovery in the United States, however, has been more pronounced than in Canada where growth has been sporadic and unemployment was still at double-digit levels at year-end. In the latter half of 1984, even in the stronger American marketplace, considerable pessimism remained regarding the strength of the recovery in the face of burgeoning government deficits.

In this largely unsettled economic environment, First City has consistently followed the direction outlined in its 1982 and 1983 annual reports which focuses on maintaining a strong position of investment flexibility and liquidity. Successful implementation of the Company's investment strategy is reflected in the 1984 results, which included the sale in June of First City's sizable holdings in Gulf Corporation. The Company's liquidity position was enhanced by the public issue of \$62 million, 11.25% dual currency bonds in Switzerland in February 1984. Additionally, First City Properties Inc., the Company's 69% owned New York Stock Exchange listed subsidiary, completed the sale of \$50 million (U.S.) 11.8% subordinated notes with warrants due in January 1994, and \$100 million (U.S.) senior subordinated exchangeable variable rate notes due in August 1994. The net proceeds of these issues were applied to pay down floating rate bank debt and secured bank advances, as well as to augment working capital.

The success of the Company's investment activities was partially offset by the sale in July of New York Hanseatic Corporation, a bond and money market dealer in New York City. Although a loss was incurred on the sale, First City has strengthened its foothold in North America's leading securities marketplace through its ownership of Hanseatic. Increased exposure to world capital markets and financial institutions has created a sound base for the continued expansion of the Company's merchant banking activities in the United States.

Earnings of the Company's two principal subsidiaries, First City Trust and First City Development, reached record highs in 1984. This occurred despite substantial write-downs that were booked on some of their assets. Adverse economic conditions have persisted for longer than anticipated in some of First City's major Canadian markets, particularly in western Canada which was hard hit by the recession and is experiencing a more protracted recovery due to the resource-based nature of its economy. Consequently, during the past year, the values of some of the companies' real estate and loan portfolios, primarily in British Columbia and Alberta, eroded to the point where it was considered prudent to record provisions for losses on such assets to reflect current market values. The resulting provisions totalled \$38.6 million, a considerable increase over \$15.6 million in 1983. Management has conducted a thorough review of the two companies' asset portfolios and is confident that the loan loss experience in 1985 will be more in line with historic levels.

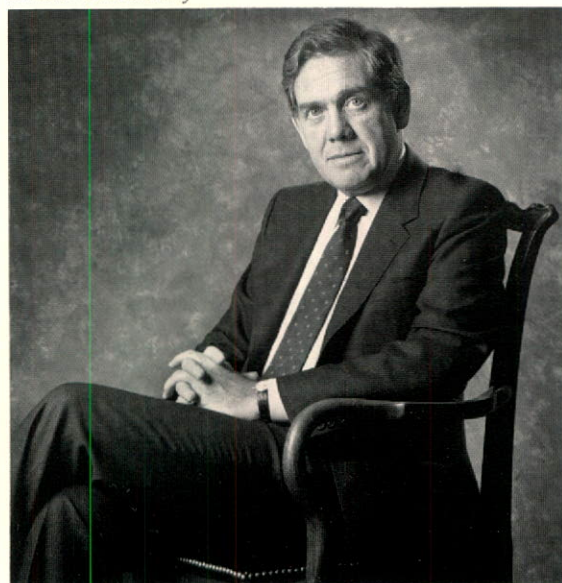
Samuel Belzberg



First City's continued emphasis on acquisition and other strategic investment activities is evidenced by a year-end securities portfolio totalling \$517 million, a marked increase over \$366 million a year ago. The Company's investments and resulting earnings can be separated into two distinct categories. The first of these involves management of the considerable securities holdings of both First City Financial and First City Trust, which comprise a diversified group of common stocks, bonds and preferred shares. Income from such holdings forms a regular and expected component of earnings. The second category involves income related to significant investment positions concerning prospective acquisitions of other companies. While this is also an ongoing activity, it is not as predictable because of the unique nature of each situation and, therefore, may be considered separately.

At the 1984 Annual General Meeting in May, shareholders endorsed a resolution to split the Company's common stock on a two-for-one basis. At the same meeting, Mr. V. Edward Daughney, President and Chief Operating Officer of First City Trust, and the Honourable William M. Kelly were elected to the Board of Directors. Mr. Kelly is a member of the Canadian Senate and President of Kelco Management Limited, a management and technical consulting firm. In June, Mr. Steven Shulman was appointed President and Chief Operating Officer of First City Capital Corporation, the Company's wholly owned merchant banking subsidiary in New York. Mr. Shulman has extensive experience in the mergers and acquisitions field. Also

Daniel U. Pekarsky



in June, Mr. Shulman and Mr. Kenneth D. Taylor were appointed to the Board. Mr. Taylor is Senior Vice President, Government Affairs of Nabisco Brands Inc. and was previously with the Canadian foreign service.

First City increased its common share dividend in 1984 to an annualized rate of 30 cents per share from 25 cents. In November, the Toronto Stock Exchange approved the Company's notice of intention that it may purchase up to approximately three percent of its outstanding common shares through market transactions on the TSE. First City believes that the prevailing price for its shares does not reflect the underlying value of the Company's assets, and that the purchase of some of those shares would be an appropriate investment for corporate funds which exceed current needs.

Subsequent to the year-end, First City took a major step in its ongoing strategy of diversification by acquiring Scovill Inc., a leading international manufacturing company based in Waterbury, Connecticut. The purchase was made through First City Properties at a cost of approximately \$520 million (U.S.). Scovill manufactures a wide range of consumer products including such well-known brands as Yale (locks and security devices), Hamilton-Beach (small household appliances) and Nu-Tone (household fixtures). The company employs approximately 18,000 people at its facilities around the world. This acquisition underscores First City's previously stated intention to be an active

V. Edward Daughney



participant in the U.S. industrial business community. The Company looks forward to the substantial role that Scovill's operations will play in achieving that end.

First City is fortunate to have talented and hardworking employees at every level of its operations. The Company's continued growth and success in 1984 would not have been possible without the support and contributions of a staff who display skill, enthusiasm and commitment in their work.

Respectfully, on behalf of the Boards of Directors,



SAMUEL BELZBERG
*Chairman of the Board
and Chief Executive Officer*
First City Financial Corporation Ltd.
First City Trust Company



DANIEL U. PEKARSKY
President and Chief Operating Officer
First City Financial Corporation Ltd.
Vice Chairman of the Board
First City Trust Company



V. EDWARD DAUGHNEY
President and Chief Operating Officer
First City Trust Company

February 15, 1985
Vancouver, Canada

*First City Financial
Corporation Ltd.*

Review of Operations/Outlook	9
Consolidated Balance Sheet	14
Consolidated Statement of Retained Earnings	15
Consolidated Statement of Income	16
Consolidated Statement of Changes in Financial Position	17
Notes to the Consolidated Financial Statements	18
Auditors' Report	27
Five Year Summary	28

Review of Operations

FIRST CITY FINANCIAL CORPORATION LTD.

Income before extraordinary items was \$50.8 million or \$2.52 per share compared with \$37.5 million or \$2.00 per share the previous year. Net income for 1984 was \$47.7 million or \$2.37 per share compared with \$42.2 million or \$2.25 per share in 1983. Extraordinary income in 1984 includes a loss of \$5.0 million from the sale of New York Hanseatic Corporation and a gain of \$1.9 million from the continuing tax benefit of losses carried forward by a U.S. real estate subsidiary. In 1983, extraordinary income consisted mainly of the tax benefit of losses carried forward.

Total assets at December 31 were \$3.4 billion, a growth of 26% over the \$2.7 billion at the same date in 1983. Total revenues were \$676 million compared with \$647 million the previous year, with the majority of the increase due to securities gains. Total common shareholders' equity increased by 21% to \$286 million at year-end. Book value per common share was \$14.18 at December 31, an increase of 21% from the same date in 1983. Cash flow per share was \$6.18 compared with \$3.64 the previous year.

ABERFORD RESOURCES LTD.

First City holds a 39% interest in Aberford Resources Ltd. making it the largest single shareholder of this publicly-listed Canadian oil and gas company. Aberford is based in Calgary, Alberta and has diversified interests in oil, natural gas and minerals. Already having a substantial production base in western Canada, Aberford is enlarging its exploration exposure in that region as well as off the Canadian east coast and in other prime international areas.

Throughout 1984, Aberford's revenues, cash flow and earnings continued to show gains over the previous year. Cash flow increased to \$42.9 million for the year ended December 31, 1984 from \$37.6 million in 1983. Net income was \$5.3 million compared with \$5.0 million the previous year, reflecting the effect of increased federal taxes. At December 31, total assets were \$440.9 million, a growth of 17% from the same date in 1983, resulting from reinvestment of cash flow in exploration activities.

Engineering estimates show Aberford's working interest in proven and probable reserves to be 33.2 million barrels of oil and natural gas liquids and 260.6 billion cubic feet of natural gas, compared with 29.7 million barrels and 230.1 billion cubic feet at December 31, 1983. As much of the company's oil production is classified as lower priced "conventional old oil," Aberford is in a position to benefit from the anticipated deregulation of Canadian oil prices in 1985.

Aberford also has interests in undeveloped coal reserves in southeastern British Columbia and the Yukon, as well as prospective uranium, base and precious metal properties in Canada and the U.S.

CANTEL INC.

First City is one of the founding partners of Cantel Inc. of Montreal, a communications company that is developing a national cellular mobile telephone network in Canada. The cellular telephone is a new form of mobile communication which uses radio frequencies instead of telephone wires to transmit voice and data communications. First City's original 30% interest in Cantel has been reduced as a result of the purchase of a 15% equity interest in Cantel by Ameritech Mobile Communications Inc. When further equity issues are finalized later this year, First City will own approximately 20% of Cantel.

