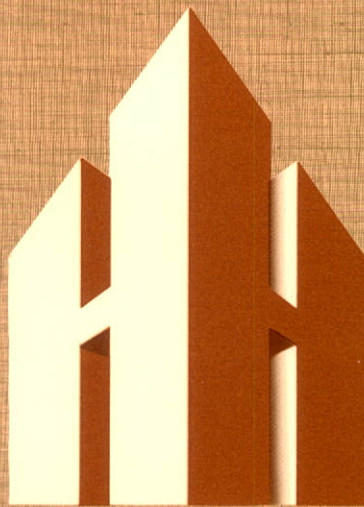
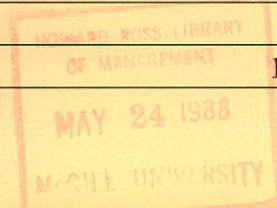


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Chairman's and President's Remarks

Canadian Annual Accounts

Hammerson Canada Inc., a wholly owned subsidiary of The Hammerson Property Investment and Development Corporation plc of London, England, is a real estate investment company engaged in the development and operation of office buildings and shopping centres in Canada.

We are pleased to report earnings before extraordinary items for the year of \$21,102,000 compared with \$20,047,000 in 1986. Revenue from rental operations was \$113,849,000 compared with \$103,262,000 a year earlier.

In 1987, profit was augmented by a gain on the sale of two income-producing properties during the year. Profit after extraordinary items but before preferred dividends was \$24,437,000 (1987) compared to \$20,047,000 (1986). Profit attributable to the common shares after the payment of preferred dividends was \$10,391,000 compared with \$6,001,000 in 1986.

Assets decreased to \$594,689,000 from \$641,037,000 at the end of the previous year due primarily to the property sales noted earlier. Cash flow from operations for the year was \$29,796,000 compared with \$35,147,000 a year earlier, which latter amount included the sale of an interest in the Traders Associates land joint venture in Mississauga.

Generally accepted accounting standards in the United Kingdom require the company to assess the market value of all its income-producing properties every year with an external valuation performed every five years. At the 31st December 1987 the company's income-producing properties have been valued by management at \$805,850,000. This is \$363,493,000 in excess of the book value as recorded in the financial statements.

The year has seen continuing growth in our Canadian properties, not least in Mississauga where work on the Phase II expansion of Square One is well on target. The opening of Eaton's Department Store is due to take place in September 1988 and already 75% of the remaining units have been leased.

Adjacent to Square One is the refurbishment and expansion of 77 City Centre Drive, an office building of 195,000 sq.ft. Scheduled for occupancy in December 1988, over 60% of the space has been leased.

In Toronto, we have completed the refurbishment of the office portion of 2 Bloor Street West. This important frontage on Bloor Street offers excellent quality retail space in an area which is much sought-after. Our leasing programme is progressing satisfactorily with a number of interested retailers.

In Calgary, the energy sector continues to show improvement. However, the office market remains soft due to an excess of unleased existing accommodation aggravated by the addition of substantial new space coming on stream over the next 2 to 3 years. Notwithstanding, we are continuing to maintain a satisfactory occupancy level.

We would like formally to welcome David Lemmon who joined after the year end as Executive Vice-President and Director, and look forward to a long and fruitful relationship. As always, we would like to thank our fellow Directors and staff for their efforts which have resulted in such an excellent year.

SYDNEY MASON
Chairman

E. BRUCE HEYLAND
President

April 19, 1988

Auditors' Report

The Shareholders, Hammerson Canada Inc.

We have examined the consolidated balance sheet of Hammerson Canada Inc. as at December 31, 1987 and the consolidated statements of retained earnings, income 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, 1987 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.

Toronto, Ontario.
March 9, 1988

TOUCHE ROSS & CO.
Chartered Accountants

Consolidated Balance Sheetas at December 31, 1987 (*in thousands of dollars*)

	Notes	1987	1986
Assets			
Property interests			
Income-producing properties	2	\$466,877	\$465,131
Properties under development	3	23,447	5,376
Properties held for development and sale	4	115,225	109,947
Furniture, equipment and leasehold improvements		2,524	2,785
		<u>608,073</u>	<u>583,239</u>
Accumulated depreciation		26,709	24,539
		<u>581,364</u>	<u>558,700</u>
Other assets			
Accounts and mortgages receivable	5	10,648	79,267
Other		2,677	3,070
		<u>13,325</u>	<u>82,337</u>
		<u>\$594,689</u>	<u>\$641,037</u>
Liabilities			
Long-term debt	6	\$ 65,553	\$104,208
Bank indebtedness		2,339	3,690
Accounts payable and accrued liabilities		42,752	34,691
Advances from parent company	7	72,261	115,201
Deferred income		1,277	2,423
Deferred income taxes		46,441	27,149
		<u>230,623</u>	<u>287,362</u>
Shareholders' Equity			
Capital stock	8	304,481	304,481
Contributed surplus		15,364	15,364
Retained earnings		44,221	33,830
		<u>364,066</u>	<u>353,675</u>
		<u>\$594,689</u>	<u>\$641,037</u>

