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FIRST CITY

# 1983 ANNUAL REPORT

## PROFILE

First City is an integrated group of companies which participates in financial services, real estate, and investment activities throughout North America. First City Financial Corporation Ltd. is the parent company based in Vancouver, Canada. Together with its principal subsidiaries, First City Trust Company, a full-service financial institution, and First City Development Corp. Ltd., a diversified real estate organization, the Company employs over 1,000 people in Canada and the United States. In recent years, First City Financial has broadened the scope of its investment strategy allowing it to take significant positions in other businesses and industries. This diversification program is ongoing and to date includes a 39 percent interest in Aberford Resources Ltd., a Canadian oil and gas company; 30 percent interest in Cantel Cellular Radio Group, which is developing a cellular mobile telephone network across Canada; and the acquisition of New York Hanseatic Corporation, a primary dealer in U.S. Government and federal agency securities and money market instruments.

## ANNUAL MEETINGS

First City investors are invited to attend the Company's Annual General Meetings. These will be held as follows:

FIRST CITY FINANCIAL  
CORPORATION LTD.

4:00 p.m., May 9, 1984  
Palliser Hotel  
Calgary, Alberta

FIRST CITY TRUST COMPANY

3:30 p.m., May 9, 1984  
Palliser Hotel  
Calgary, Alberta

## FINANCIAL HIGHLIGHTS

### FIRST CITY FINANCIAL CORPORATION LTD.

<i>(In Millions of Dollars—except per share figures)</i>	1983	1982	% Increase
Earnings Per Common Share			
Before extraordinary items	\$ 3.99	\$ 1.78	124
After extraordinary items	4.50	2.17	107
Book Value Per Share	23.14	18.96	22
Gross Revenue	\$ 646.1	\$ 561.8	15
Net Income	42.2	17.3	144
Total Assets	2,738.3	2,371.0	15
Shareholders' Equity	233.5	153.4	52

### FIRST CITY TRUST COMPANY

<i>(In Millions of Dollars—except per share figures)</i>	1983	1982	% Increase
Earnings Per Common Share			
Before extraordinary items	\$ 11.42	\$ 7.35	55
After extraordinary items	14.62	9.23	58
Gross Revenue	\$ 606.5	\$ 547.0	11
Net Income	25.1	17.2	46
Total Assets	2,507.7	2,223.7	13
Total Customer Deposits	1,864.0	1,561.3	19
Shareholders' Equity	132.5	113.2	17

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DEPARTMENT OF MANAGERIAL  
UNIVERSITY  
1000 Sherbrooke St. W.  
Montreal, Quebec, Canada  
H3A 1G5

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## TO OUR SHAREHOLDERS

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First City Financial Corporation is pleased to report that earnings increased by \$24.9 million to \$42.2 million for the fiscal year ended December 31, 1983. Throughout its twenty-first year of operation, the Company continued to emphasize the importance of a strong liquidity position and capital base to allow for maximum financial flexibility. As well, First City actively pursued its investment strategy of diversification into other successful businesses and a broader geographic marketplace. The Company's strong performance in 1983 reflects the achievement of some of these goals in a year in which the Canadian and U.S. economies began their long-awaited recoveries, when stable interest rates prevailed, and, in the latter part of the year, when consumer demand increased.

Consistent with its stated objectives for 1983, the Company strengthened its capital position in order to enhance its ability to finance future acquisitions and investments. In May, the Company completed a Canadian public offering of two million additional common shares, adding a total of \$42 million to its equity. As a direct result, the Company's shareholder base was broadened substantially and stock distribution improved. This issue, after expenses, together with net earnings after dividends, increased shareholders' equity to \$233 million at year end, compared with \$153 million for the previous year. In August, the Company completed a private placement of \$30 million (U.S.) 12.3 percent unsecured notes in the United States due in 1988. Additionally, an issue of 11.25 percent dual currency bonds was successfully placed by way of a public offering in Switzerland in February of 1984. Net proceeds of \$47 million (U.S.), along with the proceeds of the common stock and debt issues, have been added to the general working capital of the Company. First City increased common share dividends in 1983 to an annualized rate of 50 cents from the 30 cent rate paid in recent years, with dividends now being paid quarterly rather than semi-annually.

During the past year, First City has made considerable progress in its course of diversification for the 1980s. In July, the Company acquired New York Hanseatic Corporation, a primary dealer in U.S. Government and federal agency securities and money market instruments. Founded in 1920, New York Hanseatic's principal business is market making. This acquisition has given First City an entry into the leading financial marketplace in North America.

In December 1983, First City, together with Telemedia Inc. of Montreal and Rogers Telecommunications Inc. of Toronto, received approval to construct and manage the first cellular mobile radio telephone network across Canada. Operating under the name of Cantel Cellular Radio Group, First City and Telemedia each hold 30 percent of its shares, Rogers holds 20 percent, and the remaining 20 percent will be owned by local radio common carriers throughout the country. The cellular mobile radio telephone is a new concept in portable telephone service which will elevate the quality of mobile telephone communication to that of conventional telephones.

Last year was an eventful one for First City in terms of its investment activities, further underscoring the Company's intent to participate in a wider range of businesses. In early 1983, First City acquired approximately nine percent of the outstanding shares of Pargas Inc., a natural gas production firm in Maryland. First City had planned to make an offer to acquire all of the equity interest in Pargas through a leveraged buyout. However, a competitive bid was made by a second company which exceeded First City's targeted purchase price, so the Company withdrew from the bidding. The second offer subsequently failed to close, followed by a third bid which Pargas management accepted. First City ultimately sold its shares in response to the third party tender. In September, the Company

*Samuel Belzberg*



reached an agreement in principle to purchase substantially all of the assets of The Permian Corporation, a Texas-based oil and gas distribution company owned by Occidental Petroleum Corporation. This purchase was terminated by mutual consent in November because agreement could not be reached concerning some of the fundamental terms of the sale. Since October, First City has acquired for investment approximately 1.3 percent of the outstanding common stock of Gulf Oil Corporation of Pittsburgh, Pennsylvania. The purchase has been made with First City acting as one of a group of investors led by Mesa Petroleum Co. of Amarillo, Texas. At the time of this report, the group had acquired an aggregate of approximately 13.2 percent of Gulf's outstanding common stock.

The stable interest rate environment of 1983 allowed the Company's principal operating subsidiaries to align themselves for future expansion and growth. First City Trust continued to emphasize the matching of its assets and liabilities, as to both term and yield. This policy has been largely responsible for the trust company's impressive operating results. First City Development maintained its long-standing policy of asset realization and, during the year, expanded into the area of managing real estate portfolios for others, in addition to direct investment and development on a 100 percent ownership basis.

In June 1983, First City Trust was selected by Canada Deposit Insurance Corporation to assume management of the business and operations of The Fidelity Trust Company, a Toronto-based firm with branches across Canada and assets of approximately \$800 million. Under the agreement, First City may renew Fidelity customer deposits and mortgages as they come due. Fidelity's branches have been integrated into First City's network and many former Fidelity employees have joined First City.

During 1983, several Ontario trust and loan companies were placed under the control of provincial government regulatory bodies. As a consequence, the Ontario Ministry of Consumer and Commercial Relations published proposals in November to revise loan and trust corporation legislation and administration in that province. These proposals are discussed further on page 38.

At the national level, the federal government released a discussion paper in 1982 containing proposals to revise and consolidate the federal Trust Companies Act and Loan Companies Act. To date, no federal revisions have been introduced and none are expected in the immediate future. First City believes that there is a pressing need to amend and update such legislation in order to ensure that depositors and shareholders have adequate protection and that the marketplace is fair. The Company will continue to play an active role in the financial industry's ongoing consultations with government in this regard.

In November, the Honorable Senator David A. Croll stepped down as Chairman of the Board of First City Financial and assumed the position of Honorary Chairman of the Board. The Company looks forward to many more years of Senator Croll's valued counsel and support. Mr. Samuel Belzberg was subsequently appointed to the office of Chairman of the Board. In March 1983, Mr. Daniel U. Pekarsky was appointed to the Board of Directors, and at the 1983 Annual General Meeting was named President and Chief Operating Officer of the Company. At the same time, Mr. Garth Kennedy, President of Army and Navy Department Stores Ltd., was elected to the Board of Directors. Directors retiring from the Board during 1983 were the late Honorable Senator Allister Grosart, P.C., Mr. Richard C. Baxter and Mr. Michael Cytrynbaum. The Company and its shareholders acknowledge the active and substantial contributions these men have made to First City's growth and profitability.

The death of Allister Grosart in February of this year is noted with deep regret. Mr. Grosart was an outstanding Canadian whose many contributions while in the nation's public service will long be remembered. He was a Privy Councillor, and a prominent senator for 19 years who served a term as Speaker of the Upper House.

*Daniel U. Pekarsky*

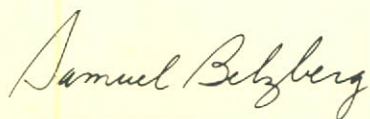


Prior to that, Mr. Grosart was the national director of the Federal Conservative Party where he played a leading role in the party's reorganization of the mid-1950s. Mr. Grosart became a Director of First City Trust in 1965 and a Director of First City Financial in 1970. He was appointed an Honorary Director in 1983.

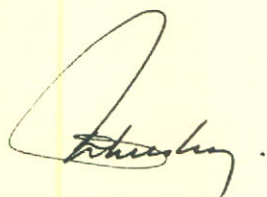
At the 1983 Annual General Meeting of First City Trust Company, Messrs. V. Edward Daughney, Daniel U. Pekarsky and Brent S. Belzberg were elected to the Board of Directors. Mr. Daughney was appointed to the position of President and Chief Operating Officer of First City Trust and Mr. Pekarsky was named Vice Chairman of the Board.

First City recognizes that management of such a diversified and growing company requires talented and capable individuals at every level of its operation. To a great extent, the Company's success in 1983, as in past years, can be attributed to the consistent effort and dedication of its people.

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

March 15, 1984  
Vancouver, B.C.



**FIRST CITY  
FINANCIAL CORPORATION LTD.**

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## REVIEW OF OPERATIONS

### FIRST CITY FINANCIAL CORPORATION

Net income for 1983 was \$42.2 million or \$4.50 per share as compared with \$17.3 million or \$2.17 per share for the previous year. Income before extraordinary items was \$37.5 million or \$3.99 per share, compared with \$14.1 million or \$1.78 per share in 1982. The extraordinary income in both periods includes the tax benefit of losses carried forward by a U.S. subsidiary company and also, for 1983, the net gain on the sale of a subsidiary company. In 1982, it includes an extraordinary gain realized by an affiliate on the settlement of a joint venture dispute. Total revenues for the year increased to \$646 million from \$562 million in 1982 with the majority of the increase due to real estate sales and securities gains.