Cantel will launch its cellular service in Montreal and Toronto in July of 1985 and the system is expected to be operating in Vancouver by March, 1986. By the end of that year, Cantel plans to have installed its system in the 23 largest urban markets across Canada.

OUTLOOK

The North American economy is expected to experience moderate expansion over the coming year; however, it is difficult to predict how widespread this growth will be. Interest rates will be a crucial factor, particularly in Canada where rates were on the increase subsequent to year-end. Huge government deficits in both Canada and the United States could put additional upward pressure on rates. First City will conduct its operations with a mix of strategies appropriate to the demands of this uncertain marketplace and adhere to its emphasis on liquidity. The Company intends to maintain sizable bank lines, ensuring that it remains in a position to be responsive to new investment situations as they arise.

First City is in the process of establishing a major presence in Toronto to be better situated to participate in large-scale business opportunities more easily accessed through the central Canadian marketplace. At the same time, the Company is reaffirming a longstanding commitment to western Canada through the expansion of its operations in both Calgary and Edmonton.

Internally, First City's real estate group is pursuing a reorganization involving the transfer of a substantial portion of its operations from First City Trust to the parent company. As a result of this restructuring, which is subject to the approval of regulatory authorities, the ownership interest in First City Properties will be transferred to First City Financial.

A significant portion of the Company's assets will remain in U.S. dollar-based investments and as a result, any further strengthening of the American currency relative to its Canadian counterpart should prove advantageous. A strong, maintainable earnings base will be a key priority in 1985, as well as the completion of the integration of the Scovill operations into the First City Group.

Revenue

Gross revenue increased by \$29 million to \$676 million. Investment income increased by \$48 million and securities and investment gains increased by \$79 million mainly due to the sale of a major stock position in Gulf Corporation. Real estate revenue declined by \$103 million, reflecting the return to more traditional sales volumes. Included in 1983 were a number of major real estate transactions such as the sale of the First City Building in Vancouver.

(In Millions of Dollars)	1980	1981	1982	1983	1984
900					
750					
600					
450					
300					
150					
0					
Financial Services		144	279	261	302
Real Estate		120	222	345	248
Total		264	501	647	676

Total Assets

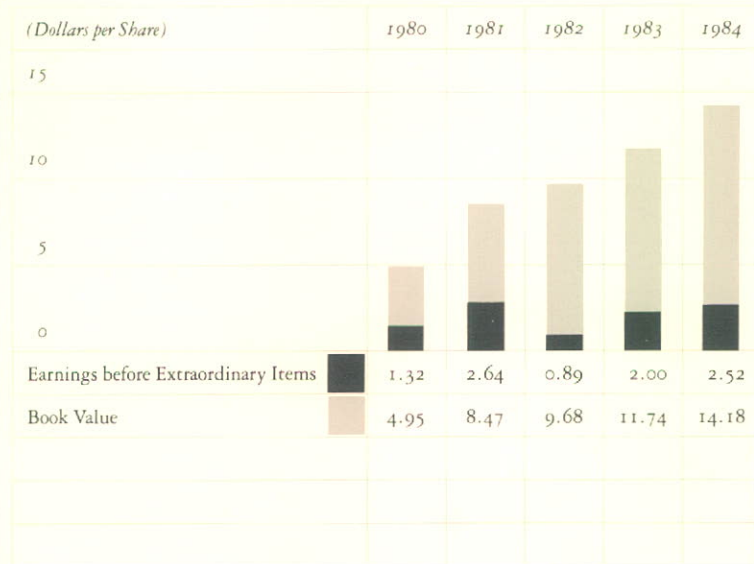
As at December 31, 1984, total assets were \$3.4 billion, a growth of \$709 million from the previous year-end. The majority of this increase resulted from various debt issues which increased cash by \$318 million, a \$151 million expansion of the Company's securities portfolio and a \$113 million increase in First City Trust's loan portfolio. This asset growth has been financed in First City Trust by a corresponding rise in customer deposits, and elsewhere in the operation, through a combination of increases in equity and unsecured debt. Over the past five years, total assets have grown at a compounded rate of 24%. The return on average assets for 1984 was 1.64% compared with 1.47% in 1983.

(In Millions of Dollars)	1980	1981	1982	1983	1984
3,000					
2,500					
2,000					
1,500					
1,000					
500					
0					
Financial Services		1,203	1,574	1,736	2,125
Real Estate		412	575	613	850
Total		1,615	2,149	2,371	3,448

Book Value and Earnings Per Share

Income before extraordinary items was \$50.8 million, an increase of \$13 million over the previous year. Net income was \$47.7 million, compared with \$42.2 million in 1983.

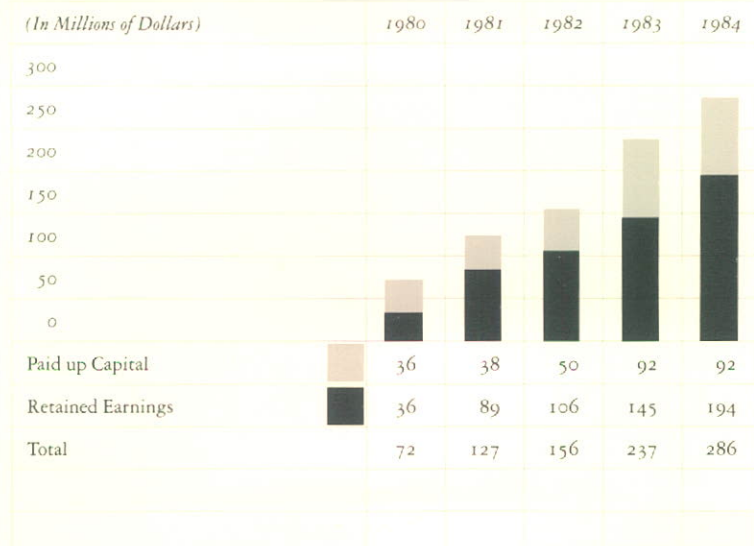
The 1984 return on average equity was 19.4% compared with 18.5% in 1983 and for the past five years has averaged 24.9%. The compounded annual growth rate in earnings per share during the same period has been 36%.



Shareholders' Equity

Shareholders' equity grew by 21% to \$286 million. The Company increased its dividend rate to 30 cents per share from 25 cents the previous year.

The debt/equity ratio was 3.1:1 at year-end compared to 2.3:1 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 8.30% compared with 8.65% last year. When unsecured debt is included, the ratios are 18.89% and 12.49% respectively.



Consolidated Balance Sheet

FIRST CITY FINANCIAL CORPORATION LTD.

<i>December 31, 1984 (In Thousands of Dollars)</i>	<i>Note</i>	<i>1984</i>	<i>1983</i>
Assets			
Cash and short term investments		\$ 512,445	\$ 194,181
Securities	2	516,966	365,728
Finance receivables and other loans		401,355	351,960
Mortgages		1,336,612	1,268,979
Real estate	3	422,631	325,893
Accounts receivable		69,795	40,855
Investment in affiliated companies	4	69,029	84,348
Investment in and advances to joint ventures and partnerships	5	83,774	80,342
Fixed assets	6	13,253	12,331
Other assets	7	21,765	13,722
		<u>\$3,447,625</u>	<u>\$2,738,339</u>
Liabilities			
Customer deposits		\$2,182,580	\$1,864,003
Bank indebtedness	8	282,407	224,158
Accounts payable and accrued liabilities		83,910	75,413
Due to related parties	9	35,825	29,014
Term debt	10	479,685	220,917
Deferred income		3,658	3,595
Deferred income taxes		22,584	22,779
Minority interest	11	70,916	61,533
		<u>3,161,565</u>	<u>2,501,412</u>
Contingencies	18		
Shareholders' Equity			
Capital stock	12	74,815	74,850
Contributed surplus		17,402	17,402
Retained earnings		183,168	141,230
Unrealized foreign exchange gain	1	10,675	3,445
		<u>286,060</u>	<u>236,927</u>
		<u>\$3,447,625</u>	<u>\$2,738,339</u>

Approved by the Board:

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

Daniel U. Pekarsky
*President and
Chief Operating Officer*

Consolidated Statement of Retained Earnings

FIRST CITY FINANCIAL CORPORATION LTD.

<i>Year ended December 31, 1984 (In Thousands of Dollars)</i>	1984	1983
Balance, Beginning of Year	\$141,230	\$103,168
Net Income	47,743	42,170
	188,973	145,338
Common Share Issue Costs – net of income taxes	—	1,220
Dividends		
Preferred shares	6	10
Common shares	5,799	2,878
Balance, End of Year	\$183,168	\$141,230

Consolidated Statement of Income

FIRST CITY FINANCIAL CORPORATION LTD.

Year Ended December 31, 1984 (In Thousands of Dollars)	Note	1984	1983
Revenue			
Investments		\$322,831	\$274,952
Real estate		202,604	305,179
Securities and investment gains		129,855	50,914
Fees and other income		20,905	15,846
		676,195	646,891
Expenses			
Interest on customer deposits		251,179	209,765
Bank, term debt and other interest		47,559	31,466
Cost of real estate sold and property rental expenses		181,276	275,908
Salaries and employee benefits		31,508	23,866
Operating and administrative		37,375	29,127
Provision for losses		38,646	15,608
Depreciation and amortization		6,285	4,450
		593,828	590,190
Income from Operations Before Income Taxes		82,367	56,701
Income Taxes	13	26,020	13,454
Income from Operations		56,347	43,247
Share of Affiliates' Operating Income	4	2,750	770
Income Before Minority Interest and Extraordinary Items		59,097	44,017
Minority Interest		8,315	6,560
Income Before Extraordinary Items		50,782	37,457
Extraordinary Items	14	(3,039)	4,713
Net Income		\$ 47,743	\$ 42,170
Earnings per Common Share			
Before extraordinary items	15	\$ 2.52	\$ 2.00
After extraordinary items		\$ 2.37	\$ 2.25

Consolidated Statement of Changes in Financial Position

FIRST CITY FINANCIAL CORPORATION LTD.

