Markborough Properties Limited

Annual Report 1984

Markborough Properties Limited

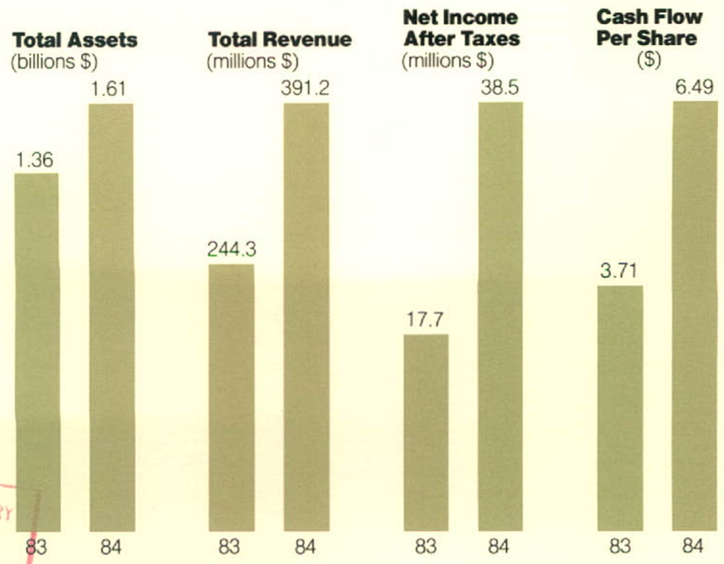
Markborough Properties Limited, one of the largest and most diversified land and income property development companies in North America, has been developing and managing commercial, industrial and residential properties since its formation in 1965. It is a wholly-owned subsidiary of Hudson's Bay Company with headquarters in Toronto, Ontario.

Following an amalgamation with an affiliated corporation in early 1984, Markborough's asset base has grown to more than $1.6 billion with approximately 35% of the company's portfolio located in the United States (Washington, D.C., Ohio, Florida, Texas, Arizona, Colorado and California) and the balance located coast to coast throughout Canada.

Contents

Financial Highlights
(thousands of dollars except where noted)

	1984	Pro-forma 1983
Operating results for the year		
Revenue from land operations	**$253,936**	$120,790
Revenue from housing operations	**16,111**	21,610
Revenue from income properties	**121,117**	101,920
Net income before taxes	**71,716**	34,898
Net income after taxes	**38,500**	17,721
Per common share:		
Net income after taxes	**$3.48**	$1.60
Cash flow	**6.49**	3.71
Financial position at the year end		
Undeveloped land	**$272,077**	$346,000
Income properties	**709,554**	610,425
Bank indebtedness	**96,697**	105,996
Due to parent and affiliated company	**168,091**	40,921
Long term debt	**622,871**	524,890
Share capital	**233,223**	233,223
Retained earnings	**188,886**	255,386
Statistical at the year end		
Common shares outstanding	**11,054,624**	11,054,624
Ratio of income properties to undeveloped land	**2.6 to 1**	1.8 to 1
Ratio of debt to equity	**2.1 to 1**	1.4 to 1



1984 Annual Review

Peter A. Anker (left), President and Chief Executive Officer

H. Peter Langer (right), Chairman of the Board

1984 Results

The Corporation's net profit for 1984 was $38.5 million, more than double the restated profit of $17.7 million in 1983. Total revenue increased to $391.2 million from $244.3 million in 1983 and cash flow was $71.7 million compared to $41 million the year before.

Comparative figures for 1983 have been restated to recognize an amalgamation which occurred on February 1, 1984 pursuant to which Markborough acquired title to most of the commercial real estate interests of Hudson's Bay Company except for its retail stores and distribution buildings.

The Corporation's land operations contributed significantly to the results of the past year. Profit was $58.8 million, a 136% increase over 1983 profit of $24.9 million. Revenue increased to $253.9 million from $120.8 million in 1983 due primarily to substantial sales activity in Arizona and Texas.

Operating profit from income property operations was $71.5 million compared to 1983 operating profit of $60.4 million, an increase of 18.4%. Revenue increased to $121.1 million, an increase of 18.8% over 1983 revenue of $101.9 million.

Strategic Overview and Operations

In last year's Annual Review it was indicated that the Corporation's priority for 1984 would be the absorption and selective rationalization of the properties that were acquired on the amalgamation with Hudson's Bay Company Developments Limited. The Corporation has sold or identified for disposal several of these properties. It is intended to utilize most of the remaining properties and the income-producing portfolio Markborough had established prior to 1984 as a base for continued steady growth as an income property and land development company.