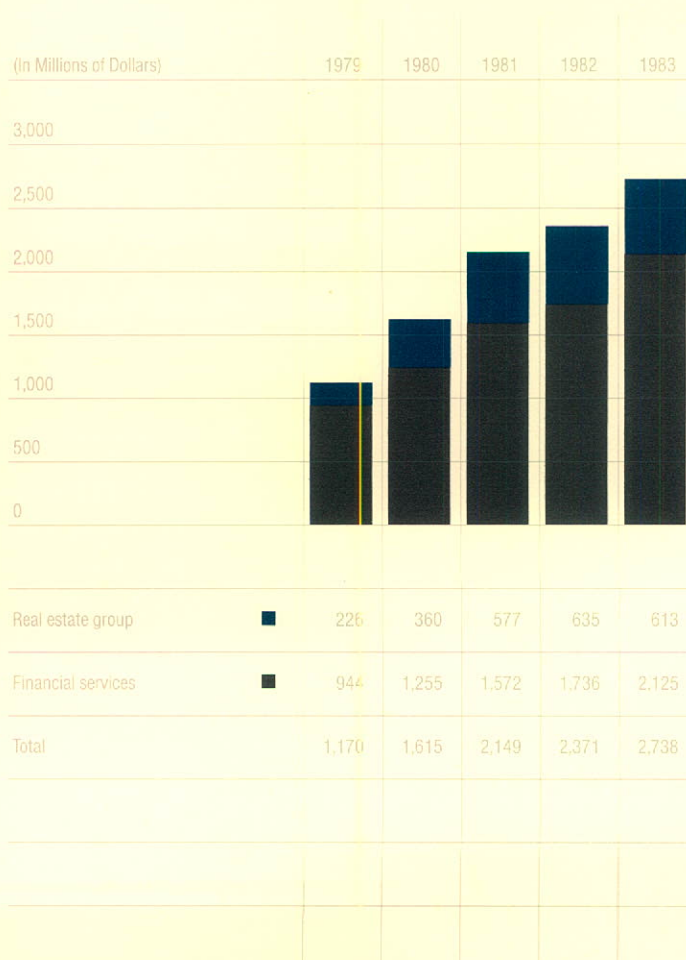
Total common shareholders' equity increased by \$80 million, or 52 percent during the year. Book value per common share was \$23.14 at year end, an increase of 22 percent from 1982. Cash flow per share increased from \$3.35 in 1982 to \$8.26 in 1983, an increase of 147 percent.

### TOTAL ASSETS

As at December 31, 1983, total assets were \$2.7 billion, an increase of \$367 million from the previous year end. The majority of this increase resulted from growth in First City Trust Company's loan portfolio, a smaller component being the Company's investment in New York Hanseatic Corporation. The asset growth has been financed in First City Trust Company by a corresponding increase in customer deposits and, elsewhere in the operation, through a combination of increases in equity and unsecured debt, net of a reduction in bank indebtedness.

Over the past five years, total assets have grown at a compounded annual rate of 28 percent, with financial services contributing 21 percent and real estate 7 percent.

The return on average assets for 1983 was 1.47 percent, compared with 0.63 percent for 1982.



#### FIRST CITY TRUST COMPANY

Net earnings for the Company's principal subsidiary exceeded expectations due to the more stable interest rate climate, an increased demand for mortgages and lease financings, and an improvement in interest margins. Details of First City Trust's most successful year to date, together with a discussion of its major activities, can be found on page 31 of this report.

#### FIRST CITY DEVELOPMENT CORP. LTD.

Sales revenue for First City Trust's real estate subsidiary increased in 1983 to \$345 million from \$303 million in 1982. Details of First City Development's most significant achievements of the past year can be found on page 34 of this report.

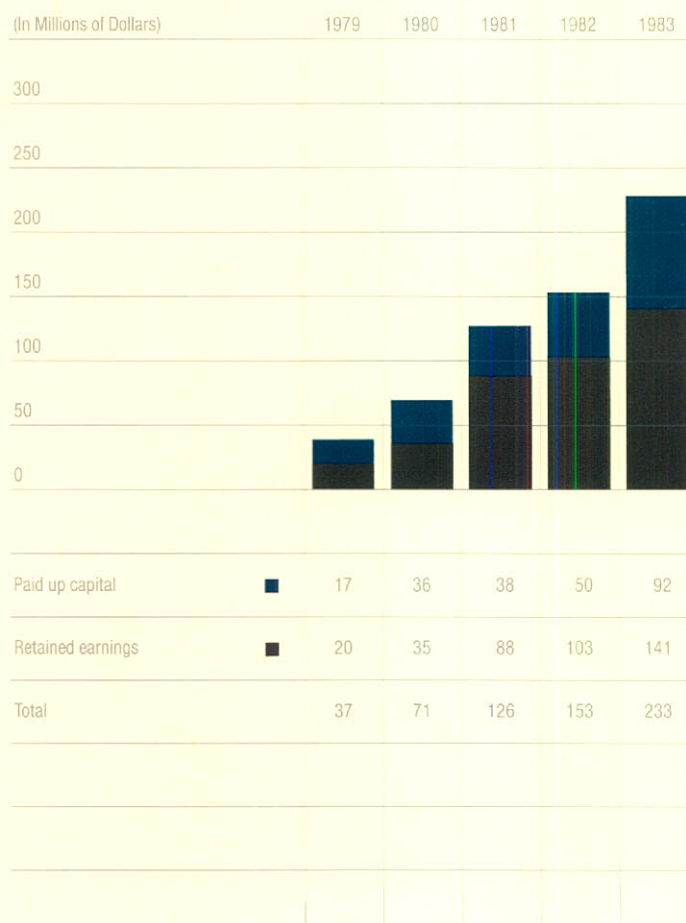
#### NEW YORK HANSEATIC CORPORATION

As discussed in the letter to shareholders, in July of 1983 First City purchased New York Hanseatic, a primary dealer in U.S. Government and federal agency securities and money market instruments. New York Hanseatic's principal business is market making. Its customers include major domestic and

#### SHAREHOLDERS' EQUITY

Shareholders' equity grew by 52 percent to \$233 million. Proceeds from the sale of two million common shares and additions to retained earnings were responsible for this growth. The Company also increased its annualized dividend rate to 50 cents per share from 30 cents per share.

The debt/equity ratio improved to 2.4:1 from 3.8:1, 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 8.53 percent. When unsecured debt is included, the ratio is 12.08 percent. Equivalent ratios for 1982 were respectively 6.47 percent and 9.15 percent. The significant improvement in these ratios during 1983 can be partially attributed to retirement of debt from cash flow, the issue of common shares, and additions to retained earnings.



international banks, corporations, insurance companies and money management firms, as well as many regional banks, and state and local governments. This acquisition will provide First City with added experience to take further steps in its ongoing expansion program into the U.S. and the financial services industry.

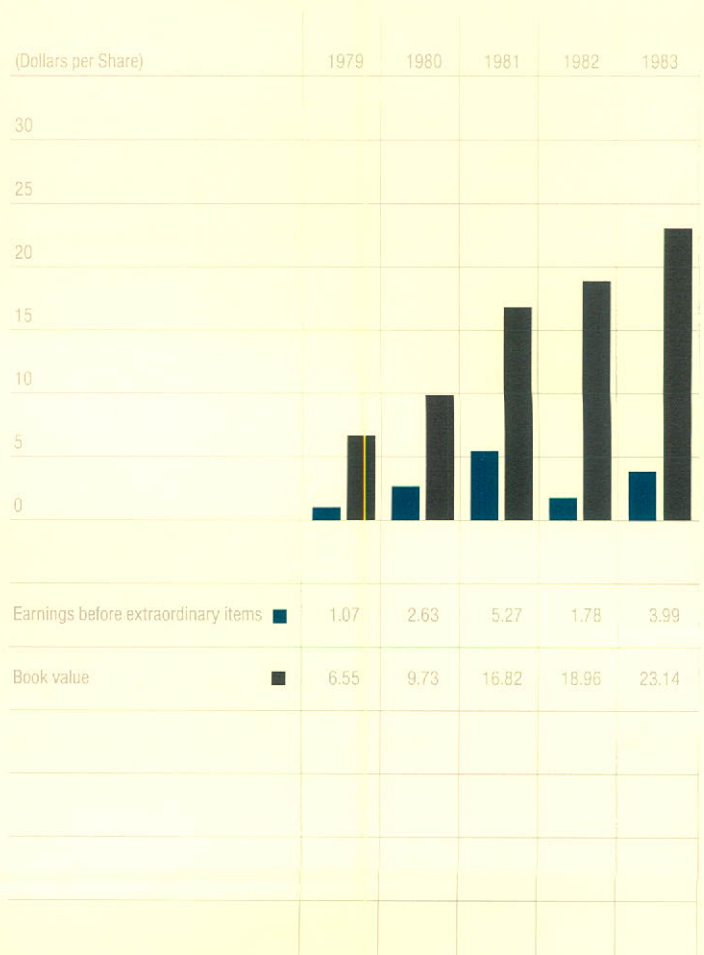
#### ABERFORD RESOURCES LTD.

First City holds a dominant investment position in Aberford Resources Ltd., an oil and gas exploration and development company based in Calgary, Alberta. The Company acquired 49 percent of this growing Canadian resource group in 1982 as a key component of its diversification strategy to invest in the energy sector. In September 1983, Aberford raised \$44.6 million through a public issue of treasury common shares which reduced First City's ownership to 39 percent. These funds enabled Aberford to reduce debt and free up cash flow for increased exploration. Aberford common shares are listed on the Toronto and Montreal stock exchanges.

#### BOOK VALUE AND EARNINGS PER SHARE

Net income for 1983 was \$42.2 million, an increase of \$24.9 million over the previous year. Income before extraordinary items increased by \$23.3 million to \$37.5 million, more than double that of 1982. Gross revenue increased by \$84.3 million, \$43.7 million of which resulted from real estate sales and \$31.1 million from securities gains. Management views these securities gains as consisting of two parts. Those resulting from the active, daily management of the considerable portfolios of First City Financial Corporation Ltd. and First City Trust Company form a regular and expected component of such activities and earnings. Gains resulting primarily from the sales of significant investment positions related to acquisition bids for other business entities or special market opportunities, while also regular and ongoing activities, may be considered separately. In 1983, gains arising from the latter were approximately \$13.5 million, after interest, taxes and associated costs, compared with \$4.8 million in 1982.

The 1983 return on average equity was 18.8 percent and for the last five years has averaged 26.7 percent. The compounded annual growth rate in earnings per share before extraordinary items for the same five-year period has been 35 percent.



Aberford has established producing assets in some of western Canada's largest and most productive oil and gas fields. Independent petroleum engineering estimates show Aberford's working interest in proven and probable reserves to be 29.7 million barrels of oil and natural gas liquids and 230.1 billion cubic feet of natural gas. Aberford owns approximately 380,000 net undeveloped acres in western Canada. As well as extending the existing producing fields and untested exploration plays in western Canada, Aberford has commenced exploration programs off the Canadian east coast and internationally. The Company plans to spend \$86 million on exploration in 1984, compared with \$45 million last year.

In January 1984, Aberford entered into a joint venture agreement with Empire Joint Venture of Denver, Colorado for the exploration and development of a gold property west of Denver. Testing to ascertain the potential of the property will begin as soon as all necessary permits and contracts are obtained.

Aberford has interests in undeveloped coal reserves in southeastern British Columbia and the Yukon, as well as prospective uranium, base, and precious metal properties in three Canadian provinces, the Yukon, and the Northwest Territories. Aberford also holds a net profits interest in certain producing and non-producing uranium properties in Saskatchewan and has entered into negotiations with a subsidiary of Eldorado Nuclear Limited to sell those interests for \$38.1 million of the purchaser's preferred shares and a royalty on future production.