Year Ended December 31, 1984 (In Thousands of Dollars)	1984	1983
Source of Cash		
From operations		
Income before extraordinary items	\$ 50,782	\$ 37,457
Non cash items	73,917	30,838
	124,699	68,295
Increase in		
Customer deposits	318,577	302,735
Bank indebtedness	58,249	—
Accounts payable and accrued liabilities	3,372	28,362
Due to related parties	6,811	3,987
Term debt – net of repayments	256,893	58,682
Unrealized foreign exchange gain	7,230	3,445
Decrease in		
Real estate	—	35,475
Investment in affiliated companies	18,069	—
Issue of common shares	3	42,000
Investment in and advances to joint ventures and partnerships	—	14,547
Extraordinary items	—	4,713
	793,903	562,241
Uses of Cash		
Increase in		
Securities	162,596	126,075
Finance receivables and other loans	50,496	30,973
Mortgages	95,669	138,586
Real estate	101,609	—
Investment in affiliated companies	—	28,796
Investment in and advances to joint ventures and partnerships	10,268	—
Fixed assets	4,183	3,223
Other assets	9,266	2,609
Accounts receivable	28,940	8,897
Bank indebtedness	—	115,717
Cost of common share issue	—	1,220
Dividends	5,805	2,888
Dividends paid to minority shareholders	3,007	3,082
Deferred income	—	2,368
Extraordinary items	3,039	—
Other	761	1,374
	475,639	465,808
Increase in Cash and Short Term Investments	318,264	96,433
Cash and Short Term Investments, Beginning of Year	194,181	97,748
Cash and Short Term Investments, End of Year	\$512,445	\$194,181

Notes to the Consolidated Financial Statements

FIRST CITY FINANCIAL CORPORATION LTD.

December 31, 1984

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. The subsidiary companies discussed in Note 4 have not been consolidated as their 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 not earlier than October 31.

The company accounts for its investments in affiliated companies, including unconsolidated subsidiary 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 provision for permanent declines in value.

LOANS

Mortgages and other loans are carried at cost 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. When 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, other than land held for income property development, is carried at the lower of cost and estimated net realizable value. Land held for income property development is carried at cost.

Foreclosed property is carried at the lower of cost and estimated net realizable value.

The company capitalizes direct carrying costs related to real estate projects including specific interest, property taxes, legal fees, and those general and administrative expenses that are clearly identified with projects. In addition, a portion of non-specific interest is allocated to projects. Net rentals from income properties under development and apartments under condominium conversion are capitalized until such time as the properties are deemed completed or sold.

Notes to the Consolidated Financial Statements

FIRST CITY FINANCIAL CORPORATION LTD.

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.

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 (Note 1) 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.

GOODWILL

Goodwill arising from the 1970 acquisition of First City Trust Company is not being amortized. Goodwill arising from the 1981 acquisition of an Ontario loan company is being amortized on a straight-line basis over 40 years.

Notes to the Consolidated Financial Statements

FIRST CITY FINANCIAL CORPORATION LTD.

December 31, 1984 (All Tabular Figures are expressed in Thousands of Dollars)

NOTE 1 - CHANGE IN ACCOUNTING POLICY

Following a recommendation by the Canadian Institute of Chartered Accountants the company has retroactively changed its method of accounting for the unrealized foreign exchange gain on its net investment in foreign subsidiaries. This unrealized gain was previously included under accounts payable and accrued liabilities but is now separately disclosed as a component of shareholders' equity. Comparative balances have been restated to conform with the new accounting policy.

As of December 31, 1983 the unrealized foreign exchange gain was \$3,445,000. During 1984 the unrealized foreign exchange gain increased by \$7,230,000 to \$10,675,000 due to a strengthening of the U.S. dollar in relation to the Canadian dollar.

NOTE 2 - SECURITIES

	1984		1983	
	Carrying Value	Market Value	Carrying Value	Market Value
Government and corporate bonds	\$153,637	\$151,296	\$80,839	\$78,801
Preferred and common shares	363,329	345,324	284,889	283,220
	\$516,966	\$496,620	\$365,728	\$362,021

NOTE 3 - REAL ESTATE

	1984	1983
Income properties		
Under development	\$18,410	\$3,441
Operating - net of accumulated depreciation of \$3,965,000 (1983 - \$3,341,000)	54,346	60,051
Housing completed and under development	78,958	80,159
Land under development and held for sale	195,286	140,937
Real estate equity financing receivables	38,255	27,250
Foreclosed property	37,376	14,055
	\$422,631	\$325,893

Depreciation on income properties charged to income for the year amounted to \$1,642,000 (1983 - \$1,678,000).

NOTE 4 - INVESTMENT IN AFFILIATED COMPANIES

	1983	Additions (Disposals)	Advances and Other	Share of Income for the Year	1984
Aberford Resources Ltd.					
- 39% owned	\$55,707	\$ —	\$ —	\$1,886	\$57,593
New York Hanseatic Corporation	19,254	(19,254)	—	—	—
Other	9,387	1,193	(8)	864	11,436
	\$84,348	\$(18,061)	\$ (8)	\$2,750	\$69,029

Notes to the Consolidated Financial Statements

FIRST CITY FINANCIAL CORPORATION LTD.

The following summary information has been taken from the financial statements of Aberford Resources Ltd. at December 31, 1984.

Current assets	\$ 43,097
Property plant and equipment	342,862
Other assets	54,911
Current liabilities	39,221
Other liabilities	101,620
Long-term debt	165,213
Shareholders' equity	134,816
Revenue	121,805
Net income	5,349

In July 1984 the company's investment in New York Hanseatic Corporation was sold for cash of \$14,269,000. The loss of \$4,959,000, after income taxes, resulting from the sale is included under extraordinary items (Note 14) in the consolidated statement of income.

NOTE 5 – INVESTMENT IN AND ADVANCES TO JOINT VENTURES AND PARTNERSHIPS

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

	1984	1983
Assets	\$183,322	\$168,243
Liabilities	99,548	87,901
Revenues	48,181	34,313
Expenses	55,017	31,666

Included in real estate revenue in the consolidated statement of income for the year ended December 31, 1984 is the company's share of losses of joint ventures and partnerships in the amount of \$6,836,000 (1983 – income of \$2,647,000).

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, 1984 is approximately \$68 million against which the subsidiary companies would have claims on the related assets which, in total, are sufficient to meet these obligations.

NOTE 6 – FIXED ASSETS

These assets are stated at cost less accumulated depreciation and amortization of \$7,940,000 (1983 – \$8,338,000). Depreciation and amortization charged to income for the year amounted to \$3,205,000 (1983 – \$2,455,000).

NOTE 7 – OTHER ASSETS

	1984	1983
Prepaid expenses	\$ 4,691	\$ 5,676
Unamortized debt financing costs	12,708	3,370
Other	4,366	4,676
	\$21,765	\$13,722

Notes to the Consolidated Financial Statements

FIRST CITY FINANCIAL CORPORATION LTD.

NOTE 8 – BANK INDEBTEDNESS

	1984	1983
On securities investments	\$ 34,126	\$ —
On finance receivables	—	138
On operating income properties	—	3,560
On housing completed and under development	21,407	33,355
On land under development and held for sale	18,594	19,453
General – real estate	208,280	167,652
	<u>\$282,407</u>	<u>\$224,158</u>

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, 1984 was 11.6% (1983 – 11.9%).

The securities investments loans are secured by specific securities. Bank indebtedness secured on real estate is represented by charges on specific properties. The majority of the general indebtedness is secured by a demand debenture providing a first floating charge over all the assets of a subsidiary.

NOTE 9 – DUE TO RELATED PARTIES

	1984	1983
Bel-Fran Investments Ltd. and related corporations (controlling shareholders of the company)	\$35,825	\$29,014

The amounts have no specific terms of repayment and bear interest at a weighted average rate of 12.2% (1983 – 12.0%) total interest charged for the year was \$4,508,000 (1983 – \$4,058,000).

NOTE 10 – TERM DEBT

	1984	1983
Secured		
On income properties	\$ 36,375	\$ 37,661
On housing and condominium conversion	16,337	15,844
On land	34,918	23,190
On mortgages receivable	26,839	39,104
Unsecured		
Subordinated notes – due 1987	14,350	14,350
Subordinated notes – FCP – due 1994	198,414	—
12.3% Subordinated notes	37,339	36,886
9% Sinking fund debentures, Series A	1,530	1,703
8¼% Bonds	31,990	32,601
Term notes	8,985	11,750
Dual currency 11¼% bonds	63,348	—
Other	9,260	7,828
	<u>\$479,685</u>	<u>\$220,917</u>

Notes to the Consolidated Financial Statements

FIRST CITY FINANCIAL CORPORATION LTD.

Secured term debt bears interest at a weighted average rate of 12.9% (1983 - 10.8%).