The Corporation's current priority will be the expansion of its income-producing portfolio. This will be achieved for the most part through internal development expertise. Although suburban locations for office and mixed-use projects will be considered, new development emphasis will continue to be on quality, high demand, downtown locations on the American north-east and west coasts and in those cities where Markborough is already established. The Corporation will also add to its regional shopping centre portfolio as opportunities arise and will expand, upgrade and renovate selected existing shopping centres when conditions justify such action.

In the past year construction was commenced or was continuing on major office complexes in the business, government and finance centres of Ottawa, Ontario, Washington, D.C. and London, England. On completion of these projects in 1985, 1986 and 1987 respectively, over 600,000 square feet of prime office space will be added to the Corporation's income portfolio. Additions of 360,000 square feet of leasable area are being made to four shopping centres in which Markborough has either an equity interest (Place Vertu and Fairview Pointe Claire in Montreal) or owns outright (Richmond Centre in Vancouver and Cloverdale Mall in Toronto). In addition, construction of a regional shopping centre in Toronto, the 618,000 square foot Woodbine Centre in which the Corporation has a 40% equity interest, was started in early 1984. The centre is scheduled to open in August 1985.

Markborough will continue to look for new land development opportunities in the United States where it has established an enviable reputation for quality development. The acquisition of replacement land banks in Florida, Texas and Arizona is currently under way to replace stock depleted by exceptionally buoyant sales in 1984.

Outlook

It would appear that interest rates will remain more stable than in the past several years. Although a new government in Ottawa has assisted in the improving climate of business confidence in Canada, real interest rates in the United States and hence in Canada are still relatively high and will probably continue to remain high because of government deficits and the strength of the U.S. economy. Markborough's perception is that the growth of the Canadian and U.S. economies in 1985 will not equal the rate of 1984 but will proceed slowly and cautiously. It would appear, however, that at this stage the expected sustained recovery of the North American economy will be beneficial to business and a year of steady if not spectacular growth is anticipated.

Major changes are taking place in the real estate market at this time. Inflation is lower than it has been in many years. Many corporations are questioning the cost and necessity of operating out of expensive downtown offices. Other corporations have reduced their space requirements as a result of more efficient or automated production processes. All these factors make decisions involving the construction or acquisition of real estate more difficult than ever. Fortunately Markborough has a professional development and management team able to provide the expertise necessary to take advantage of new opportunities as they arise. The Corporation also has an excellent portfolio of existing assets.

Board Changes

Messrs. Douglas W. Mahaffy and T. Iain Ronald, Senior Vice President, Finance and Administration and Executive Vice President respectively of Hudson's Bay Company have joined our Board. Mr. Peter W. Wood who has served the Corporation as a Director for more than 10 years has reached mandatory retirement age. We wish to express our appreciation to Mr. Wood for his wise counsel and service over the years.