## FIVE YEAR SUMMARY

<i>(In Thousands of Dollars—except for per share figures)</i>	1983	1982	1981	1980	1979
<b>Balance Sheet</b>					
<b>Assets</b>					
Cash and Short Term Investments	\$ 194,181	\$ 97,748	\$ 116,946	\$ 63,529	\$ 35,232
Securities	365,728	241,374	240,596	255,696	139,232
Finance Receivables and Other Loans	388,341	356,898	287,464	162,696	92,874
Mortgages	1,232,598	1,102,853	944,444	707,839	627,083
Real Estate	325,893	364,213	387,847	303,321	217,092
Other Assets	231,598	207,885	171,932	121,787	58,002
<b>Total</b>	<b>\$2,738,339</b>	<b>\$2,370,971</b>	<b>\$2,149,229</b>	<b>\$1,614,868</b>	<b>\$1,169,515</b>
<b>Liabilities and Equity</b>					
Deposits	\$1,864,003	\$1,561,268	\$1,446,703	\$1,075,975	\$ 820,994
Other Liabilities	335,687	416,466	414,481	372,946	243,934
Term Debt	220,917	162,235	110,170	52,315	28,334
	2,420,607	2,139,969	1,971,354	1,501,236	1,093,262
Deferred Income Taxes	22,779	18,240	15,137	21,379	17,003
Minority Interest	61,471	59,340	36,319	21,219	22,496
Shareholders' Equity	233,482	153,422	126,419	71,034	36,754
<b>Total</b>	<b>\$2,738,339</b>	<b>\$2,370,971</b>	<b>\$2,149,229</b>	<b>\$1,614,868</b>	<b>\$1,169,515</b>
<b>Income Statement</b>					
<b>Revenue</b>					
Mortgage, Lease and Loan Interest and Dividends	\$ 239,636	\$ 231,408	\$ 208,596	\$ 119,733	\$ 82,120
Real Estate	344,496	301,865	221,560	120,208	108,528
Securities and Investment Gains	50,092	19,006	59,907	13,331	4,267
Fees and Other Income	12,615	10,636	10,807	11,225	5,710
<b>Total Revenue</b>	<b>646,839</b>	<b>562,915</b>	<b>500,870</b>	<b>264,497</b>	<b>200,625</b>
<b>Expenses</b>					
Interest	241,231	258,832	234,901	125,891	83,853
Salaries	23,866	22,396	20,573	13,482	9,418
Real Estate	275,908	223,165	165,587	84,406	81,699
Other	54,923	39,689	35,218	21,578	17,236
<b>Total Expenses</b>	<b>595,928</b>	<b>544,082</b>	<b>456,279</b>	<b>245,357</b>	<b>192,206</b>
Income Taxes	13,454	4,700	175	3,934	2,396
<b>Income (before extraordinary items)</b>	<b>\$ 37,457</b>	<b>\$ 14,133</b>	<b>\$ 44,416</b>	<b>\$ 15,206</b>	<b>\$ 6,023</b>
<b>Per Common Share</b>					
Earnings before extraordinary items (after reflecting 2:1 stock split in 1980)	\$ 3.99	\$ 1.78	\$ 5.27	\$ 2.63	\$ 1.07
Dividends	\$ 0.325	\$ 0.30	\$ 0.20	\$ 0.18	\$ 0.15
Book Value	\$ 23.14	\$ 18.96	\$ 16.82	\$ 9.73	\$ 6.55

## 1984 OUTLOOK

The North American economy appears to be strengthening, but continued concern over government deficits in Canada and the United States is creating an unsettled and, at times, uncertain marketplace. As a result, First City will maintain its emphasis on liquidity and strategic diversification. The Company will seek out investments in other industries to help insulate its investors from economic cycles while at the same time providing a basis for attractive investment yield and security.

Large federal deficits would seem to rule out the likelihood of lower interest rates in the near future, and the Company anticipates that relatively stable rates will prevail for most of 1984. In addition, increased competition is expected to make quality assets more difficult to attract.

First City's operations are strengthened by its management depth and mix of professionals who share in the Company's commitment to growth. The past year's results are particularly gratifying in that they reflect a substantial contribution from each of the Company's major business segments. First City's investment in the oil and gas industry, through Aberford Resources Ltd., is meeting its expectation of preserving and enhancing capital for the future. The Company is actively seeking to increase its presence in the energy sector.

Throughout 1984, First City will continue to emphasize a strong, maintainable earnings base which is expected to be augmented by one full year's management of The Fidelity Trust Company. Given First City's established position in the financial services industry, further expansion in that area remains a priority. Through New York Hanseatic, the Company has gained experience in the primary securities marketplace in the U.S. and plans to expand its foothold in the New York market.

The cash provided from earnings and the previously discussed securities and unsecured debt issues enabled the Company to repay all bank borrowings by year end. As at December 31, 1983, First City Financial had approximately \$280 million available in bank lines of credit, none of which had been drawn.

First City management has recognized the need to increase emphasis on timely and informative communications with its investors, depositors, the financial community, and the general public. Considerable time has been spent in the last year establishing effective lines of communication with investment analysts and other financial experts. The Company's efforts in this regard will be ongoing.



**CONSOLIDATED BALANCE SHEET**

<i>December 31, 1983 (In Thousands of Dollars)</i>	<i>Note</i>	<i>1983</i>	<i>1982</i>
<b>Assets</b>			
Cash and short term investments		\$ 194,181	\$ 97,748
Securities	2	365,728	241,374
Finance receivables and other loans		388,341	356,898
Mortgages		1,232,598	1,102,853
Real estate	3	325,893	364,213
Accounts receivable and other assets	4	51,443	40,080
Income taxes recoverable		98	3,312
Investment in affiliated companies	5	84,348	57,320
Investment in and advances to joint ventures and partnerships	6	80,342	92,241
Fixed assets	7	12,331	11,680
Goodwill		3,036	3,252
		<u>\$2,738,339</u>	<u>\$2,370,971</u>
<b>Liabilities</b>			
Customer deposits		\$1,864,003	\$1,561,268
Bank indebtedness	8	224,158	339,875
Accounts payable and accrued liabilities		78,920	38,495
Due to related parties	9	29,014	32,133
Term debt	10	220,917	162,235
Deferred income		3,595	5,963
Deferred income taxes		22,779	18,240
Minority interest	11	61,471	59,340
		<u>2,504,857</u>	<u>2,217,549</u>
Contingencies	18		
<b>Shareholders' Equity</b>			
Capital stock	12	74,850	32,852
Contributed surplus		17,402	17,402
Retained earnings		141,230	103,168
		<u>233,482</u>	<u>153,422</u>
		<u>\$2,738,339</u>	<u>\$2,370,971</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 INCOME**

<i>Year Ended December 31, 1983 (In Thousands of Dollars)</i>	<i>Note</i>	<i>1983</i>	<i>1982</i>
<b>Revenue</b>			
Investments		\$239,636	\$231,408
Real estate		344,994	301,274
Securities and investment gains		50,092	19,006
Fees and other income		11,347	10,073
		646,069	561,761
<b>Expenses</b>			
Interest on customer deposits		209,765	214,126
Bank, term debt and other interest		31,466	44,706
Cost of real estate sold and property rental expenses		275,908	223,165
Salaries and employee benefits		23,866	22,396
Operating and administrative		28,216	25,856
Provision for losses		15,608	2,822
Depreciation and amortization		4,539	5,366
		589,368	538,437
Income from Operations Before Income Taxes		56,701	23,324
Income Taxes	13	13,454	4,700
Income from Operations		43,247	18,624
Share of Affiliates' Operating Income		770	1,154
Income Before Minority Interest and Extraordinary Items		44,017	19,778
Minority Interest		6,560	5,645
Income Before Extraordinary Items		37,457	14,133
Extraordinary Items	14	4,713	3,139
Net Income		\$ 42,170	\$ 17,272
<b>Earnings per Common Share</b>			
Before extraordinary items	15	\$ 3.99	\$ 1.78
After extraordinary items		\$ 4.50	\$ 2.17

**CONSOLIDATED STATEMENT OF  
RETAINED EARNINGS**

<i>Year Ended December 31, 1983 (In Thousands of Dollars)</i>	<i>1983</i>	<i>1982</i>
Balance, Beginning of Year	\$103,168	\$ 88,218
Net Income	42,170	17,272
	145,338	105,490
Common Share Issue Costs – net of income taxes	1,220	–
Dividends		
Preferred shares	10	12
Common shares	2,878	2,310
Balance, End of Year	\$141,230	\$103,168

**CONSOLIDATED STATEMENT OF  
CHANGES IN FINANCIAL POSITION**

<i>Year Ended December 31, 1983 (In Thousands of Dollars)</i>	<i>1983</i>	<i>1982</i>
<b>Sources of Cash</b>		
From operations	\$ 77,512	\$ 26,589
Increase in		
Customer deposits	302,735	114,565
Bank indebtedness	-	11,741
Accounts payable, accrued liabilities and income taxes	32,182	4,353
Due to related parties	3,987	-
Term debt - net of repayments	58,682	52,065
Deferred income	-	3,217
Decrease in		
Securities	-	1,225
Real estate	35,475	20,357
Accounts receivable and other assets	-	7,628
Increase in minority interest and equity of First City Properties Inc.	-	48,936
Issue of common and preferred shares	41,998	12,063
Investment in and advances to joint ventures and partnerships	14,547	-
	<b>567,118</b>	<b>302,739</b>
<b>Uses of Cash</b>		
Net investment in		
Securities	126,074	-
Finance receivables and other loans	40,033	70,610
Mortgages	134,406	160,694
Bank indebtedness	115,717	-
Cost of common share issue	1,220	-
Purchase of shares of subsidiaries	450	556
Investment in affiliated companies	28,796	48,545
Investment in and advances to joint ventures and partnerships	-	16,246
Dividends	2,888	2,322
Dividends paid to minority shareholders	3,082	3,385
Purchase of preferred shares by subsidiaries for cancellation	922	641
Fixed assets	3,223	2,661
Due to related parties	-	16,277
Accounts receivable and other assets	11,506	-
Deferred income	2,368	-
	<b>470,685</b>	<b>321,937</b>
Increase (Decrease) in Cash and Short Term Investments	96,433	(19,198)
Cash and Short Term Investments, Beginning of Year	97,748	116,946
Cash and Short Term Investments, End of Year	<b>\$194,181</b>	<b>\$ 97,748</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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December 31, 1983 (All Tabular Figures are Expressed in Thousands of Dollars)

### NOTE 1 — 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 5 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 September 30. The results of operations of the subsidiaries are included in the consolidated financial statements from the respective dates of acquisition or incorporation.

The company accounts for its investments in 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 are credited to the investment accounts.

#### SECURITIES VALUATION

Bonds are carried at amortized cost and shares are carried at cost less provisions for permanent declines in value.

#### LOANS VALUATION

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

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 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 United States subsidiaries and gains or losses from translation of term debt. Gains or losses arising from investments in subsidiaries have been deferred since repayment of the net investment is not imminent. Gains or losses arising from term debt are deferred and amortized over the 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 5 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.

### 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.

## NOTE 2 — SECURITIES

	1983		1982	
	Carrying Value	Market Value	Carrying Value	Market Value
Government and corporate bonds	\$ 80,839	\$ 78,801	\$ 52,986	\$ 50,583
Preferred and common shares	284,889	283,220	188,388	185,974
	\$365,728	\$362,021	\$241,374	\$236,557

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3 — REAL ESTATE

	1983	1982
Income properties		
Under development	\$ 3,441	\$ 12,843
Operating—net of accumulated depreciation of \$3,341,000 (1982—\$3,720,000)	60,051	90,386
Housing completed and under development	80,159	54,607
Land under development and held for sale	140,937	163,428
Real estate equity financing receivables	27,250	33,403
Foreclosed property	14,055	9,546
	<u>\$325,893</u>	<u>\$364,213</u>

Depreciation on income properties charged to income for the year amounted to \$1,678,000 (1982—\$2,372,000).