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 \$198,414,000 have been issued by a subsidiary, First City Properties Inc. (FCP) and bear interest at a weighted average rate of 13.9%. In conjunction with certain of these notes, 2,000,000 warrants have also been issued which are each convertible to one common share of FCP upon payment of U.S. \$16.50. Should all of these warrants be converted to common shares, the company's ownership in FCP would decrease from 69% to 56% and FCP shareholders' equity would increase by U.S. \$33 million. If all the warrants had been converted to FCP shares at December 31, 1984, the company would have realized a gain on its investment in FCP of approximately U.S. \$6 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). These 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. They 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 in five equal annual instalments of U.S. \$2,400,000 and bear interest at a rate of 1½% over U.S. bank prime rate to a maximum rate of 18% and a minimum rate of 12%. The company can redeem the notes at any time without penalty.

The dual currency 11¼% 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.

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 the term debt are as follows:

On sale of housing and condominium conversions	\$ 16,337
1985	39,622
1986	15,395
1987	37,168
1988	50,414
1989	10,464
1990 - 1994	310,285
	<hr/>
	\$479,685

Notes to the Consolidated Financial Statements

FIRST CITY FINANCIAL CORPORATION LTD.

NOTE 11 - MINORITY INTEREST

	1984	1983
Minority interest in subsidiary companies		
Common shareholders	\$39,269	\$28,824
Preferred shareholders	31,647	32,709
	\$70,916	\$61,533

NOTE 12 - 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 and 12,500,000 shares as \$1.75 Convertible Second Preferred Shares, Series 1 with an issue price of \$20.00.

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.

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.

	First Preferred Shares		Second Preferred Shares	
	Number	Paid-up Value	Number	Paid-up Value
Outstanding December 31, 1983	4,325	\$22	4,325	\$87
Repurchased and cancelled	2,125	11	1,325	27
Outstanding, December 31, 1984	2,200	\$11	3,000	\$60

Common Shares

The company is authorized to issue 50,000,000 Class A common shares without par value.

	Number of Shares	Paid-up Value
Outstanding, December 31, 1983	10,085,454	\$74,741
Issued during the year, prior to subdivision	104	3
	10,085,558	74,744
Subdivision of shares on a two for one basis	10,085,558	—
Outstanding, December 31, 1984	20,171,116	\$74,744

Notes to the Consolidated Financial Statements

FIRST CITY FINANCIAL CORPORATION LTD.

The company is also authorized to issue 50,000,000 Class B fractional voting shares without par value. As at December 31, 1984, there are no Class B fractional voting shares outstanding.

Common Shares Reserved

At December 31, 1984, 5,000 Class A common shares are reserved for issuance in respect of the conversion privilege attached to the Convertible Second Preferred Shares, Series 1.

NOTE 13 – INCOME TAXES

Income taxes on operating income, current and deferred, have been provided as follows:

	1984	1983
Current	\$18,666	\$ 813
Deferred	7,354	12,641
	<u>\$26,020</u>	<u>\$13,454</u>

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

	1984		1983	
Income taxes on income from operations based on statutory rates	\$ 42,831	52.0%	\$ 29,400	52.0%
Non-taxable dividend income	(2,715)	(3.3)	(3,816)	(6.7)
Non-taxable capital gains	(14,210)	(17.2)	(10,224)	(18.1)
Other	114	0.1	(1,906)	(3.4)
Provision for income taxes	<u>\$ 26,020</u>	<u>31.6%</u>	<u>\$ 13,454</u>	<u>23.8%</u>

NOTE 14 – EXTRAORDINARY ITEMS

	1984	1983
Share of tax reduction of subsidiary from utilization of a loss carry forward	\$ 1,920	\$4,107
(Loss) gain on sale of affiliated company, net of income taxes	(4,959)	606
	<u>\$ (3,039)</u>	<u>\$4,713</u>

NOTE 15 – EARNINGS PER COMMON SHARE

Basic earnings per common share have been calculated on the weighted average number of shares outstanding during each year after giving retroactive effect to the subdivision on a two for one basis and after payment of preferred share dividends. Fully diluted earnings per common share are not significantly different from basic earnings per common share.

Notes to the Consolidated Financial Statements

FIRST CITY FINANCIAL CORPORATION LTD.

NOTE 16 – INTEREST EXPENSE

In respect of real estate development operations of subsidiaries, interest for the year totalled \$58,732,000 (1983 – \$46,547,000) of which \$25,819,000 (1983 – \$21,483,000) was charged to operations with the remaining amount being capitalized.

NOTE 17 – COMMITMENTS

The company's premises and certain equipment are held under long-term leases; the aggregate amount of rentals paid during the year was \$4,515,000 (1983 – \$3,692,000). The aggregate rentals payable under all leases currently in force during the next five years is approximately \$17 million.

A subsidiary company involved in real estate development has lodged letters of credit aggregating \$22,589,000 with municipalities and utilities as collateral for the fulfillment of various business obligations.

NOTE 18 – 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 by the subsidiary to enforce the agreements of purchase. The claims 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.

The company and certain subsidiaries are defendants in other actions arising in the ordinary course of business. These actions are being contested or, in certain cases, counter claims have been made. The company believes that their ultimate outcome will not result in significant liability being assessed.

NOTE 19 – BUSINESS SEGMENT INFORMATION

Operations and identifiable assets by industry segment are as follows:

	1984	1983
Financial services		
Revenue from third parties	\$ 427,622	\$ 301,897
Income from operations	51,051	31,956
Identifiable assets	2,598,095	2,125,294
Real estate		
Revenue from third parties	\$ 248,573	\$ 344,994
Income from operations	5,296	11,291
Identifiable assets	849,530	613,045

Notes to the Consolidated Financial Statements

FIRST CITY FINANCIAL CORPORATION LTD.

Operations and identifiable assets by geographical segment are as follows:

	1984	1983
Canada		
Revenue from third parties	\$ 424,767	\$ 377,185
Income from operations	33,211	28,938
Identifiable assets	2,720,261	2,272,213
United States		
Revenue from third parties	\$ 251,428	\$ 269,706
Income from operations	23,136	14,309
Identifiable assets	727,364	466,126

NOTE 20 - SUBSEQUENT EVENTS

In January 1985 one of the company's subsidiaries, First City Properties Inc. (FCP), acquired approximately 93% of the outstanding common shares of Scovill Inc., a U.S. consumer products manufacturer. The total acquisition price of approximately U.S. \$520 million was funded by FCP out of its existing cash balances, bank borrowings and an issue of up to U.S. \$70 million of redeemable preferred shares. At December 31, 1984 Scovill Inc. had total assets of approximately U.S. \$510 million and gross revenues for the year then ended of approximately U.S. \$825 million.

NOTE 21 - COMPARATIVE FIGURES

Certain comparative figures for 1983 have been reclassified to conform with the classifications used in the current year.

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, 1984 and the consolidated statements of income, retained earnings and 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, 1984 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, after giving retroactive effect to the change in the method of accounting for the company's unrealized foreign exchange gain on investments in foreign subsidiaries as explained in Note 1 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells
Chartered Accountants
Vancouver, British Columbia
February 4, 1985

Five Year Summary

FIRST CITY FINANCIAL CORPORATION LTD.

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

	1984	1983	1982	1981	1980
Balance Sheet					
Assets					
Cash and short					
term investments	\$ 512,445	\$ 194,181	\$ 97,748	\$ 116,946	\$ 63,529
Securities	516,966	365,728	241,374	240,596	255,696
Finance receivables and					
other loans	401,355	351,960	324,246	274,013	144,694
Mortgages	1,336,612	1,268,979	1,135,505	957,895	725,841
Real estate	422,631	325,893	364,213	387,847	303,321
Other assets	257,616	231,598	207,885	171,932	121,787
Total	\$3,447,625	\$2,738,339	\$2,370,971	\$2,149,229	\$1,614,868
Liabilities and Equity					
Deposits	\$2,182,580	\$1,864,003	\$1,561,268	\$1,446,703	\$1,075,975
Other liabilities	405,800	332,180	413,242	413,627	371,739
Term debt	479,685	220,917	162,235	110,170	52,315
	3,068,065	2,417,100	2,136,745	1,970,500	1,500,029
Deferred income taxes	22,584	22,779	18,240	15,137	21,379
Minority interest	70,916	61,533	59,404	36,336	21,243
Shareholders' equity	286,060	236,927	156,582	127,256	72,217
Total	\$3,447,625	\$2,738,339	\$2,370,971	\$2,149,229	\$1,614,868
Income Statement					
Revenue					
Mortgage, lease and loan					
interest and dividends	\$ 322,831	\$ 274,952	\$ 268,193	\$ 225,002	\$ 128,555
Real estate	202,604	305,179	254,604	189,543	103,072
Securities and investment					
gains	129,855	50,914	18,530	55,845	13,331
Fees and other income (A)	23,655	16,616	21,112	26,418	19,539
Total Revenue	678,945	647,661	562,439	496,808	264,497
Expenses					
Interest	298,738	241,231	258,832	234,901	125,891
Salaries	31,508	23,866	22,396	20,573	13,482
Real estate	181,276	275,908	223,165	165,587	84,406
Other (B)	90,621	55,745	39,213	31,156	21,578
Total Expenses	602,143	596,750	543,606	452,217	245,357
Income Taxes	26,020	13,454	4,700	175	3,934
Income (before extraordinary items)	\$ 50,782	\$ 37,457	\$ 14,133	\$ 44,416	\$ 15,206
Per Common Share (C)					
Earnings before extra-ordinary items	\$ 2.52	\$ 2.00	\$ 0.89	\$ 2.64	\$ 1.32
Dividends	\$ 0.2875	\$ 0.1625	\$ 0.15	\$ 0.10	\$ 0.09
Book value	\$ 14.18	\$ 11.74	\$ 9.68	\$ 8.47	\$ 4.95

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

First City Trust Company

Review of Operations/Outlook	31
Consolidated Balance Sheet	38
Consolidated Statement of Retained Earnings	39
Consolidated Statement of Income	40
Consolidated Statement of Changes in Financial Position	41
Notes to the Consolidated Financial Statements	42
Auditors' Report	50
Five Year Summary	51

Review of Operations

FIRST CITY TRUST COMPANY

Income before extraordinary items was \$40.9 million, double that of a year ago. Earnings after extraordinary items were \$37.9 million compared with \$25.1 million in 1983. Consolidated assets exceeded \$3 billion for the first time, a 22% growth from \$2.5 billion the previous year. Total revenues were \$612 million compared with \$607 million in 1983.