On behalf of the Board:



E. Bruce Heyland



Douglas G. Milne

See accompanying notes to consolidated financial statements

Consolidated Statement of Retained Earnings
for the Year Ended December 31, 1987 *(in thousands of dollars)*

	1987	1986
Retained earnings at beginning of year	\$ 33,830	\$ 27,829
Net income for the year	24,437	20,047
	<hr/>	<hr/>
Dividends on preferred shares	58,267	47,876
	14,046	14,046
	<hr/>	<hr/>
Retained earnings at end of year	\$ 44,221	\$ 33,830
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements

Consolidated Statement of Income

for the Year Ended December 31, 1987 (in thousands of dollars)

	Notes	1987	1986
Rental operations			
Revenues		\$113,849	\$103,262
Expenses			
Operating		50,194	47,718
Realty taxes		13,173	12,769
Interest		6,395	6,414
		69,762	66,901
		44,087	36,361
Net land sales income	9 (b)	2,063	16,078
Interest and other income		7,876	4,983
		54,026	57,422
Net general and administrative expense	10	13,624	11,193
Income from operations		40,402	46,229
Provision for income taxes	11 (b)	19,300	26,182
Income for the year before extraordinary item		21,102	20,047
Extraordinary item	12	3,335	—
Net income for the year		\$ 24,437	\$ 20,047

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Financial Position

for the Year Ended December 31, 1987 *(in thousands of dollars)*

	1987	1986
Operating Activities		
Income from operations	\$ 40,402	\$ 46,229
Depreciation	3,440	2,964
Dividends paid	(14,046)	(14,046)
Cash flow from operations	29,796	35,147
Disposal of land	3,259	44,032
Net decrease (increase) in accounts and mortgages receivable	68,619	(29,525)
Net change in other assets and liabilities	7,274	(7,501)
Cash Generated	108,948	42,153
Financing Activities		
Parent company advances	42,940	(4,896)
Repayment of long-term debt	38,655	12,662
Cash Used	81,595	7,766
Investing Activities		
Funds invested in property interests	52,017	35,712
Net proceeds from sale of income-producing properties	(26,015)	—
Cash Used	26,002	35,712
Net source (use) of cash	1,351	(1,325)
Bank indebtedness, beginning of year	3,690	2,365
Bank indebtedness, end of year	\$ 2,339	\$ 3,690

See accompanying notes to consolidated financial statements

1. Summary of Significant Accounting Policies

The Company, a wholly-owned subsidiary of The Hammerson Property Investment and Development Corporation plc, is a member of the Canadian Institute of Public Real Estate Companies. The Company's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of that Institute.

(a) Consolidation

The financial statements include:

- i. The accounts of the Company and all its subsidiary companies.
- ii. The Company's proportionate share of assets, liabilities, revenue and expenses of its partnership.

(b) Income Recognition

i. Rental operations

Rental revenues from each income-producing property during the initial period of operations are recognized. Carrying costs and operating costs are allocated to the cost of the property and to operations based on occupancy, subject to not capitalizing costs beyond fair market value of the property, within a reasonable period of time having regard to the nature of the property.

ii. Sales

Sales are recorded when the Company has fulfilled all conditions required of it.

(c) Income-Producing Properties

Income-producing properties are carried at the lower of cost, less accumulated depreciation, and estimated economic value. Depreciation on buildings is provided on the sinking-fund basis under which an increasing amount, consisting of a fixed annual sum together with interest compounded at the rate of 5% per annum, is charged to earnings so as to fully depreciate the buildings over their estimated lives of fifty years.

Depreciation on furniture, equipment and leasehold improvements is calculated on a straight-line basis over a period of five years.

(d) Properties Under Development

Properties under development are carried at cost and are intended for retention as income-producing properties.

(e) Properties Held for Development and Sale

Properties held for development and sale are carried at the lower of cost and net realizable value.

(f) Capitalization of Costs

The Company capitalizes all direct carrying costs such as specific interest, property taxes, interest on general borrowing, administration costs considered applicable as part of the cost of property interests and leasing costs, including costs of subsequent leaseings in excess of those initially capitalized. All other leasing costs are written off in the year incurred.