### NOTE 4 — ACCOUNTS RECEIVABLE AND OTHER ASSETS

	1983	1982
Accounts receivable		
Financial services	\$23,879	\$10,409
Real estate	16,976	21,549
Prepaid and deferred expenses	10,588	8,122
	<u>\$51,443</u>	<u>\$40,080</u>

### NOTE 5 — INVESTMENT IN AFFILIATED COMPANIES

	1982	Additions, net	Gain arising on dilution	Share of Income (Loss) for the Year	1983
Aberford Resources Ltd.	\$48,295	\$ -	\$6,144	\$1,268	\$55,707
New York Hanseatic Corporation	-	19,688	-	(434)	19,254
Other	9,025	426	-	(64)	9,387
	<u>\$57,320</u>	<u>\$20,114</u>	<u>\$6,144</u>	<u>\$ 770</u>	<u>\$84,348</u>

In 1982, the company together with its subsidiary, First City Trust Company, acquired common shares, convertible voting preferred shares and non-voting convertible common shares of Aberford Resources Ltd. (Aberford) for cash and shares of the company. In September 1983, Aberford issued additional common shares to the public for cash. The company converted all of its preferred shares, non-voting common shares and warrants into additional common shares of Aberford. The net result of these transactions is a reduction in the company's investment in Aberford's common stock from 49.4% to 39.3% and a gain of approximately \$6.1 million, net of related income tax.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following summary information has been taken from the financial statements of Aberford at December 31, 1983:

Current assets	\$ 30,701
Property, plant and equipment	333,029
Other assets	14,582
Current liabilities	27,227
Other liabilities	83,733
Long term debt	140,134
Shareholders' equity	127,218
Revenue	103,476

In July, 1983 one of the company's U.S. subsidiaries acquired the business operations of New York Hanseatic for cash of \$1,060,000. The operations were subsequently incorporated as New York Hanseatic Corporation (Hanseatic) with a capital investment of \$18,628,000 at which time the company commenced its bond trading operation.

The following summary information has been taken from the financial statements of Hanseatic at September 30, 1983:

Cash and receivables	\$ 34,000
Securities	1,537,000
Fixed and other assets	3,000
Liabilities	1,536,000
Subordinated debt	19,000
Shareholders' equity	19,000
Revenue	11,000

### NOTE 6 — JOINT VENTURES AND PARTNERSHIPS

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

	1983	1982
Assets	\$168,243	\$180,271
Liabilities	87,901	88,030
Revenues	34,313	26,425
Expenses	31,666	27,051

Included in real estate revenue in the consolidated statement of income for the year ended December 31, 1983 is the company's share of income from joint ventures and partnerships in the amount of \$2,647,000 (1982—loss of \$626,000).

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, 1983 is approximately \$48 million against which the subsidiary companies would have claims on the related assets which, in total, are sufficient to meet these obligations.

### NOTE 7 — FIXED ASSETS

These assets are stated at cost less accumulated depreciation and amortization of \$8,338,000 (1982 — \$6,310,000). Depreciation and amortization charged to income for the year amounted to \$2,455,000 (1982 — \$2,926,000).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 8 — BANK INDEBTEDNESS

	1983	1982
On securities investments	\$ -	\$ 32,125
On finance receivables	138	6,758
On operating income properties	3,560	10,390
On housing completed and under development	33,355	48,792
On land under development and held for sale	19,453	22,794
General—real estate	167,652	219,016
	<u>\$224,158</u>	<u>\$339,875</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, 1983 was 11.9%.

The securities investments loans are secured by specific securities and the finance receivables loan is secured by a floating charge debenture on the receivables portfolio. General bank loans aggregating \$130,954,000 are secured by a demand debenture which provides a first floating charge over certain real estate assets, fixed charges on specific real estate properties, and by a general assignment of book debts. The remaining general bank indebtedness is secured by marketable securities. Substantially all of the other loans on real estate are secured by specific charges on assets having a net book value of \$109,273,000.

### NOTE 9 — DUE TO RELATED PARTIES

	1983	1982
Bel-Fran Investments Limited and related corporations (controlling shareholders of the company)	\$29,014	\$32,133

The amounts have no specific terms of repayment and bear interest at a weighted average rate of 12.0%; total interest charged for the year was \$4,058,000 (1982—\$9,413,000).

### NOTE 10 — TERM DEBT

	1983	1982
Secured		
Income properties	\$ 37,661	\$ 31,745
Housing completed and under development	15,844	6,753
Land under development and held for sale	23,190	25,109
General—real estate	46,932	35,147
Unsecured		
Subordinated notes	14,350	14,350
12.3% Subordinated notes	36,886	-
9% Sinking fund debentures, Series A	1,703	1,842
8-1/4% Bonds	32,601	32,601
Term notes	11,750	14,688
	<u>\$220,917</u>	<u>\$162,235</u>

Secured term debt bears interest at a weighted average rate of 10.8%.

The subordinated notes are due October 15, 1987, and as to \$13,500,000, bear interest at a rate, adjusted quarterly, equal to 1/4% per annum over the prime rate of three Canadian chartered banks and as to \$850,000, at a rate of 15.5%.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 8-1/4% ten year bearer bonds 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 or \$32,645,000. The company is required to make annual redemptions of 4% commencing 1984. 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 1-1/2% 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.

Term debt on housing completed and under development will be assumed by the purchasers of such units or discharged out of sale proceeds.

Approximate repayments on term debt other than debt on housing completed and under development are:

1984	\$ 23,091
1985	24,447
1986	16,403
1987	26,230
1988	53,040
Thereafter	61,862
	\$205,073

### NOTE II — MINORITY INTEREST

	<i>1983</i>	<i>1982</i>
Minority interest in subsidiary companies		
Common shareholders	\$28,762	\$25,360
Preferred shareholders	32,709	33,980
	\$61,471	\$59,340

### 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 after September 15, 1984 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 after September 15, 1983 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 \$24.00 per common share and thereafter up to September 15, 1991 at \$27.00 per common share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	<i>First Preferred Shares</i>		<i>Second Preferred Shares</i>	
	<i>Number of Shares</i>	<i>Paid-up Value</i>	<i>Number of Shares</i>	<i>Paid-up Value</i>
Outstanding December 31, 1982	4,575	\$ 23	4,375	\$ 88
Repurchased and cancelled	250	1	50	1
Outstanding, December 31, 1983	4,325	\$ 22	4,325	\$ 87

### COMMON SHARES

The company is authorized to issue 25,000,000 common shares without par value.

	<i>Number of Shares</i>	<i>Paid-up Value</i>
Outstanding, December 31, 1982	8,085,454	\$ 32,741
Issued during the year	2,000,000	42,000
Outstanding, December 31, 1983	10,085,454	\$ 74,741

On May 10, 1983 the company issued for cash 2,000,000 common shares for a consideration of \$42,000,000 before issue costs of \$1,220,000, net of income taxes.

### COMMON SHARES RESERVED

At December 31, 1983, 3,604 common shares are reserved for issuance in respect of the conversion privilege attached to Convertible Second Preferred Shares, Series 1.

### NOTE 13 — INCOME TAXES

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

	<i>1983</i>	<i>1982</i>
Current	\$ 813	\$(1,186)
Deferred	12,641	5,886
	\$13,454	\$ 4,700

Reconciliation of statutory and effective rates of income taxes:

	<i>1983</i>		<i>1982</i>	
Tax on income from operations at basic rate	\$29,400	52.0%	\$12,128	52.0%
Tax credit on non-taxable dividend income	(3,816)	(6.7)	(5,774)	(24.8)
Tax reduction on capital gains	(10,224)	(18.1)	(1,235)	(5.2)
Other	(1,906)	(3.4)	(419)	(1.8)
Effective tax	\$13,454	23.8%	\$ 4,700	20.2%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 14 — EXTRAORDINARY ITEMS

	1983	1982
Share of tax reduction of subsidiary from utilization of a loss carry forward	\$4,107	\$2,666
Gain on sale of subsidiary company, net of income taxes	606	-
Share of affiliated company's extraordinary item—settlement of joint venture dispute	-	473
	<u>\$4,713</u>	<u>\$3,139</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 payment of preferred dividends. Fully diluted earnings per common share are not significantly different from basic earnings per common share.

### NOTE 16 — INTEREST EXPENSE

In respect of real estate development operations of subsidiaries, interest for the year totalled \$46,547,000 (1982 - \$74,619,000) of which \$21,483,000 (1982 - \$39,018,000) 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 \$3,692,000 (1982 - \$2,520,000). The aggregate rentals payable under all leases currently in force during the next five years is approximately \$21,217,000.

A subsidiary company involved in real estate development has lodged letters of credit aggregating \$24,086,000 with municipalities and utilities as collateral for the fulfillment of various business obligations.

### NOTE 18 — CONTINGENCIES

Two subsidiaries are parties 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 First City to enforce the agreements of purchase. The claims against the subsidiaries involve claims for rescission of purchase agreements having an original aggregate purchase price of approximately \$22 million and unspecified damages. These subsidiaries are contesting all of the actions against them and believe they have 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 19 — BUSINESS SEGMENT INFORMATION

Operations and identifiable assets by industry segment are as follows:

1983	Financial Services	Real Estate	Elimin- ations	Consoli- dated
Revenue from third parties	\$ 301,075	\$344,994	\$ -	\$ 646,069
Intersegment revenue	2,755	-	(2,755)	-
	\$ 303,830	\$344,994	\$ (2,755)	\$ 646,069
Income from operations	\$ 31,713	\$ 12,912	\$ (1,378)	\$ 43,247
Identifiable assets	\$2,125,294	\$613,045		\$2,738,339
Depreciation and amortization	\$ 1,630	\$ 2,909		\$ 4,539

1982	Financial Services	Real Estate	Elimin- ations	Consoli- dated
Revenue from third parties	\$ 259,451	\$302,310	\$ -	\$ 561,761
Intersegment revenue	6,460	1,037	(7,497)	-
	\$ 265,911	\$303,347	\$ (7,497)	\$ 561,761
Income from operations	\$ 12,653	\$ 9,719	\$ (3,748)	\$ 18,624
Identifiable assets	\$1,735,803	\$635,168		\$2,370,971
Depreciation and amortization	\$ 1,453	\$ 3,913		\$ 5,366

Operations and identifiable assets by geographic region are as follows:

1983	Canada	United States	Elimin- ations	Consoli- dated
Revenue from third parties	\$ 376,363	\$269,706	\$ -	\$ 646,069
Intersegment revenue	2,335	-	(2,335)	-
	\$ 378,698	\$269,706	\$ (2,335)	\$ 646,069
Income from operations	\$ 28,938	\$ 14,309	\$ -	\$ 43,247
Identifiable assets	\$2,272,213	\$466,126		\$2,738,339

1982	Canada	United States	Elimin- ations	Consoli- dated
Revenue from third parties	\$ 356,438	\$205,323	\$ -	\$ 561,761
Intersegment revenue	3,760	2,722	(6,482)	-
	\$ 360,198	\$208,045	\$ (6,482)	\$ 561,761
Income from operations	\$ 10,006	\$ 8,618	\$ -	\$ 18,624
Identifiable assets	\$1,946,681	\$424,290		\$2,370,971

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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### **NOTE 20 — SUBSEQUENT EVENT**

On February 1, 1984 the company issued dual currency 11-1/4% bonds for net proceeds of U.S. \$47,000,000. These bonds are unsecured and are repayable in February 1992, which date may be extended to February 1994 at the bondholders' option.

### **NOTE 21 — COMPARATIVE FIGURES**

Certain comparative figures for 1982 have been reclassified to conform with the classifications used in the current year.