The improved earnings resulted from the substantial gain realized by the trust company and its subsidiaries on the sale of its investment in Gulf Corporation. This totalled \$31 million after interest, taxes and associated costs. Income was adversely affected by sizable write-downs on some of the company's assets as discussed earlier in this report.

DEPOSIT OPERATIONS

Total customer funds on deposit in 1984 exceeded \$2.1 billion, a growth of more than \$318 million or 17% over 1983. During the year, the Savings Division continued to place a high priority on developing responsive, innovative products and services tailored to the needs of its 200,000 depositors. Extensive research was conducted, particularly in the area of consumer preferences and patterns regarding RRSPs, and was then used as the basis for a carefully targeted product and product-marketing effort. New, attractive options were added to the company's already comprehensive RRSP lineup. Specifically, an RRSP loan program and monthly RRSP savings plan have become the focal point of a campaign designed to attract new investors and help existing planholders achieve their RRSP goals. The company also made a sound and highly marketable addition to its range of post-RRSP options through the introduction of a Term to 90 Annuity. In terms of its revenue-generating activities, the Savings Division sold a record \$135 million in Canada Savings Bonds compared with \$83 million in 1983.

During 1984 the Trust Services Division of Savings experienced solid growth in the key areas of stock transfers, foreign insurance trusts, condominium trusts, pension plans and self-administered RRSPs.

The opening of new branches in Kitchener and St. Catharines and the consolidation of two branch offices in Winnipeg typified the continued streamlining and growth of First City's Canada-wide branch operations. Additionally, the Brantford office has been moved to larger premises as part of an ongoing expansion program which will see the relocation of the Guelph office as well as both the Calgary and Edmonton facilities in 1985.

The ability to deliver prompt and efficient service to a growing customer base is crucial for First City in today's competitive financial marketplace. The Company is allocating considerable time and resources on a continual basis to upgrade and expand data processing capabilities throughout its branch network.

MORTGAGES

As anticipated at the time of last year's annual report, Canadian financial institutions were confronted with narrowed interest spreads in 1984 resulting from intense competition to attract new quality assets. The aggressive pursuit of such business by the trust company's Mortgage Acquisition Division generated an increase in new mortgage fundings of \$354 million in 1984 over \$308 million the previous year. The mortgage division also experienced a dramatic growth in geographic coverage through the expansion of its Toronto, Ottawa and Halifax operations and the addition of two new branches in Kitchener and Montreal. While First City has maintained Savings and Leasing operations in Quebec for a number of years, the new mortgage acquisition branch in Montreal is a significant first step in establishing the Company as an active lender in this important marketplace. The division plans to further expand its operations in central and eastern Canada to handle the increased volume of business these markets represent.

LEASING

The past year was an exceptional one for First City Capital's leasing divisions and particularly for FCC Leasing, the small ticket group which handles leases under \$25,000. In the single year since it was established in Vancouver and Toronto, FCC Leasing has opened six additional branches located in Calgary, Edmonton, Winnipeg, Saskatoon, Montreal and St. John's.

A new leasing division, First City Medical Leasing, was launched early in 1985. Based in Toronto, this specialized group will provide leasing services to the medical profession across Canada as well as other financial services such as estate planning, mortgages and trust services.

First City Capital continues to be a dominant force in Canada's leasing industry. Its leasing services will be even further expanded and at least one new division introduced over the next 12 months. In addition, the company will be making an important entry into the resource sector in 1985, offering both oil and gas production loans and lease financing for industry field equipment.

REAL ESTATE

While certain North American real estate markets remained slow during 1984, First City Development was successful in acquiring a number of new assets strategically located in areas demonstrating strong recovery and good potential for future growth. The real estate group has adhered to its policy of participating in projects that can be carried out within a relatively short time frame, while maintaining a portfolio that is diversified both by asset type and location.

Significant acquisitions during 1984 included the purchase of two office buildings in Ottawa with a combined area of 592,000 square feet. In addition, the company contracted to buy a 600,000 square foot office building in downtown Chicago which subsequently closed early in 1985. Of these three acquisitions, one has been syndicated and the other two are being held in partnerships with plans for possible syndication.

First City Development also entered into a new joint venture during 1984 to develop several large residential land tracts which are currently under option in the San Francisco Bay area. The company expects to build approximately 300 houses in this market over the next few years.

Major sale transactions in 1984 involved several large parcels of land in southern California, 300 acres of land in Texas and a 1,500 car parking garage in downtown Boston. The company pursued its ongoing land subdivision business in the Toronto, Vancouver, Seattle, southern California and Phoenix markets as well as the development of strip shopping centres through its Toronto and Seattle divisions.

First City Development is continuing to expand its operations in greater Toronto and has recently acquired, or has under option, prime sites for shopping centre, office building and residential land development in that market. In 1985 the real estate group will focus its new activities on a select number of geographic locations often in association with experienced local partners. The company will continue to match long-term financing with its long-term residential and commercial properties at fixed interest rates to protect against future rate fluctuations.

OUTLOOK

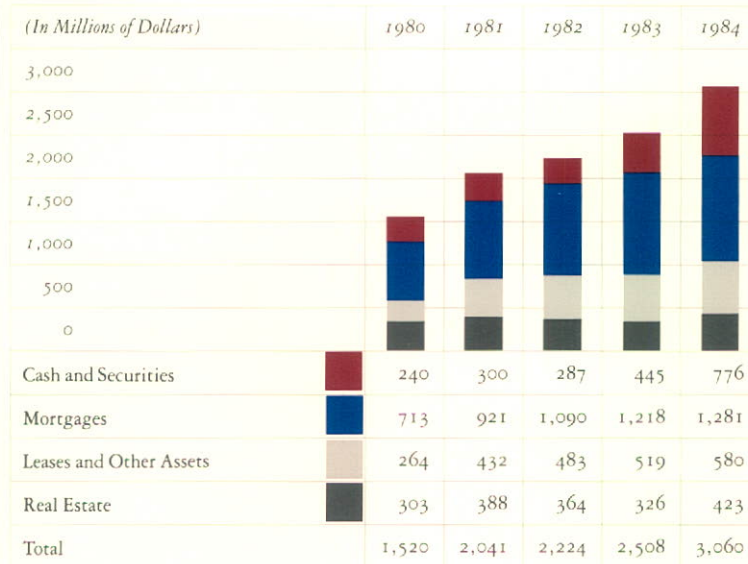
First City Trust anticipates continued growth in its deposits during 1985 due to a steadily expanding customer base and the introduction of new products and services. In addition, growth is projected in Registered Retirement Savings Plans, a major deposit area of the trust company. This is expected to result from the Company's concerted marketing efforts and the anticipated new federal pension legislation which should substantially increase depositors' maximum allowable annual contributions.

Due to the abundance of cash in the Canadian financial system, financial institutions will continue to compete aggressively to attract quality assets. This situation leads to narrow spreads between deposit and asset interest rates for all involved. It is anticipated that legislation expected to be introduced in 1985 by both the federal and provincial governments will expand the scope of investments in which trust companies may participate. These increased investment powers would enable trust companies to become more active in the economic recovery now underway in many parts of Canada.

With the possibility of continued interest rate volatility in 1985, First City Trust will maintain its policy of closely matching assets and liabilities to protect against sudden shifts in rates that could impact earnings. As in previous years, the Company will place a high priority on effectively meeting the financial needs of both individuals and businesses throughout the Canadian marketplace.

Total Assets

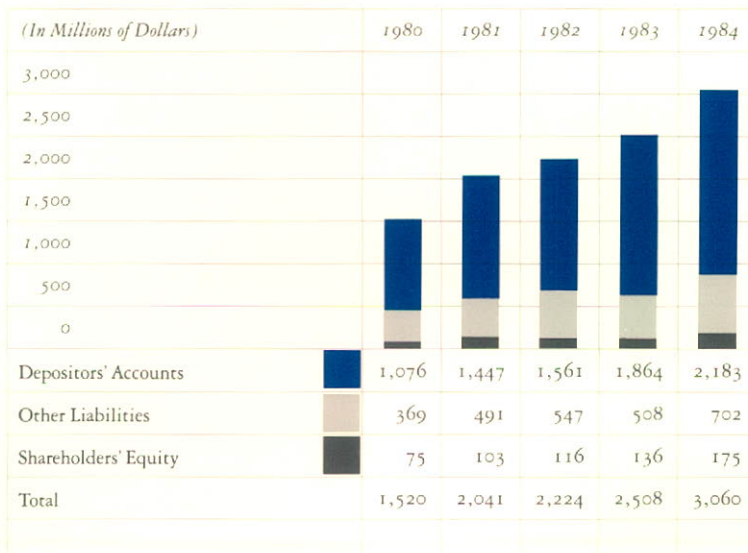
As at December 31, 1984, total assets were \$3 billion, an increase of \$552 million over the previous year-end. This growth is due to a \$328 million increase in cash and short term investments and a \$113 million expansion of credit to customers by way of mortgages, leases or other loans. Over the past five years, total assets have grown at a compounded annual rate of 22%. Return on average assets for 1984 was 1.47%, compared with 0.86% in 1983.