(g) Segmented Information

The primary business of the Company comprises the investment in income-producing properties and the development and sale of land. The operating results and amounts invested in these segments of the Company's business are reflected in the financial statements.

2. Income-Producing Properties

	As at December 31	
	1987	1986
	(in thousands of dollars)	
Land	\$ 23,631	\$ 27,812
Leasehold land	15,390	15,390
Buildings	426,357	420,353
Furniture and equipment	1,499	1,576
	<u>466,877</u>	<u>465,131</u>
Accumulated depreciation	24,520	22,464
	<u>\$442,357</u>	<u>\$442,667</u>

The lease in respect of leasehold land expires in July 2069 and provides for the purchase of the freehold interest at the option of the Company in May 2010 at a price considerably lower than fair market value at that time with a further option at a fixed cost in the period from May 2045 to May 2050.

In addition, there is another income-producing property on leased land, which lease runs to 2004 with options for an additional 66 years.

3. Properties Under Development

	As at December 31	
	1987	1986
	(in thousands of dollars)	
Land	\$ 5,101	\$ 440
Building	18,346	4,936
	<u>\$ 23,447</u>	<u>\$ 5,376</u>

It is estimated that the Company will incur expenditures of approximately \$58,000,000 from December 31, 1987 to complete properties under development. Financing for these costs has been arranged by the parent company.

4. Properties Held for Development and Sale

	As at December 31	
	1987	1986
	(in thousands of dollars)	
Land held for development or sale	\$110,588	\$105,310
Land and buildings held for sale	4,637	4,637
	<u>\$115,225</u>	<u>\$109,947</u>

5. Accounts and Mortgages Receivable

	As at December 31	
	1987	1986
	(in thousands of dollars)	
Receivable under mortgages, debentures and land sales agreements, carrying an average interest rate of 10.05%		
1987	\$ —	\$ 334
1988	5,456	20,144
1989	179	5,128
1990	169	3,441
1991	880	—
1992 and thereafter	13	44,627
	<u>6,697</u>	<u>73,674</u>
Accrued interest	2,314	1,664
Trade accounts receivable	1,637	3,929
	<u>\$ 10,648</u>	<u>\$ 79,267</u>

See also Note 13 (c)

6. Long-Term Debt

Secured by specific properties and lease commitments, repayable as follows:

(in thousands of dollars)

1988	\$ 766
1989 to 1992	6,129
1993 and thereafter	58,658
	<u>\$ 65,553</u>

The rates at which interest is charged on long-term debt due after one year are as follows:

	As at December 31	
	1987	1986
	(in thousands of dollars)	
5%-5.9%	\$ 2,200	\$ 2,200
6%-8.9%	—	894
9%-9.9%	24,132	24,484
10%-11.9%	35,719	36,095
12%-13.9%	2,736	2,774
Rates varying with financial indices	—	37,000
	<u>\$ 64,787</u>	<u>\$103,447</u>

7. Advances from Parent Company

These advances are repayable on demand. General interest expense (refer Note 10) in the amount of \$9,393,000 (1986 — \$5,474,000) was recorded in respect of these advances during the year.

8. **Capital Stock**

	Number Issued		Stated Capital	
	1987	1986	1987	1986
			(in thousands of dollars)	
Common Shares	124,000,001	124,000,001	\$124,000	\$124,000
Preferred Shares				
9.12% Series A	3,200,000	3,200,000	80,000	80,000
9.00% Series B	3,000,000	3,000,000	75,000	75,000
9.12% Second	1,019,240	1,019,240	25,481	25,481
			<u>\$304,481</u>	<u>\$304,481</u>

The Series A and Series B Preferred Shares are cumulative, retractable at the option of the holder on December 31, 1989, December 31, 1990 and December 31, 1991 (Series A) and June 30, 1990, June 30, 1991 and June 30, 1992 (Series B) at \$25 per share plus accrued and unpaid dividends, redeemable at the option of the Company after December 31, 1989 (Series A) and June 30, 1990 (Series B) at \$25 per share plus accrued and unpaid dividends and are convertible at the option of the holder into one or more further Series of Preferred Shares on the retraction dates listed above should the Company elect to create a further series of Preferred Shares into which the Series A and B shares may be converted. The Second Preferred Shares are non-cumulative and redeemable at the option of the holder or the Company at any time or times at \$25 per share plus all declared and unpaid dividends.