## **AUDITORS' REPORT**

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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, 1983 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, 1983 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  
February 15, 1984

**FIRST CITY  
TRUST COMPANY**

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## REVIEW OF OPERATIONS

### FIRST CITY TRUST COMPANY

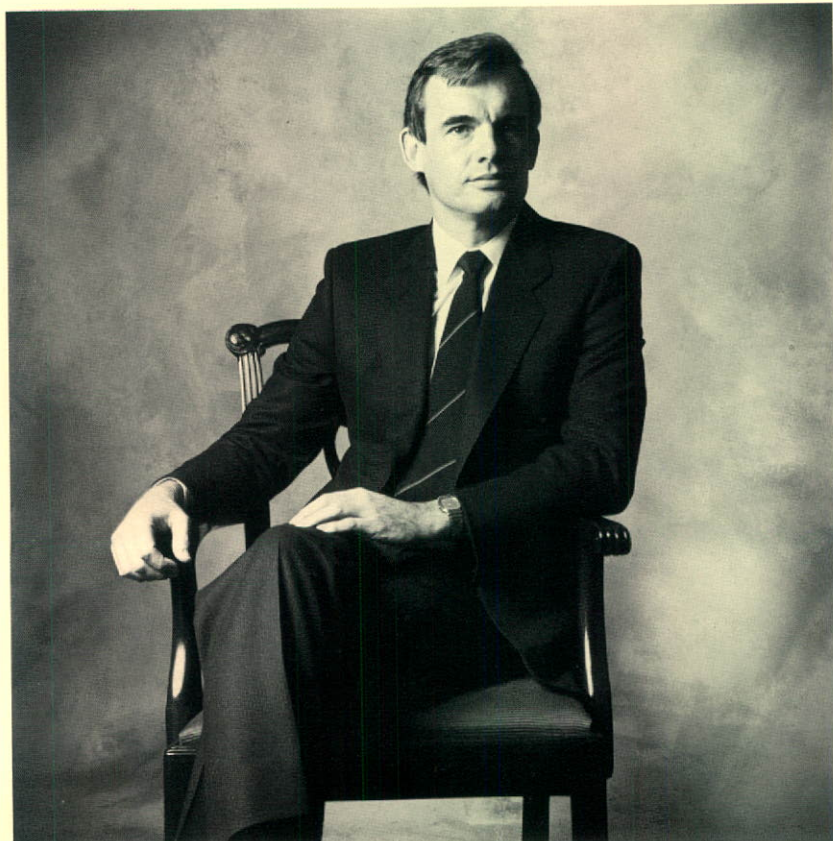
Income before extraordinary items was a record \$20.3 million, up 41 percent from \$14.4 million for the same period last year. Earnings per common share, excluding extraordinary income, were \$11.42 per share, compared with \$7.35 per share one year ago. Total revenues amounted to \$607 million, compared with \$547 million in 1982. Total assets reached their highest level at \$2.5 billion, a 13 percent increase over last year's \$2.2 billion.

A number of factors account for the positive change in year-over-year results. Relatively stable interest rates throughout 1983 allowed First City Trust to correct some asset and liability mismatches that had been carried forward from previous years. An increase in the number of savings branches and the expansion of mortgage lending services in eastern Canada provided significant new business and increased the Company's customer base substantially. As a result, the interest rate spread increased from \$9.2 million in 1982 to \$18.9 million in 1983.

As discussed in the letter to shareholders, in June of 1983 First City Trust was selected by Canada Deposit Insurance Corporation to manage and administer the business operations of The Fidelity Trust Company of Toronto for five years. Management of Fidelity's principal subsidiary, Patrician Land Corporation, did not form part of the contract. Through this transaction, First City acquired nine full service savings branches and Fidelity's demand portfolio, as well as its substantial mortgage banking business. Branch expansion and asset growth targets have been accelerated as a result and the Fidelity contract will have an important impact on First City's operations during 1984.

Securities gains rose considerably in 1983, mainly from the active day-to-day management of the Company portfolio of common and preferred shares, and from gains on the sale of significant investment positions in Suburban Propane Gas Corporation

*V. Edward Daughney*



and Pargas Inc. After interest, taxes and associated costs these gains amounted to \$4.6 million, compared with \$4.8 million in 1982.

Salaries, operating costs, and administration expenses were closely controlled in 1983. Increases in these expenses include the cost of integrating Fidelity's operations during the last six months of the year. The difficult economic conditions of the past two years were reflected in the need for additional reserves to cover losses and non-performing loans. As a result of a detailed review, \$15.6 million was added to reserves, an increase of \$12.8 million over 1982.

Portfolio arrears were reducing by year end, reflecting the economic recovery underway in Canada.

#### MORTGAGES

A highly creative marketing team, combined with prudent underwriting practices and an expanded area of service, produced excellent results in 1983. While First City Trust has been an active mortgage lender in western Canada for years, only recently has it gained recognition in other parts of the country. During the year, the Company wrote a record number of mortgages in Ontario, and, since further growth of service in eastern Canada is foreseen, this trend will likely continue in 1984. As Canada's economic activity strengthens, the Company also anticipates an increase in larger real estate loans.

First City is a national leader in government insured mortgage banking investments with a total portfolio under administration exceeding \$400 million. Investors include individuals and institutions throughout North America and Europe. The Company is expanding its acquisition of such investments across Canada to supply increasing client demand.

#### LEASING

During the past five years, First City Capital has established itself as one of Canada's foremost leasing companies. Until 1983, the majority of leases were in the mid-range business category. However, the traditional line was expanded in 1983 to include leases of \$1 million and over for major corporate clients. This new service has been well received and accounted for much of the Company's portfolio growth during the year, to a total of approximately \$225 million. At the other end of the scale, a new division, FCC Leasing, was established in November 1983 to handle leases smaller than \$15,000. With offices in Toronto and Vancouver, and plans to expand into all major market areas, this division works closely with equipment manufacturers and dealers to facilitate distribution of their products in Canada. The Company anticipates further expansion of its services and client base in the coming year.

## SAVINGS

1983 was an exceptional year for the Savings Division with customer deposit growth of \$303 million, a 19 percent increase over 1982. Renewals of Fidelity deposits contributed \$163 million to the total. The 50 First Account, a product targeted at the pre-seniors' market, grew by \$21 million in 1983, a 47 percent increase over 1982, the year of its introduction.

First City continued to be a leader in the area of product development during 1983, introducing a number of high profile personal investment products. These included a U.S. Dollar RRSP; a Canada Savings Bond self-administered RRSP; REALFUND, a real estate based mutual fund RRSP; and a First City Registered Retirement Income Fund. In terms of its revenue generating activities, the Savings Division sold \$83 million in Canada Savings Bonds, compared with \$61 million in 1982.

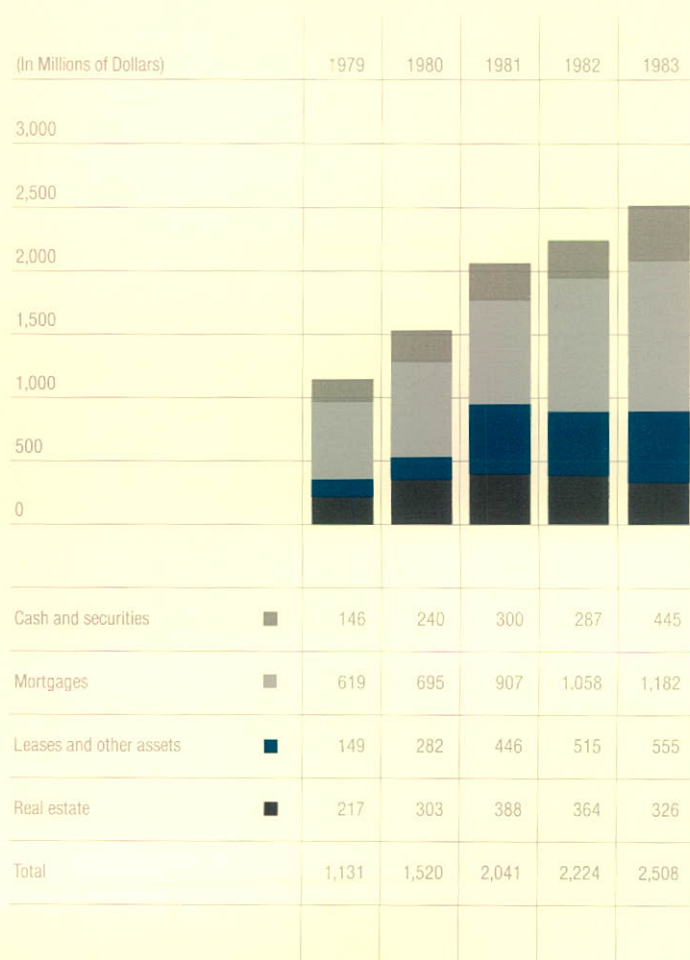
The successful integration of Fidelity Trust offices into First City's branch network has increased to 28 the number of full service savings branches the Company maintains across Canada. A program to install on-line computer facilities in all branches began last year and is now well underway. At 1983 year end, 18 branches were partially on-line.

## TOTAL ASSETS

As at December 31, 1983, total assets of \$2.5 billion reflected an increase of \$284 million over the previous year end. Approximately \$157 million of this increase resulted from extension of credit to customers by way of mortgages, leases, or other loans. Another major portion of the increase, approximating \$145 million, resulted from First City Trust Company's advances to The Fidelity Trust Company on behalf of Canada Deposit Insurance Corporation.

Over the past five years, total assets have grown at a compounded annual rate of 26 percent with the majority of the increase from the Company's mortgage, lease, and loan activities.

The return on average assets for 1983 was 0.86 percent, compared with 0.67 percent in 1982.



The Trust Services Division continued to show good growth with the development of business in the key areas of stock transfers, foreign trusts, condominium trusts, pension plans and self-administered RRSPs. A major factor in this growth was the increased marketing of trust services throughout the entire branch system. The division also expanded and improved its computer facilities which enables First City to provide fully computerized reporting.

#### REAL ESTATE

Despite recent market fluctuations in the industry, First City Development Corp. Ltd. and its subsidiaries had a very successful year. The Company continued to pursue a debt reduction program through the selective sale of real estate in Canada and the U.S. Among these sales were the First City Building in Vancouver, substantial portions of a condominium conversion project in Boston, and a 2,100 acre parcel of land in Texas. The Company also sold all of its land and housing projects in Nevada for approximately \$30 million (U.S.) while continuing to manage these projects for a fee and share of profits.