Liabilities and Shareholders' Equity

Shareholders' equity increased 29% to reach \$175 million at year-end. Depositors' accounts grew by \$319 million, or 17% in 1984 and over the past five years at an average annual rate of 22%. The return on common shareholders' equity for 1984 was 31.0% compared with 18.6% the previous year.

The ratio of shareholders' equity to depositors' accounts at December 31, 1984 was 8.03% and to total assets was 5.73%, compared to 7.30% and 5.43% respectively at the same date in 1983.



ASSET AND LIABILITY MANAGEMENT

Basic corporate strategy is to match demand and short term deposits with floating rate assets, and one to five year term deposits with assets of like maturity. In the event that there are advantages to be gained in selective mismatched positions, it is also part of corporate strategy to do so under controlled conditions at acceptable degrees of risk. All of this must be accomplished with satisfactory spreads between income earned and interest paid or payable and with minimum fluctuations in net investment income.

LIQUIDITY MANAGEMENT

Management invests monies received from deposits and the Company's own funds in such a manner that the Company will be in a position to meet its obligations. While certain minimum standards are required by statute to ensure that short term obligations will be met by available cash or assets which may be readily converted to cash, it is the Company's practice to maintain liquidity in excess of the minimum required at all times.

MATURITIES

Management matches closely the amounts of all the Company's maturing assets with maturing liabilities as follows:

Maturity Matching*

(In Thousands of Dollars)	Cash and Short Term		Finance Receivables and Other Loans		Mortgages		1984	1983
	Short Term	Securities	Other Loans	Mortgages	Total	Total	Total	Total
Investments								
On Demand and within								
one year	\$ 282,023	\$ 9,356	\$249,104	\$ 618,683	\$1,159,166	\$1,021,396		
1 - 2 Years		83	70,209	166,179	236,471	225,988		
2 - 3 Years		2,865	44,467	144,759	192,091	207,071		
3 - 4 Years		2,037	22,885	79,672	104,594	63,756		
4 - 5 Years		5,328	52,434	137,630	195,392	157,741		
Stocks		177,352	—	—	177,352	93,231		
Beyond 5 Years		62,259	49,166	2,392	113,817	112,536		
	\$ 282,023	\$259,280	\$488,265	\$1,149,315	\$2,178,883	\$1,881,719		
							1984	1983
							Total	Total
Liabilities								
On Demand and within								
one year	\$1,225,009	\$ —			\$1,225,009	\$1,051,315		
1 - 2 Years	295,886	—			295,886	242,717		
2 - 3 Years	223,977	14,350			238,327	243,027		
3 - 4 Years	147,407	—			147,407	117,981		
4 - 5 Years	157,927	—			157,927	130,372		
Beyond 5 Years	132,374	—			132,374	93,669		
	\$2,182,580	\$ 14,350			\$2,196,930	\$1,879,081		

BORROWING CAPACITY

The Company's ability to accept deposits is directly related to the amount of shareholders' equity as defined by statute. For each one dollar of shareholders' equity the Company is empowered to accept up to \$23 in deposits.

Excess capacity at December 31, 1984 was \$2,220 million and \$1,515 million at the same date the previous year.

INTEREST RATE SENSITIVITY

Performance in the intermediary area is measured by spread, or the difference between income generated from invested assets and interest paid out on deposits. In the case of fixed rate term deposits and related investments with similar maturities, the spread is relatively stable and is not significantly affected by volatility in interest rates. In the case of variable rate deposits, or those subject to sudden rate changes, there is a high degree of sensitivity and the effect on spreads can be substantial if they are not matched by variable rate investments. The following schedule separates variable and fixed rate investments and deposits and shows the extent to which there is a surplus or deficiency of rate-sensitive investments.

*Investments and Deposits by Interest Sensitivity**

(In Thousands of Dollars)

	1984				1983			
	Under One Year		Over One Year	Total	Under One Year		Over One Year	Total
	Variable Rate	Fixed Rate			Variable Rate	Fixed Rate		
Investments								
Cash	\$244,691	\$37,332	\$ —	\$282,023	\$113,230	\$70,887	\$ —	\$184,117
Securities	29,272	9,739	220,269	259,280	19,294	878	217,999	238,171
Loans	252,102	592,178	733,929	1,578,209	216,548	586,592	616,388	1,419,528
Other	19,369	—	40,002	59,371	20,852	590	18,461	39,903
	<u>545,434</u>	<u>639,249</u>	<u>\$994,200</u>	<u>\$2,178,883</u>	<u>369,924</u>	<u>658,947</u>	<u>\$852,848</u>	<u>\$1,881,719</u>
Liabilities								
Deposits	526,156	698,878	\$957,546	\$2,182,580	347,969	695,863	\$820,761	\$1,864,593
Term debt	13,500	—	850	14,350	13,638	—	850	14,488
	<u>539,656</u>	<u>698,878</u>	<u>\$958,396</u>	<u>\$2,196,930</u>	<u>361,607</u>	<u>695,863</u>	<u>\$821,611</u>	<u>\$1,879,081</u>
Surplus								
(deficiency)	\$5,778	\$(59,629)			\$8,317	\$(36,916)		

*Excludes real estate subsidiary operations

Consolidated Balance Sheet

FIRST CITY TRUST COMPANY

December 31, 1984 (In Thousands of Dollars)	Note	1984	1983
Assets			
Cash and short term investments		\$ 512,106	\$ 184,117
Securities	2	263,712	260,398
Finance receivables and other loans		401,355	351,230
Mortgages		1,281,337	1,218,069
Real estate	3	422,631	325,893
Accounts receivable		41,086	24,200
Investment in affiliated companies	4	25,229	42,008
Investment in and advances to joint ventures and partnerships	5	83,774	80,342
Fixed assets	6	13,253	12,331
Other assets	7	15,216	9,119
		<u>\$3,059,699</u>	<u>\$2,507,707</u>
Liabilities			
Customer deposits			
Demand and short term deposits		\$ 536,247	\$ 506,275
Deposit certificates and term debentures		1,646,333	1,357,728
		2,182,580	1,864,003
Bank indebtedness	8	211,657	202,967
Accounts payable and accrued liabilities		55,448	54,406
Due to related parties	9	38,937	55,446
Term debt	10	336,493	137,977
Deferred income		3,656	4,691
Deferred income taxes		17,433	23,513
Minority interest		38,270	28,654
		<u>2,884,474</u>	<u>2,371,657</u>
Contingencies	17		
Shareholders' Equity			
Capital stock			
Preferred shares	11	33,294	34,062
Common shares		2,995	2,995
Contributed surplus, general reserve and retained earnings		128,551	95,486
Unrealized foreign exchange gain	1	10,385	3,507
		<u>175,225</u>	<u>136,050</u>
		<u>\$3,059,699</u>	<u>\$2,507,707</u>

Approved by the Board:

Samuel Belzberg
Chairman of the Board
and Chief Executive Officer

V. Edward Daughney
President and
Chief Operating Officer

Consolidated Statement of Contributed Surplus, General Reserve and Retained Earnings

FIRST CITY TRUST COMPANY

<i>Year Ended December 31, 1984 (In Thousands of Dollars)</i>	<i>1984</i>	<i>1983</i>
Contributed Surplus		
Balance, beginning of year	\$ 23,545	\$23,390
Discount on preferred shares purchased for cancellation	125	155
Balance, end of year	23,670	23,545
General Reserve		
Balance, beginning of year	3,000	3,000
Transfer to retained earnings	3,000	—
Balance, end of year	—	3,000
Retained Earnings		
Balance, beginning of year	68,941	48,836
Net income	37,857	25,078
Transfer from general reserve	3,000	—
	109,798	73,914
Dividends		
Common shares	1,797	1,797
Preferred shares	3,120	3,176
Balance, end of year	104,881	68,941
	\$128,551	\$95,486

Consolidated Statement of Income

FIRST CITY TRUST COMPANY

Year Ended December 31, 1984 (In Thousands of Dollars)	Note	1984	1983
Revenue			
Investments		\$310,264	\$264,007
Real estate		202,604	305,179
Securities and investment gains		78,743	21,009
Fees and other income		20,446	16,323
		612,057	606,518
Expenses			
Interest on customer deposits		251,179	209,765
Bank, term debt and other interest		25,546	21,547
Cost of real estate sold and property rental expenses		181,276	275,908
Salaries and employee benefits		30,104	22,969
Operating and administrative		28,153	22,854
Provision for losses		27,146	15,608
Depreciation and amortization		5,020	4,138
		548,424	572,789
Income from Operations Before Income Taxes		63,633	33,729
Income Taxes	12	19,346	9,996
Income from Operations		44,287	23,733
Share of Affiliates' Operating Income (Loss)	4	1,453	(153)
Income Before Minority Interest and Extraordinary Items		45,740	23,580
Minority Interest		4,793	3,299
Income Before Extraordinary Items		40,947	20,281
Extraordinary Items	13	(3,090)	4,797
Net Income		\$ 37,857	\$ 25,078
Earnings per Common Share			
Before extraordinary items	14	\$ 25.26	\$ 11.42
After extraordinary items		\$ 23.20	\$ 14.62

Consolidated Statement of Changes in Financial Position

FIRST CITY TRUST COMPANY

Year Ended December 31, 1984 (In Thousands of Dollars)