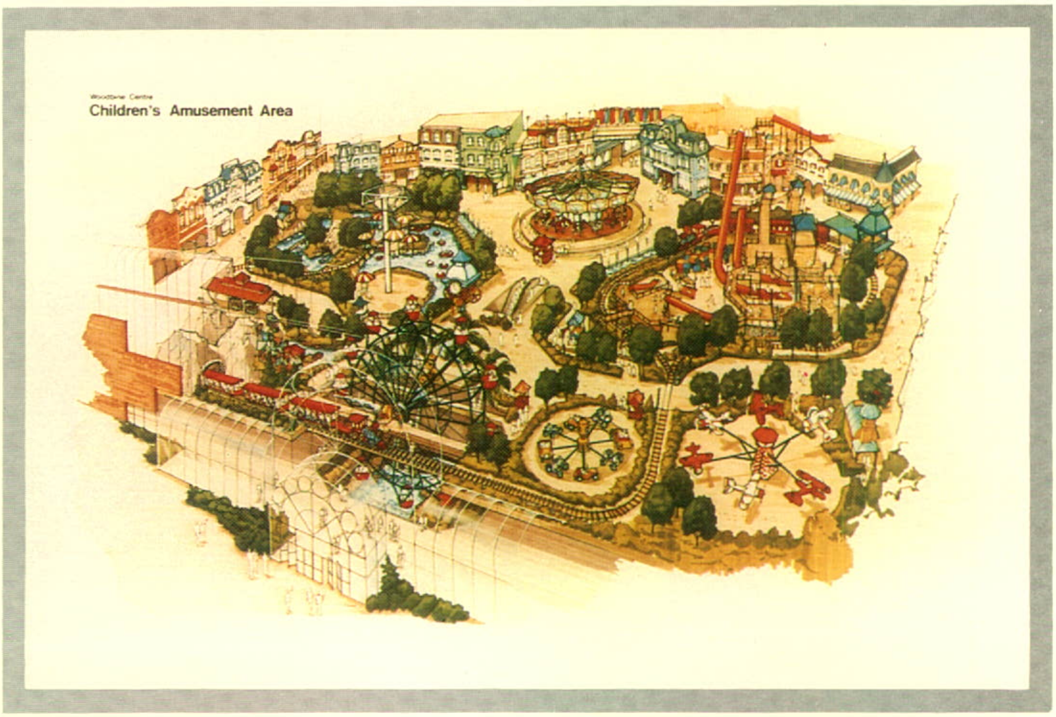
Appreciation

A significant factor in the continuing success of the company has been the initiative, dedication and imagination shown by our employees and we thank them for their fine efforts during the past year.

H. P. Langer

H. Peter Langer
Chairman of the Board

Peter A. Anker
President and Chief Executive Officer



Income Property Investments

Shopping Centres

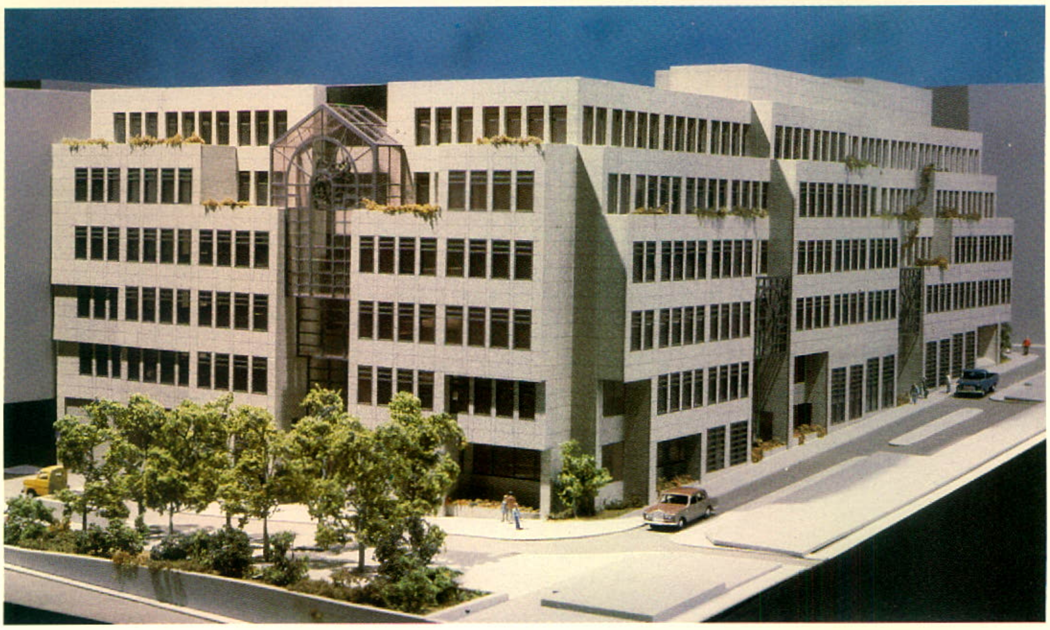
One of Markborough's major strengths is the income stream from its shopping centre properties which should show steady growth through lease rollovers and increased percentage rent revenues. This will provide stability for ongoing operations and support for the development of new investments. Markborough owns 18 shopping centres and has equity interests (in proportions varying between 25% and 50%) in a further 28 centres, all located in Canada. When Woodbine Centre in Toronto opens in August 1985 the Corporation will have a gross interest in over 15 million square feet of shopping centre space.

In 1985 the 70,000 square foot expansion of Cloverdale Mall in Toronto will be completed. A supermarket will occupy 40,000 square feet of the expanded area and the remaining 30,000 square feet has been leased to ancillary tenants. Construction has now commenced on a new 66,000 square foot Zellers store at Cloverdale which will be ready for occupancy in the fall of 1985. The total cost of both phases of the Cloverdale expansion will approach $10 million. An 8,500 square foot enlargement of Richmond Centre, a wholly-owned community shopping centre in Vancouver, was substantially completed in 1984.

During the year, construction started on Woodbine Centre, an $85 million regional shopping centre which the Corporation is developing jointly with Cadillac Fairview. This centre's anchor tenants will be the Bay and Simpsons department stores and will feature a 37,500 square foot indoor amusement park, the first of its kind in Metropolitan Toronto. The centre is already substantially leased and is expected to open in August 1985.