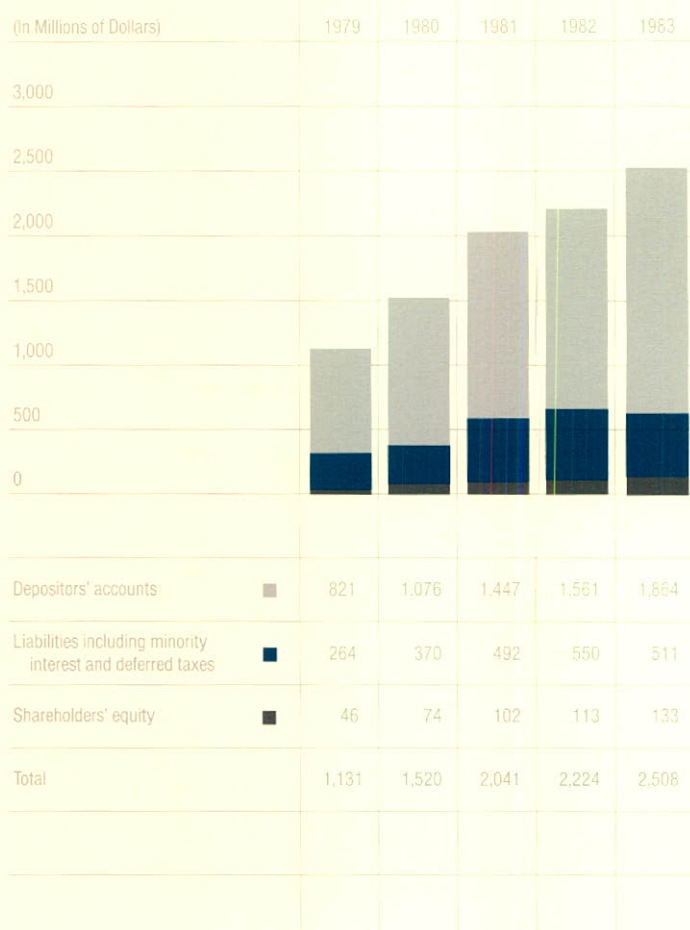
Investment activity in several markets increased during the year through the purchase of a housing construction company in Arizona, several quality income properties in British Columbia, and other land projects in Canada and the U.S.

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Shareholders' equity grew by 17 percent to reach \$133 million at year end. During 1983, depositors' accounts increased by \$303 million, or 19 percent, and over the past five years at an average annual rate of 25 percent. The return on common shareholders' equity for 1983 was 19.4 percent, representing a significant improvement over the 15.3 percent achieved in 1982.

The December 31, 1983 ratio of shareholders' equity to assets was 5.3 percent. With unsecured debt included, the ratio was 5.9 percent. These ratios compare favorably with 5.1 percent and 5.7 percent respectively for 1982.

The ratio of shareholders' equity to depositors' accounts at December 31, 1983 was 7.1 percent, compared with 7.3 percent at December 31, 1982.



The Company's real estate equity financing activities were expanded to eastern Canada with the addition of an office in Toronto.

First City Development took advantage of 1983's lower interest rates by replacing floating rate bank debt, which is subject to potential upward pressure, with fixed rate term debt on many of its properties. Bank indebtedness decreased by 30 percent during the year. In January 1984, First City Properties Inc., the Company's U.S. public subsidiary, issued \$50 million (U.S.) in subordinated notes due in 1994.

First City entered the mutual fund market in 1983 with the introduction of REALFUND, an open-ended mutual fund trust that allows RRSPs and similar plans to invest in a diversified real estate portfolio of prime income producing properties in Canada. First City Development is Advisor to the Fund on the acquisition, management, and sale of its real estate portfolio. At year end, REALFUND had net assets of more than \$5 million.

As a result of the continued strengthening of North America's economy, First City considers it time to begin new developments that are properly financed and appropriately leased in advance. The Company has started development of several new neighborhood shopping centres on land previously purchased, and is acquiring additional sites intended for more shopping centres, medium sized office complexes, and industrial structures. Land is also being acquired in major economic growth areas for development into residential building lots which will, in turn, be resold over a projected three year period. First City Development will continue to match long term financing with long term residential and commercial assets at fixed rates to protect against the type of unstable interest rate environment recently experienced. The Company will also adhere to its policy of creating immediate cash flow through the sale of residential and commercial building lots.

#### CUSTOMER SERVICE

The ability to provide efficient and responsive customer service is fundamental to First City's growth during this decade. In 1983, the Company continued to devote substantial staff and capital to the development of its data processing facilities, which are integral to its achievement in the customer service area. Direct computer links were set up with 18 of the branches, an updated mortgage computer system was initiated, and other components of the Company's information systems were examined and improved. Sufficient resources will be committed over the coming year to enable systems development to keep pace with the Company's expanding customer base and market share.

First City's Human Resources group has developed several new training programs which are now being put into place throughout the Company. A program of evaluation and career planning is expected to enhance First City's commitment to attract and retain quality personnel.

#### INTEREST RATE SENSITIVITY

One of the keys to earnings performance is net investment income, or spread. This factor is greatly influenced by interest rates, or by how sensitive the Company's investment portfolio and related liabilities may be to changes in such rates. In the management of the trust company's portfolio, the Company generally categorizes its under-one-year investments and related liabilities as either variable rate or fixed rate. The former is subject to change and the latter remains constant until maturity.

First City Trust's consistent strategy has been to match its variable rate and fixed rate investments to the extent allowed by the marketplace and its customers thereby ensuring that significant fluctuations in interest rates do not adversely affect spread income.

The following chart shows the year end investment portfolio and related liabilities of the Company grouped by major component. For this chart, assets and liabilities related to the Company's real estate subsidiaries' operations are excluded.

#### INVESTMENTS AND DEPOSITS BY INTEREST SENSITIVITY

<i>(In Thousands of Dollars)</i>	1983				1982			
	Under One Year			Total	Under One Year			Total
	Variable Rate	Fixed Rate	Over One Year		Variable Rate	Fixed Rate	Over One Year	
<b>Investments</b>								
Cash and short term investments	\$113,230	\$ 70,887	\$ -	\$ 184,117	\$ 18,710	\$ 79,105	\$ -	\$ 97,815
Securities	19,294	878	217,999	238,171	11,473	127	177,131	188,731
Loans	216,548	586,592	616,388	1,419,528	182,544	401,446	674,228	1,258,218
Other	20,852	590	18,461	39,903	13,360	544	12,422	26,326
	<u>369,924</u>	<u>658,947</u>	<u>\$852,848</u>	<u>\$1,881,719</u>	<u>226,087</u>	<u>481,222</u>	<u>\$863,781</u>	<u>\$1,571,090</u>
<b>Liabilities</b>								
Deposits	347,969	695,863	\$820,761	\$1,864,593	210,928	653,559	\$697,326	\$1,561,813
Term debt and other	13,638	-	850	14,488	20,258	-	850	21,108
	<u>361,607</u>	<u>695,863</u>	<u>\$821,611</u>	<u>\$1,879,081</u>	<u>231,186</u>	<u>653,559</u>	<u>\$698,176</u>	<u>\$1,582,921</u>
Surplus (deficiency) of rate sensitive investments	\$ 8,317	\$ (36,916)			\$ (5,099)	\$(172,337)		

## FIVE YEAR SUMMARY

<i>(In Thousands of Dollars – except for per share figures)</i>	1983	1982	1981	1980	1979
<b>Balance Sheet</b>					
<b>Assets</b>					
Cash and Short Term Investments	\$ 184,117	\$ 97,815	\$ 103,785	\$ 59,827	\$ 35,140
Securities	260,398	188,731	196,494	180,248	111,127
Finance Receivables and Other Loans	387,611	355,115	287,464	162,696	92,874
Mortgages	1,181,688	1,057,633	907,280	695,210	619,163
Real Estate	325,893	364,213	387,847	303,321	217,092
Other Assets	168,000	160,184	158,210	118,254	55,579
<b>Total</b>	<b>\$2,507,707</b>	<b>\$2,223,691</b>	<b>\$2,041,080</b>	<b>\$1,519,556</b>	<b>\$1,130,975</b>
<b>Liabilities and Equity</b>					
Deposits	\$1,864,003	\$1,561,268	\$1,446,703	\$1,075,975	\$ 820,994
Other Liabilities	335,367	406,172	369,451	300,524	222,818
Term Debt	123,627	98,754	105,562	47,158	22,430
	2,322,997	2,066,194	1,921,716	1,423,657	1,066,242
Deferred Income Taxes	23,513	18,776	16,246	21,933	16,834
Minority Interest	28,654	25,515	1,463	–	1,647
Shareholders' Equity	132,543	113,206	101,655	73,966	46,252
<b>Total</b>	<b>\$2,507,707</b>	<b>\$2,223,691</b>	<b>\$2,041,080</b>	<b>\$1,519,556</b>	<b>\$1,130,975</b>
<b>Income Statement</b>					
<b>Revenue</b>					
Mortgage, Lease and Loan Interest and Dividends	\$ 228,691	\$ 220,214	\$ 200,783	\$ 116,680	\$ 80,833
Real Estate	344,496	301,865	221,560	120,208	108,528
Securities and Investment Gains	21,009	14,706	2,571	3,252	3,362
Fees and Other Income	12,169	10,888	13,665	11,092	4,534
<b>Total Revenue</b>	<b>606,365</b>	<b>547,673</b>	<b>438,579</b>	<b>251,232</b>	<b>197,257</b>
<b>Expenses</b>					
Interest	231,312	250,020	214,667	118,870	81,603
Salaries	22,969	21,795	20,236	13,167	9,368
Real Estate	275,908	223,165	165,587	84,406	81,699
Other	45,899	32,325	25,612	18,512	14,857
<b>Total Expenses</b>	<b>576,088</b>	<b>527,305</b>	<b>426,102</b>	<b>234,955</b>	<b>187,527</b>
Income Taxes	9,996	5,975	(2,094)	4,658	2,338
<b>Income (before extraordinary items)</b>	<b>\$ 20,281</b>	<b>\$ 14,393</b>	<b>\$ 14,571</b>	<b>\$ 11,619</b>	<b>\$ 7,392</b>
<b>Per Common Share</b>					
Earnings before extraordinary items	\$ 11.42	\$ 7.35	\$ 7.60	\$ 8.28	\$ 4.71
Dividends	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.00	\$ 0.50
Book Value	\$ 65.76	\$ 52.23	\$ 44.04	\$ 34.84	\$ 20.77

## 1984 OUTLOOK

First City Trust projects continued strong deposit growth in the coming year. With an abundance of cash in the financial system, competition for quality assets is expected to intensify which could result in narrower spreads between deposits and assets. The anticipated expansion of the Company's asset base in 1984 should result in higher earnings from the intermediary business despite reduced spreads. As the Canadian economy continues to strengthen, the Company expects a significant reduction in its provisions for losses.

First City Trust is hopeful that proposed changes to legislation governing trust and loan companies in Ontario will be introduced in 1984. The updating of existing legislation is imperative, and the Company would welcome new regulations aimed at ensuring that a healthy and fair climate prevails in the industry. First City supports the proposal requiring companies to provide more frequent and detailed reporting of activities to regulators. The Company believes this objective can be met without creating an onerous regulatory structure. First City also endorses the proposal allowing trust companies to increase diversification of permitted loan activities. Such a development would provide trust companies with the increased flexibility necessary to compete more equally with other financial institutions for available markets.