1984

1983

Sources of Cash

From operations

Income before extraordinary items	\$ 40,947	\$ 20,281
Non cash items	37,341	22,750

78,288 43,031

Increase in

Customer deposits	318,577	302,735
Bank indebtedness	8,690	—
Accounts payable and accrued liabilities	1,042	10,852
Due to related parties	—	5,566
Term debt – net of repayments	198,516	24,873
Unrealized foreign exchange gain	6,878	3,507

Decrease in

Real estate	—	35,474
Accounts receivable and other assets	—	2,969
Investment in affiliated companies	18,232	—
Extraordinary items	—	4,797
Investment in and advances to joint ventures and partnerships	—	14,546
Other	125	—

630,348 448,350

Uses of Cash

Increase in

Securities	9,277	72,844
Finance receivables and other loans	51,226	32,026
Mortgages	76,173	132,739
Real estate	101,609	—
Accounts receivable	24,339	—
Investment in affiliated companies	—	23,222
Investment in and advances to joint ventures and partnerships	10,268	—
Fixed assets	4,183	3,223

Decrease in

Bank indebtedness	—	92,099
Due to related parties	16,509	—
Extraordinary items	3,090	—
Purchase of preferred shares for cancellation	768	922
Dividends	4,917	4,973

302,359 362,048

Increase in Cash and Short Term Investments 327,989 86,302

Cash and Short Term Investments, Beginning of Year 184,117 97,815

Cash and Short Term Investments, End of Year \$512,106 \$184,117

Notes to the Consolidated Financial Statements

FIRST CITY TRUST COMPANY

December 31, 1984

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. The subsidiary companies discussed in Note 4 have not been consolidated as their 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 not earlier than October 31.

The company accounts for its investments in affiliated companies, including unconsolidated subsidiary 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 provision for permanent declines in value.

LOANS

Mortgages and other loans are carried at cost 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. When 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, other than land held for income property development, is carried at the lower of cost and estimated net realizable value.

Land held for income property development is carried at cost.

Foreclosed property is carried at the lower of cost and estimated net realizable value.

The company capitalizes direct carrying costs related to real estate projects including specific interest, property taxes, legal fees, and those general and administrative expenses that are clearly identified with projects. In addition, a portion of non-specific interest is allocated to projects. Net rentals from income properties under development and apartments under condominium conversion are capitalized until such time as the properties are deemed completed or sold.

Notes to the Consolidated Financial Statements

FIRST CITY TRUST COMPANY

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.

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. These gains or losses are deferred as a separate component in the shareholders' equity section of the balance sheet (Note 1).

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.

GOODWILL

Goodwill arises from the 1981 acquisition of an Ontario loan company and is being amortized on a straight-line basis over 40 years.

December 31, 1984 (All Tabular Figures are expressed in Thousands of Dollars)

NOTE 1 - CHANGE IN ACCOUNTING POLICY

Following a recommendation by the Canadian Institute of Chartered Accountants the company has retroactively changed its method of accounting for the unrealized foreign exchange gain on its net investment in foreign subsidiaries. This unrealized gain was previously included under accounts payable and accrued liabilities but is now separately disclosed as a component of shareholders' equity. Comparative balances have been restated to conform with the new accounting policy.

As of December 31, 1983 the unrealized foreign exchange gain was \$3,507,000. During 1984 the unrealized foreign exchange gain increased by \$6,878,000 to \$10,385,000 due to a strengthening of the U.S. dollar in relation to the Canadian dollar.

Notes to the Consolidated Financial Statements

FIRST CITY TRUST COMPANY

NOTE 2 - SECURITIES

	1984		1983	
	Carrying Value	Market Value	Carrying Value	Market Value
Government and corporate bonds	\$ 82,157	\$ 80,468	\$ 60,549	\$ 58,591
Preferred and common shares	181,555	164,279	199,849	198,779
	<u>\$263,712</u>	<u>\$244,747</u>	<u>\$260,398</u>	<u>\$257,370</u>

NOTE 3 - REAL ESTATE

	1984	1983
Income properties		
Under development	\$ 18,410	\$ 3,441
Operating - net of accumulated depreciation of \$3,965,000 (1983 - \$3,341,000)	54,346	60,051
Housing completed and under development	78,958	80,159
Land under development and held for sale	195,286	140,937
Real estate equity financing receivables	38,255	27,250
Foreclosed property	37,376	14,055
	<u>\$422,631</u>	<u>\$325,893</u>

Depreciation on income properties charged to income for the year amounted to \$1,642,000 (1983 - \$1,678,000).

NOTE 4 - INVESTMENT IN AFFILIATED COMPANIES

	1983	Additions (Disposals)	Advances and Other	Share of Income for the Year	1984
Aberford Resources Ltd.					
- 9% owned	\$13,367	\$ —	\$ —	\$ 426	\$13,793
New York Hanseatic Corporation	19,254	(19,254)	—	—	—
Other	9,387	1,193	(171)	1,027	11,436
	<u>\$42,008</u>	<u>\$(18,061)</u>	<u>\$(171)</u>	<u>\$1,453</u>	<u>\$25,229</u>

The following summary information has been taken from the financial statements of Aberford Resources Ltd. at December 31, 1984.

Current assets	\$ 43,097
Property, plant and equipment	342,862
Other assets	54,911
Current liabilities	39,221
Other liabilities	101,620
Long-term debt	165,213
Shareholders' equity	134,816
Revenue	121,805
Net income	5,349

In July 1984 the company's investment in New York Hanseatic Corporation was sold for cash of \$14,269,000. The loss of \$5,043,000, after income taxes, resulting from the sale is included under extraordinary items (Note 13) in the consolidated statement of income.

Notes to the Consolidated Financial Statements

FIRST CITY TRUST COMPANY

NOTE 5 – 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:

	1984	1983
Assets	\$183,322	\$168,243
Liabilities	99,548	87,901
Revenues	48,181	34,313
Expenses	55,017	31,666

Included in real estate revenue in the consolidated statement of income for the year ended December 31, 1984 is the company's share of losses of joint ventures and partnerships in the amount of \$6,836,000 (1983 – income of \$2,647,000).

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, 1984 is approximately \$68 million against which the subsidiary companies would have claims on the related assets which, in total, are sufficient to meet these obligations.

NOTE 6 – FIXED ASSETS

These assets are stated at cost less accumulated depreciation and amortization of \$7,940,000 (1983 – \$8,338,000). Depreciation and amortization charged to income for the year amounted to \$3,205,000 (1983 – \$2,455,000).

NOTE 7 – OTHER ASSETS

	1984	1983
Prepaid expenses	\$ 4,691	\$5,676
Unamortized debt financing costs	7,619	—
Other	2,906	3,443
	\$15,216	\$9,119

NOTE 8 – BANK INDEBTEDNESS

	1984	1983
On finance receivables	\$ —	\$ 138
On operating income properties	—	3,560
On housing completed and under development	21,407	33,355
On land under development and held for sale	18,594	19,453
General – real estate	171,656	146,461
	\$211,657	\$202,967

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, 1984 was 11.8% (1983 – 11.9%).

Bank indebtedness secured on real estate is represented by charges on specific properties.

The majority of the general indebtedness is secured by a demand debenture providing a first floating charge over all the assets of a subsidiary.

Notes to the Consolidated Financial Statements

FIRST CITY TRUST COMPANY

NOTE 9 – DUE TO RELATED PARTIES

	1984	1983
First City Financial Corporation Ltd. (parent company)	\$ 3,195	\$25,675
Bel-Fran Investments Ltd. and related corporations (ultimate controlling shareholders)	35,742	29,771
	<u>\$38,937</u>	<u>\$55,446</u>

The amounts have no specific terms of repayment and bear interest at a weighted average rate of 11.7% (1983 – 5.1%). Total interest charged for the year was \$4,924,000 (1983 – \$4,637,000).

During the year one of the company's subsidiaries acquired certain marketable securities from First City Financial Corporation Ltd. at that company's original cost, including carrying costs, of \$45,104,000. The market value of the securities at that date was \$58,031,000.

NOTE 10 – TERM DEBT

	1984	1983
Secured		
On income properties	\$ 36,375	\$ 37,661
On housing and condominium conversions	16,337	15,844
On land	34,918	23,190
On mortgages receivable	26,839	39,104
Unsecured		
Subordinated notes – due 1987	14,350	14,350
Subordinated notes – FCP – due 1994	198,414	—
Other	9,260	7,828
	<u>\$336,493</u>	<u>\$137,977</u>

Secured term debt bears interest at a weighted average rate of 12.9% (1983 – 10.8%).

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 \$198,414,000 have been issued by a subsidiary, First City Properties Inc. (FCP) and bear interest at a weighted average rate of 13.9%. In conjunction with certain of these notes, 2,000,000 warrants have also been issued which are each convertible to one common share of FCP on payment of U.S. \$16.50. Should all of these warrants be converted to common shares, the company's ownership in FCP would decrease from 69% to 56% and FCP shareholders' equity would increase by U.S. \$33 million. If all the warrants had been converted to FCP shares at December 31, 1984, the company would have realized a gain on its investment in FCP of approximately U.S. \$6 million. The warrants expire in January 1989.