9. **Partnership in Real Estate Project**

- (a) The Company's share of assets and liabilities of its partnership, accounted for as a joint venture on a line by line basis in the financial statements, is:

	As at December 31	
	1987	1986
	(in thousands of dollars)	
Land held for sale	\$ —	\$ 2,744
Accounts and mortgages receivable (refer note 13 (c))	3,602	55,715
Other assets	116	—
	<u>3,718</u>	<u>58,459</u>
Liabilities	<u>2,009</u>	<u>2,703</u>
Equity	<u>\$ 1,709</u>	<u>\$ 55,756</u>

- (b) The Company's share of sales and cost of sales of its partnership included in the financial statements is as follows:

	As at December 31	
	1987	1986
	(in thousands of dollars)	
Sales	\$ 5,322	\$ 60,110
Cost of sales	3,259	44,032
Net land sales income	<u>\$ 2,063</u>	<u>\$ 16,078</u>

10. **Net General and Administrative Expense**

	1987	1986
	(in thousands of dollars)	
General interest	\$ 10,937	\$ 10,559
General and administrative expense	6,562	6,129
	<u>17,499</u>	<u>16,688</u>
Less: Amounts capitalized to property interests		
General interest	2,875	4,745
General and administrative expense	1,000	750
	<u>3,875</u>	<u>5,495</u>
	<u>\$ 13,624</u>	<u>\$ 11,193</u>

11. **Income Taxes**

- (a) Deferred income taxes, comprising:
- the difference between net book value for accounting purposes of income-producing properties and properties held for development and the undepreciated capital cost for income tax purposes, and
 - certain costs capitalized to properties held for sale, but deducted for income tax purposes have been partially offset by the recognition of the benefit of non-capital losses of a subsidiary which are expected to be utilized to offset future taxable income.
- (b) The Company's effective income tax rate is made up as follows:

	1987	1986
Combined basic federal and provincial rate	52.1%	53.0%
Deductible items included in non-depreciable assets	(4.3)	(2.6)
Non-deductible costs related to land sales	—	6.2
	<u>47.8%</u>	<u>56.6%</u>

12. **Extraordinary Item**

The extraordinary item represents the net gain on sale of income-producing properties after a provision of \$217,000 for income taxes.

13. **Contingencies and Commitments**

- (a) The Company operates a previously owned rental property on a leaseback arrangement. The lease, which is being accounted for as an operating lease, has a term of 45 years to October 31, 2031, although the owner may terminate the lease on or after October 31, 1989 upon 31 days written notice and each of the Company and the owner may terminate the lease on or after October 31, 1990 upon 180 days written notice to the other.

Rent is payable in monthly installments and the annual cost is as follows:

For the year ending October 31, 1988	\$14,495,000
October 31, 1989	15,944,000
October 31, 1990	15,944,000

The Company has provided the owner of the rental property with a letter of credit equal to the current and subsequent year's rent.

- (b) In respect of the foregoing property, the owner filed a substantial claim against the Company on March 3, 1987. In the opinion of management, appropriate provision has been made in the financial statements for the estimated liability, if any, of the action.
- (c) During the year, the Company sold \$49,800,000 of accounts and mortgages receivable to a Canadian Chartered Bank. The Company has guaranteed the ultimate payment of these receivables to the bank.

14. **Comparative Figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

Hammerson Canada Inc.

70 University Avenue
Toronto, Ontario M5J 2M4
Telephone (416) 977-2011

Present Directors

Sydney Mason, FSVA
E. Bruce Heyland, B.A., M.B.A.
John R. Parry, MA, FRICS
James H. Riddell, LL.B., CA, FCMA, ATII
Douglas G. Milne, B.A., LL.B., Q.C.
G. Blair Cowper-Smith, LL.B., LL.M.
David C. Davenport, LL.B.
Alvin M. Glick, B.S., LL.B., J.D.
David A. Lemmon, B.Comm.
Richard E. Fletcher, B.Comm., C.A.
Howard C. Quennell, B.A., M.B.A.
Joseph F. Dubowski, B.Comm., C.A.

Present Officers

Sydney Mason, *Chairman of the Board*
E. Bruce Heyland, *President*
David A. Lemmon, *Executive Vice-President*
Richard E. Fletcher, *Vice-President, Finance and Administration*
Viktor Damanis, *Vice-President, Development*
Howard Quennell, *Vice-President, Shopping Centre Development*
Alan W. Jamieson, *General Manager, Commercial Properties, Canada*
Joseph F. Dubowski, *Secretary*
Nancy Furber, *Assistant Secretary*
Melvyn B. Need, *Controller*

Members of Executive Committee

E. Bruce Heyland
David A. Lemmon
Douglas G. Milne
G. Blair Cowper-Smith

Members of Audit Committee

E. Bruce Heyland
Douglas G. Milne
G. Blair Cowper-Smith

Transfer Agent

Guaranty Trust Company of Canada

Investment Advisor

Wood Gundy Inc.

Consultant

Cogan Corporation