## CONSOLIDATED BALANCE SHEET

<i>December 31, 1983 (In Thousands of Dollars)</i>	<i>Note</i>	<i>1983</i>	<i>1982</i>
<b>Assets</b>			
Cash and short term investments		\$ 184,117	\$ 97,815
Securities	2	260,398	188,731
Finance receivables and other loans		387,611	355,115
Mortgages		1,181,688	1,057,633
Real estate	3	325,893	364,213
Accounts receivable		24,200	27,539
Investment in affiliated companies	4	42,008	20,554
Investment in and advances to joint ventures and partnerships	5	80,342	92,241
Fixed assets	6	12,331	11,680
Other assets		9,119	8,170
		<u>\$2,507,707</u>	<u>\$2,223,691</u>
<b>Liabilities</b>			
Customer deposits			
Demand and short term deposits		\$ 414,142	\$ 297,328
Deposit certificates and term debentures		1,449,861	1,263,940
		<u>1,864,003</u>	<u>1,561,268</u>
Bank indebtedness	7	202,967	295,066
Accounts payable and accrued liabilities		57,913	35,314
Due to related parties	8	55,446	56,986
Term debt	9	123,627	98,754
Subordinated notes	10	14,350	14,350
Deferred income		4,691	4,456
Deferred income taxes		23,513	18,776
Minority interest		28,654	25,515
		<u>2,375,164</u>	<u>2,110,485</u>
Contingencies	17		
<b>Shareholders' Equity</b>			
Capital stock			
Preferred shares	11	34,062	34,985
Common shares		2,995	2,995
Contributed surplus, general reserve and retained earnings		95,486	75,226
		<u>132,543</u>	<u>113,206</u>
		<u>\$2,507,707</u>	<u>\$2,223,691</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 INCOME**

<i>Year Ended December 31, 1983 (In Thousands of Dollars)</i>	<i>Note</i>	<i>1983</i>	<i>1982</i>
Revenue			
Investments		\$228,691	\$220,214
Real estate		344,994	301,274
Securities and investment gains		21,009	14,706
Fees and other income		11,824	10,758
		606,518	546,952
Expenses			
Interest on customer deposits		209,765	214,126
Bank, term debt and other interest		21,547	35,894
Cost of real estate sold and property rental expenses		275,908	223,165
Salaries and employee benefits		22,969	21,795
Operating and administrative		22,765	21,952
Provision for losses		15,608	2,822
Depreciation and amortization		4,227	5,332
		572,789	525,086
Income from Operations Before Income Taxes		33,729	21,866
Income Taxes	12	9,996	5,975
Income from Operations		23,733	15,891
Share of Affiliates' Operating Income (Loss)		(153)	721
Income Before Minority Interest and Extraordinary Items		23,580	16,612
Minority Interest		3,299	2,219
Income Before Extraordinary Items		20,281	14,393
Extraordinary Items	13	4,797	2,826
Net Income		\$ 25,078	\$ 17,219
Earnings per Common Share	14		
Before extraordinary items		\$ 11.42	\$ 7.35
After extraordinary items		\$ 14.62	\$ 9.23

**CONSOLIDATED STATEMENT OF  
CONTRIBUTED SURPLUS, GENERAL RESERVE AND RETAINED EARNINGS**

<i>Year Ended December 31, 1983 (In Thousands of Dollars)</i>	<i>1983</i>	<i>1982</i>
<b>Contributed Surplus</b>		
Balance, beginning of year	\$23,390	\$23,151
Discount on preferred shares purchased for cancellation	155	239
Balance, end of year	23,545	23,390
<b>General Reserve</b>		
Balance, beginning of year	3,000	2,750
Transfer from retained earnings	-	250
Balance, end of year	3,000	3,000
<b>Retained Earnings</b>		
Balance, beginning of year	48,836	37,054
Net income	25,078	17,219
	73,914	54,273
Transfer to general reserve	-	250
<b>Dividends</b>		
Common shares	1,797	1,797
Preferred shares	3,176	3,390
Balance, end of year	68,941	48,836
	\$95,486	\$75,226

**CONSOLIDATED STATEMENT OF  
CHANGES IN FINANCIAL POSITION**

<i>Year Ended December 31, 1983 (In Thousands of Dollars)</i>	<i>1983</i>	<i>1982</i>
<b>Sources of Cash</b>		
From operations	\$ 52,708	\$ 28,115
Increase in		
Customer deposits	302,735	114,565
Bank indebtedness	-	2,242
Accounts payable and accrued liabilities	14,359	25,015
Due to related parties	5,566	-
Term debt—net of repayments	24,873	-
Decrease in		
Securities	-	7,763
Real estate	35,474	20,357
Accounts receivable and other assets	3,406	7,286
Other	-	1,573
Issue of subordinated notes	-	14,350
Increase in minority interest and equity of First City Properties Inc.	-	48,936
Investment in and advances to joint ventures and partnerships	14,546	-
	453,667	270,202
<b>Uses of Cash</b>		
Net investment in		
Securities	72,844	-
Finance receivables and other loans	41,086	68,827
Mortgages	128,559	152,638
Bank indebtedness	92,099	-
Accounts receivable	-	5,289
Investment in affiliated companies	23,222	12,576
Investment in and advances to joint ventures and partnerships	-	16,246
Fixed assets	3,223	2,661
Due to related parties	-	2,799
Term debt—net of fundings	-	6,808
Subordinated notes redeemed	-	2,500
Purchase of preferred shares for cancellation	922	641
Dividends	4,973	5,187
Other	437	-
	367,365	276,172
Increase (Decrease) in Cash and Short Term Investments	86,302	(5,970)
Cash and Short Term Investments, Beginning of Year	97,815	103,785
Cash and Short Term Investments, End of Year	\$184,117	\$ 97,815

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1983 (All Tabular Figures are Expressed in Thousands of Dollars)

### NOTE 1 — 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 September 30. The results of operations of the subsidiaries are included in the consolidated financial statements from the respective dates of acquisition or incorporation.

The company accounts for its investments in 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 are credited to the investment accounts.

#### SECURITIES VALUATION

Bonds are carried at amortized cost and shares are carried at cost less provisions for permanent declines in value.

#### LOANS VALUATION

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

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 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 United States subsidiaries and gains or losses from translation of term debt. Gains or losses arising from investments in subsidiaries have been deferred since repayment of the net investment is not imminent. Gains or losses arising from term debt are deferred and amortized over the 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 5 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.

### GOODWILL

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

## NOTE 2 — SECURITIES

	1983		1982	
	Carrying Value	Market Value	Carrying Value	Market Value
Government and corporate bonds	\$ 60,549	\$ 58,591	\$ 50,155	\$ 48,008
Preferred and common shares	199,849	198,779	138,576	126,132
	\$260,398	\$257,370	\$188,731	\$174,140

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3 — REAL ESTATE

	1983	1982
Income properties		
Under development	\$ 3,441	\$ 12,843
Operating—net of accumulated depreciation of \$3,341,000 (1982—\$3,720,000)	60,051	90,386
Housing completed and under development	80,159	54,607
Land under development and held for sale	140,937	163,428
Real estate equity financing receivables	27,250	33,403
Foreclosed property	14,055	9,546
	<u>\$325,893</u>	<u>\$364,213</u>

Depreciation on income properties charged to income for the year amounted to \$1,678,000 (1982—\$2,372,000).

### NOTE 4 — INVESTMENT IN AFFILIATED COMPANIES

	1982	Additions, net	Gain arising on dilution	Share of Income (Loss) for the Year	1983
Aberford Resources Ltd.	\$11,529	\$ -	\$1,493	\$ 345	\$13,367
New York Hanseatic Corporation	-	19,688	-	(434)	19,254
Other	9,025	426	-	(64)	9,387
	<u>\$20,554</u>	<u>\$20,114</u>	<u>\$1,493</u>	<u>\$ (153)</u>	<u>\$42,008</u>

In 1982, the company acquired common shares, convertible voting preferred shares and non-voting convertible common shares of Aberford Resources Ltd. (Aberford) for cash. In September 1983, Aberford issued additional common shares to the public for cash. The company converted all of its preferred shares, non-voting common shares and warrants into additional common shares of Aberford. The net result of these transactions is a reduction in the company's investment in Aberford's common stock from 12.06% to 9.47% and a gain of approximately \$1.5 million, net of related income tax.

The following summary information has been taken from the financial statements of Aberford at December 31, 1983.

Current assets	\$ 30,701
Property, plant and equipment	333,029
Other assets	14,582
Current liabilities	27,227
Other liabilities	83,733
Long term debt	140,134
Shareholders' equity	127,218
Revenue	103,476

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In July 1983 one of the company's U.S. subsidiaries acquired the business operations of New York Hanseatic for cash of \$1,060,000. The operations were subsequently incorporated as New York Hanseatic Corporation (Hanseatic) with a capital investment of \$18,628,000 at which time the company commenced its bond trading operation.

The following summary information has been taken from the financial statements of Hanseatic at September 30, 1983.

Cash and receivables	\$ 34,000
Securities	1,537,000
Fixed and other assets	3,000
Liabilities	1,536,000
Subordinated debt	19,000
Shareholders' equity	19,000
Revenue	11,000

### NOTE 5 — JOINT VENTURES AND PARTNERSHIPS

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

	1983	1982
Assets	\$168,243	\$180,271
Liabilities	87,901	88,030
Revenues	34,313	26,425
Expenses	31,666	27,051

Included in real estate revenue in the consolidated statement of income for the year ended December 31, 1983 is the company's share of income from joint ventures and partnerships in the amount of \$2,647,000 (1982—loss of \$626,000).

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, 1983 is approximately \$48 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 \$8,338,000 (1982—\$6,310,000). Depreciation and amortization charged to income for the year amounted to \$2,455,000 (1982—\$2,892,000).

### NOTE 7 — BANK INDEBTEDNESS

	1983	1982
On finance receivables	\$ 138	\$ 6,758
On operating income properties	3,560	10,390
On housing completed and under development	33,355	48,792
On land under development and held for sale	19,453	22,794
General—real estate	146,461	206,332
	\$202,967	\$295,066



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 1983 was 11.9%.

The finance receivables loan is secured by a floating charge debenture on the receivables portfolio and by a guarantee of First City Financial Corporation Ltd. General bank loans aggregating \$130,954,000 are secured by a demand debenture which provides a first floating charge over certain real estate assets, fixed charges on specific real estate properties, and by a general assignment of book debts. The remaining general bank indebtedness is secured by marketable securities. Substantially all of the other loans on real estate are secured by specific charges on assets having a net book value of \$109,273,000.

### NOTE 8 — DUE TO RELATED PARTIES

	1983	1982
First City Financial Corporation Ltd. (parent company)	\$25,675	\$25,321
Bel-Fran Investments Limited and related corporations (ultimate controlling shareholders)	29,771	31,665
	\$55,446	\$56,986

The amounts have no specific terms of repayment. Total interest charged for the year was \$4,637,000 at a weighted average rate of interest of 5.1%.

During the year the company acquired certain marketable securities from its parent company at the parent's original cost of \$6,259,000. The market value of the securities at that date was \$10,635,000.

### NOTE 9 — TERM DEBT

	1983	1982
Income properties	\$ 37,661	\$ 31,745
Housing completed and under development	15,844	6,753
Land under development and held for sale	23,190	25,109
General—real estate	46,932	35,147
	\$123,627	\$98,754

The above term debt is secured and bears interest at a weighted average rate of 10.8%.

Term debt on housing completed and under development will be assumed by the purchasers of such units or discharged out of sale proceeds.

Approximate repayments on term debt other than debt on housing completed and under development are:

1984	\$ 18,682
1985	20,038
1986	12,140
1987	7,472
1988	11,747
Thereafter	37,704
	\$107,783

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 10 — SUBORDINATED NOTES

Subordinated notes are due October 15, 1987, and as to \$13,500,000, bear interest at a rate, adjusted quarterly, equal to 1/4% per annum over the prime rate of three Canadian chartered banks and as to \$850,000, at a rate of 15.5%.

### 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 8-3/4% preferred shares of \$8.50 par value

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

During the year, the company issued 885 Series 1 preferred shares.

	1983		1982	
	Number of Shares	Paid-up Value	Number of Shares	Paid-up Value
\$10 par value				
Series A—10-3/4%	269,400	\$ 2,694	276,100	\$ 2,761
Series B—8.32%	482,700	4,827	505,000	5,050
Series C—floating rate	600,000	6,000	600,000	6,000
\$8.50 par value 8-3/4%	1,386,167	11,782	1,461,442	12,422
\$8 par value Series 1—11-1/4%	1,094,832	8,759	1,093,947	8,752
		\$34,062		\$34,985

The Series C preferred shares have a dividend rate equal to the sum of 1-1/2% and 50% of the prime commercial lending rate.