Notes to the Consolidated Financial Statements

FIRST CITY TRUST COMPANY

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 the term debt are as follows:

On sale of housing and condominium conversions	\$ 16,337
1985	35,197
1986	10,970
1987	32,743
1988	11,645
1989	9,034
1990-1994	220,567
	<u>\$336,493</u>

NOTE 11 - CAPITAL STOCK

The company is authorized to issue the following preferred shares:

2,000,000 Cumulative redeemable preferred shares of \$10 par value, issuable in series

2,000,000 Cumulative redeemable 8¾% preferred shares of \$8.50 par value

4,000,000 Cumulative redeemable preferred shares of \$8 par value, issuable in series

	1984		1983	
	Number of Shares	Paid-up Value	Number of Shares	Paid-up Value
\$10 par value				
Series A - 10¾%	268,500	\$ 2,685	269,400	\$ 2,694
Series B - 8.32%	461,200	4,612	482,700	4,827
Series C - floating rate	600,000	6,000	600,000	6,000
\$8.50 par value 8¾%	1,322,167	11,238	1,386,167	11,782
\$8 par value				
Series I - 11¼%	1,094,832	8,759	1,094,832	8,759
		<u>\$33,294</u>		<u>\$34,062</u>

The Series C preferred shares have a dividend rate equal to the sum of 1½% and 50% of the prime commercial lending rate.

PREFERRED SHARE REDEMPTION PROVISIONS

\$10 par value

Series A - 10¾%

Redeemable at par plus a decreasing premium to January 1995 and thereafter at par.

Series B - 8.32%

Redeemable at par plus a decreasing premium to September 1987 and thereafter at par.

Series C - floating rate

Redeemable at par at any time prior to mandatory redemption date in June 1991.

\$8.50 par value 8¾%

Redeemable at par plus a decreasing premium to April 1988 and thereafter at par.

\$8 par value

Series I - 11¼%

Redeemable after December 1985 at par plus a decreasing premium to December 1990 and thereafter at par. Retractable at the holder's option in December 1985 at par.

Notes to the Consolidated Financial Statements

FIRST CITY TRUST COMPANY

PREFERRED SHARES PURCHASED FOR CANCELLATION

During the year the company purchased for cancellation 900 Series A shares, 21,500 Series B shares and 64,000 8¾% shares. Contributed surplus has been credited with \$125,000 for the year, being the excess of par value over cost.

COMMON SHARES

The company is authorized to issue 3,500,000 common shares of \$2.00 par value each. As at December 31, 1984, 1,497,546 shares were issued and fully paid (1983 - 1,497,545 shares).

NOTE 12 - INCOME TAXES

Income taxes on operating income, current and deferred, have been provided as follows:

	1984	1983
Current	\$17,677	\$ 41
Deferred	1,669	9,955
	<u>\$19,346</u>	<u>\$9,996</u>

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

	1984		1983	
Income taxes on income from operations based on statutory rates	\$32,453	51.0%	\$17,202	51.0%
Non-taxable dividend income	(2,506)	(3.9)	(3,150)	(9.3)
Non-taxable capital gains	(9,789)	(15.4)	(2,286)	(6.8)
Other	(812)	(1.3)	(1,770)	(5.3)
Provision for income taxes	<u>\$19,346</u>	<u>30.4%</u>	<u>\$ 9,996</u>	<u>29.6%</u>

NOTE 13 - EXTRAORDINARY ITEMS

	1984	1983
Share of tax reduction of subsidiary company from utilization of a loss carry forward	\$ 1,953	\$4,180
(Loss) gain on sale of subsidiary company, net of income taxes	(5,043)	617
	<u>\$ (3,090)</u>	<u>\$4,797</u>

NOTE 14 - EARNINGS PER COMMON SHARE

Earnings per common share have been calculated on the weighted average number of shares outstanding during each year, after payment of preferred share dividends.

NOTE 15 - INTEREST EXPENSE

In respect of real estate development operations of subsidiaries, interest for the year totalled \$58,732,000 (1983 - \$46,547,000) of which \$25,819,000 (1983 - \$21,483,000) was charged to operations with the remaining amount being capitalized.

Notes to the Consolidated Financial Statements

FIRST CITY TRUST COMPANY

NOTE 16 – COMMITMENTS

The company's premises and certain equipment are held under long-term leases; the aggregate amount of rentals paid during the year was \$4,515,000 (1983 – \$3,692,000). The aggregate rentals payable under all leases currently in force during the next five years is approximately \$17 million.

A subsidiary company involved in real estate development has lodged letters of credit aggregating \$22,589,000 with municipalities and utilities as collateral for the fulfillment of various business obligations.

NOTE 17 – 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 by the subsidiary to enforce the agreements of purchase. The claims 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.

The company and certain subsidiaries are defendants in other actions arising in the ordinary course of business. These actions are being contested and, in certain cases, counter claims have been made. The company believes that their ultimate outcome will not result in significant liability being assessed.

NOTE 18 – BUSINESS SEGMENT INFORMATION

Operations and identifiable assets by industry segment are as follows:

	1984	1983
Financial services		
Revenue from third parties	\$ 363,484	\$ 261,524
Income from operations	38,991	12,442
Identifiable assets	2,210,169	1,894,662
Real estate		
Revenue from third parties	\$ 248,573	\$ 344,994
Income from operations	5,296	11,291
Identifiable assets	849,530	613,045

Operations and identifiable assets by geographical segment are as follows:

	1984	1983
Canada		
Revenue from third parties	\$ 364,800	\$ 336,812
Income from operations	20,914	9,424
Identifiable assets	2,401,206	2,041,581
United States		
Revenue from third parties	\$ 247,257	\$ 269,706
Income from operations	23,373	14,309
Identifiable assets	658,493	466,126

Notes to the Consolidated Financial Statements

FIRST CITY TRUST COMPANY

NOTE 19 – SUBSEQUENT EVENTS

- (a) In January 1985 one of the company's subsidiaries, First City Properties Inc. (FCP), acquired approximately 93% of the outstanding common shares of Scovill Inc., a U.S. consumer products manufacturer. The total acquisition price of approximately U.S. \$520 million was funded by FCP out of its existing cash balances, bank borrowings and an issue of up to U.S. \$70 million of redeemable preferred shares. At December 31, 1984 Scovill Inc. had total assets of approximately U.S. \$510 million and gross revenues for the year then ended of approximately U.S. \$825 million.
- (b) One of the company's subsidiaries, First City Development Corp. Ltd. (FCDC) is currently considering a reorganization of its corporate structure. Under the proposed plan a significant portion of FCDC's real estate assets would be sold to a newly incorporated subsidiary of the company's ultimate parent, First City Financial Corporation Ltd. Approval of this plan is currently being considered by Federal and Provincial regulatory authorities.

NOTE 20 – COMPARATIVE FIGURES

Certain comparative figures for 1983 have been reclassified to conform with the classifications used in the current year.

Auditors' Report

To the Shareholders of
First City Trust Company:

We have examined the consolidated balance sheet of First City Trust Company as at December 31, 1984 and the consolidated statements of income, contributed surplus, general reserve and retained earnings and 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, 1984 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, after giving retroactive effect to the change in the method of accounting for the unrealized foreign exchange gain on investments in foreign subsidiaries as explained in Note 1 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells
Chartered Accountants
Vancouver, British Columbia
February 4, 1985

Five Year Summary

FIRST CITY TRUST COMPANY

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

	1984	1983	1982	1981	1980
Balance Sheet					
Assets					
Cash and short					
term investments	\$ 512,106	\$ 184,117	\$ 97,815	\$ 103,785	\$ 59,827
Securities	263,712	260,398	188,731	196,494	180,248
Finance receivables and					
other loans	401,355	351,230	322,463	274,013	144,694
Mortgages	1,281,337	1,218,069	1,090,285	920,731	713,212
Real estate	422,631	325,893	364,213	387,847	303,321
Other assets	178,558	168,000	160,184	158,210	118,254
Total	\$3,059,699	\$2,507,707	\$2,223,691	\$2,041,080	\$1,519,556
Liabilities and Equity					
Deposits	\$2,182,580	\$1,864,003	\$1,561,268	\$1,446,703	\$1,075,975
Other liabilities	309,698	317,510	388,598	366,097	296,317
Term debt	336,493	137,977	113,104	108,062	50,158
	2,828,771	2,319,490	2,062,970	1,920,862	1,422,450
Deferred income taxes	17,433	23,513	18,776	16,246	21,933
Minority interest	38,270	28,654	25,515	1,463	—
Shareholders' equity	175,225	136,050	116,430	102,509	75,173
Total	\$3,059,699	\$2,507,707	\$2,223,691	\$2,041,080	\$1,519,556
Income Statement					
Revenue					
Mortgage, lease and loan					
interest and dividends	\$ 310,264	\$ 264,007	\$ 256,999	\$ 217,189	\$ 125,502
Real estate	202,604	305,179	254,604	189,543	103,072
Securities and investment					
gains	78,743	21,009	14,706	2,571	3,252
Fees and other income (A)	21,899	16,170	21,364	29,276	19,406
Total Revenue	613,510	606,365	547,673	438,579	251,232
Expenses					
Interest	276,725	231,312	250,020	214,667	118,870
Salaries	30,104	22,969	21,795	20,236	13,167
Real estate	181,276	275,908	223,165	165,587	84,406
Other (B)	65,112	45,899	32,325	25,612	18,512
Total Expenses	553,217	576,088	527,305	426,102	234,955
Income Taxes	19,346	9,996	5,975	(2,094)	4,658
Income (before extraordinary items)	\$ 40,947	\$ 20,281	\$ 14,393	\$ 14,571	\$ 11,619
Per Common Share					
Earnings before extra-ordinary items	\$ 25.26	\$ 11.42	\$ 7.35	\$ 7.60	\$ 8.28
Dividends	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.00
Book value	\$ 94.78	\$ 68.10	\$ 54.39	\$ 44.61	\$ 35.64

(A) Includes share of affiliates' income (B) Includes minority interest

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John Preston
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Bill Alton
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FIRST CITY TRUST-FCT

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