### PREFERRED SHARE REDEMPTION PROVISIONS

\$10 par value

Series A—10-3/4%

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 8-3/4%

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

\$8 par value Series 1—11-1/4%

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

### PREFERRED SHARES PURCHASED FOR CANCELLATION

During the year the company purchased for cancellation 6,700 Series A shares, 22,300 Series B shares and 75,275 8-3/4% shares. Contributed surplus has been credited with \$155,000 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, 1983 1,497,545 shares were issued and fully paid (1982-1,497,544).

### NOTE 12 — INCOME TAXES

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

	1983	1982
Current	\$ 41	\$ 660
Deferred	9,955	5,315
	\$9,996	\$5,975

Reconciliation of statutory and effective rates of income taxes:

	1983		1982	
Tax on income from operations at basic rate	\$17,202	51.0%	\$11,155	51.0%
Tax credit on non-taxable dividend income	(3,150)	(9.3)	(4,894)	(22.4)
Tax reduction on capital gains	(2,286)	(6.8)	-	-
Other	(1,770)	(5.3)	(286)	(1.3)
Effective tax	\$ 9,996	29.6%	\$ 5,975	27.3%

### NOTE 13 — EXTRAORDINARY ITEMS

	1983	1982
Share of tax reduction of subsidiary from utilization of a loss carry forward	\$4,180	\$2,717
Gain on sale of subsidiary company, net of income taxes	617	-
Share of affiliated company's extraordinary item - settlement of joint venture dispute	-	109
	\$4,797	\$2,826

### 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 dividends.

### NOTE 15 — INTEREST EXPENSE

In respect of real estate development operations of subsidiaries, interest for the year totalled \$46,547,000 (1982-\$74,619,000) of which \$21,483,000 (1982-\$39,018,000) was charged to operations with the remaining amount being capitalized.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 \$3,692,000 (1982—\$2,520,000). The aggregate rentals payable under all leases currently in force during the next five years is approximately \$21,217,000.

A subsidiary company involved in real estate development has lodged letters of credit aggregating \$24,086,000 with municipalities and utilities as collateral for the fulfillment of various business obligations.

### NOTE 17 — CONTINGENCIES

The company and a subsidiary are parties 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 First City to enforce the agreements of purchase. The claims against the companies involve claims for rescission of purchase agreements having an original aggregate purchase price of approximately \$22 million and unspecified damages. These companies are contesting all of the actions against them and believe they have 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:

	<i>Financial Services</i>	<i>Real Estate</i>	<i>Elimin- ations</i>	<i>Consoli- dated</i>
<i>1983</i>				
Revenue from third parties	\$ 261,524	\$344,994	\$ -	\$ 606,518
Intersegment revenue	2,223	-	(2,223)	-
	<u>\$ 263,747</u>	<u>\$344,994</u>	<u>\$ (2,223)</u>	<u>\$ 606,518</u>
Income from operations	\$ 11,933	\$ 12,912	\$ (1,112)	\$ 23,733
Identifiable assets	\$1,894,662	\$613,045		\$2,507,707
Depreciation and amortization	\$ 1,318	\$ 2,909		\$ 4,227

	<i>Financial Services</i>	<i>Real Estate</i>	<i>Elimin- ations</i>	<i>Consoli- dated</i>
<i>1982</i>				
Revenue from third parties	\$ 244,642	\$302,310	\$ -	\$ 546,952
Intersegment revenue	4,302	1,037	(5,339)	-
	<u>\$ 248,944</u>	<u>\$303,347</u>	<u>\$ (5,339)</u>	<u>\$ 546,952</u>
Income from operations	\$ 8,841	\$ 9,719	\$ (2,669)	\$ 15,891
Identifiable assets	\$1,588,523	\$635,168		\$2,223,691
Depreciation and amortization	\$ 1,419	\$ 3,913		\$ 5,332

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Operations and identifiable assets by geographic region are as follows:

<i>1983</i>	<i>Canada</i>	<i>United States</i>	<i>Eliminations</i>	<i>Consolidated</i>
Revenue from third parties	\$ 336,812	\$269,706	\$ -	\$ 606,518
Intersegment revenue	2,335	-	(2,335)	-
	\$ 339,147	\$269,706	\$ (2,335)	\$ 606,518
Income from operations	\$ 9,424	\$ 14,309	\$ -	\$ 23,733
Identifiable assets	\$2,041,581	\$466,126		\$2,507,707

<i>1982</i>	<i>Canada</i>	<i>United States</i>	<i>Eliminations</i>	<i>Consolidated</i>
Revenue from third parties	\$ 341,629	\$205,323	\$ -	\$ 546,952
Intersegment revenue	3,760	2,722	(6,482)	-
	\$ 345,389	\$208,045	\$ (6,482)	\$ 546,952
Income from operations	\$ 7,273	\$ 8,618	\$ -	\$ 15,891
Identifiable assets	\$1,799,401	\$424,290		\$2,223,691

### NOTE 19 — COMPARATIVE FIGURES

Certain comparative figures for 1982 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, 1983 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, 1983 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  
February 15, 1984

**FIRST CITY FINANCIAL CORPORATION LTD.**
**BOARD OF  
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Vancouver, B.C.

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*President and  
Chief Operating Officer*  
Vancouver, B.C.

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Calgary, Alberta

William Belzberg\*  
Los Angeles, California

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Edmonton, Alberta

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Regina, Saskatchewan

Morley Koffman, LL.B.\*  
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Roderick R. McDaniel  
Calgary, Alberta

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

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Chief Executive Officer*

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Finance*

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*Vice President*

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Energy Resources*

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*Secretary*

Azceem Hassanali, C.G.A.  
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Aidan Hughes, C.A.  
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Margaret Huth  
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Gayle Stewart  
*Communications Officer*

†Audit Committee

\*Executive Committee

## FIRST CITY TRUST COMPANY

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John Walling  
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*Director, Human Resources*

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†Audit Committee

\*Executive Committee

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Robert J. Graham  
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Treasurer*

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*Assistant Secretary*

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Michael L. Boeckman  
*Vice President, Secretary  
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Roger Eaglen  
*Vice President*

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Paul Widegren  
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H. Sean Mathis  
*Executive Vice President*

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Barry Gelbart  
*Partner*

David Schuman  
*Partner*

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1125 Boul. de Maisonneuve  
Ouest  
Montreal, Quebec  
H3A 3B6  
John Walling  
*Assistant Vice President*  
(514) 284-2424

1649 Hollis St.  
Halifax, Nova Scotia  
B3J 1V8  
Bob Wright  
*Branch Manager*  
(902) 422-7476

FIRST CITY  
CAPITAL LTD.

BRANCHES:

777 Hornby St.  
Vancouver, B.C.  
V6Z 1S4  
Graham Fuller  
*Branch Manager*  
(604) 668-5777

600-7th Ave. S.W.  
Calgary, Alberta  
T2P 0Y6  
Mike Bazelewick  
*Regional Manager*  
(403) 266-8877

101-100th St.  
Edmonton, Alberta  
T5P 0P1  
Mike Coghlan  
*Branch Manager*  
(403) 423-1808

140-2nd Ave. S.  
Saskatoon, Saskatchewan  
S7K 1K5  
Jan Young  
*Branch Administrator*  
(306) 665-8911

275 Portage Ave.  
Winnipeg, Manitoba  
R3B 2B3  
Don Tardiff  
*Branch Manager*  
(204) 944-0720

217 Dundas St.  
London, Ontario  
N6A 1H1  
Tom Poole  
*Divisional Manager*  
Joe Carapella  
*Branch Manager*  
(519) 673-1900

22 Frederick St.  
Kitchener, Ontario  
N2H 6M6  
Scott Duncan  
*Branch Manager*  
(519) 579-4440

350 Bay St.  
Toronto, Ontario  
M5H 2S6  
Daniel Levesque  
*Regional Manager*  
Jim Mulheron  
*Divisional Manager*  
Robert Gamsby  
*Branch Manager, East Toronto*  
Don Jenkin  
*Branch Manager, West Toronto*  
(416) 362-7211

100-85 Albert St.  
Ottawa, Ontario  
K1P 6A4  
Bob Rouse  
*Divisional Manager*  
(613) 563-4623

## CORPORATE AND BRANCH OFFICES

1125 boul. de Maisonneuve Ouest Montreal, Quebec H3A 3B6 Raymond Danis <i>Divisional Manager</i> (514) 842-4851	<b>FIRST CITY DEVELOPMENT CORP. LTD.</b>  HEAD OFFICE:  2300-10025 Jasper Ave. Edmonton, Alberta T5J 1T1 (403) 428-0501  EXECUTIVE OFFICE:  First City Building 777 Hornby St. Vancouver, B.C. V6Z 1S4 (604) 668-5777	<b>FIRST CITY VILLA DIVISION</b>  7225 Woodbine Ave. Markham, Ontario L3R 1A3 (416) 474-0270  <b>FIRST CITY DEVELOPMENTS CORP.</b>  SEATTLE OFFICE:  227-135 Lake Street South Kirkland, Washington 98030 (206) 828-6410  DALLAS OFFICE:  820-16479 Dallas Parkway Dallas, Texas 75248 (214) 931-1964	<b>CLARION CAPITAL CORPORATION</b>  201-1801 East 12th St. Cleveland, Ohio 44114 (216) 687-1096  <b>ABERFORD RESOURCES LTD.</b>  300-5th Avenue S.W. Calgary, Alberta T2P 2M7 (403) 290-5811  <b>NEW YORK HANSEATIC CORPORATION</b>  10th Floor 500 Park Avenue New York, New York 10022 (212) 750-4850
1649 Hollis St. Halifax, Nova Scotia B3J 1V8 John Ross <i>Branch Manager</i> (902) 423-6258	<b>FIRST CITY INVESTMENTS DIVISION</b>  First City Building 777 Hornby St. Vancouver, B.C. V6Z 1S4 (604) 668-5777	820-16479 Dallas Parkway Dallas, Texas 75248 (214) 931-1964  <b>FIRST CITY CAPITAL CORPORATION</b>  10th Floor 500 Park Avenue New York, New York 10022 (212) 750-4505  <b>FIRST CITY PROPERTIES INC.</b>  800-8383 Wilshire Blvd. Beverly Hills, California 90211 (213) 852-0499	
90 O'Leary Ave. St. John's Newfoundland A1B 3T1 Gerry Critch <i>Branch Manager</i> (709) 722-3434			
<b>FCC LEASING</b>			
BRANCHES:  First City Building 777 Hornby St. Vancouver, B.C. V6Z 1S4 Wendy Vibert <i>Branch Administrator</i> (604) 668-5777  350 Bay St. Toronto, Ontario M5H 2S6 Colleen Rooney <i>Branch Administrator</i> (416) 362-7211	<b>TORONTO DIVISION</b>  99 Avenue Rd. Toronto, Ontario M5R 2G5 (416) 925-2851		

## GENERAL INFORMATION

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### FIRST CITY EXECUTIVE OFFICES

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First City Building  
777 Hornby Street  
Vancouver, B.C.  
V6Z 1S4  
(604) 668-5777

### STOCK EXCHANGE LISTINGS

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FIRST CITY  
FINANCIAL - FCY  
Toronto Stock Exchange  
FIRST CITY TRUST - FCT  
Toronto Stock Exchange

FIRST CITY  
PROPERTIES - FCP  
New York Stock Exchange

ABERFORD  
RESOURCES LTD. - ABC  
Toronto Stock Exchange  
Montreal Stock Exchange