Above: Sketch of the Main Entrance to Woodbine Centre and the Children's Amusement Area

Left: Model of the interior of Toronto's Woodbine Centre, opening August, 1985



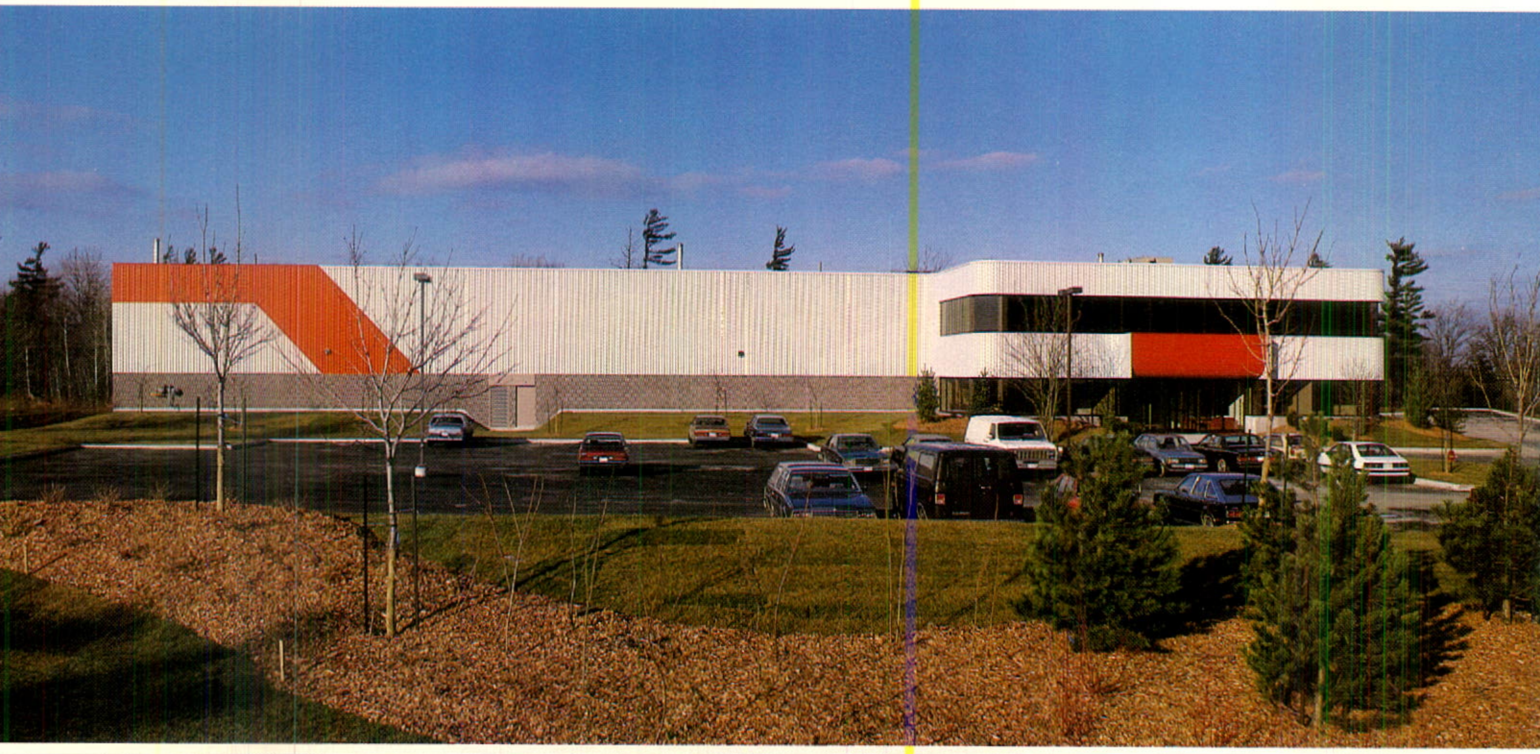
Top Right: Office Building Rendering, 20th and L Streets, Washington, D.C.

Bottom Right: Model of Beaver House in the City of London

Left: Model of the Fairview Pointe Claire Centre, Montreal

Construction is progressing on a $65 million second level addition to the Fairview Pointe Claire Centre in west Montreal in which Markborough has a 50% interest. The resulting additional 150,000 square feet of space has been pre-leased and when completed in August 1985, 100 more specialty stores will open for business. In March 1984 finishing touches were put on a 65,000 square foot expansion to Place Vertu in Montreal, a centre in which the Corporation has a 25% interest. In August 1984 Markborough increased its equity interest from 20% to 40% in Kildonan Place, a regional shopping centre in Winnipeg, Manitoba.

Markborough will continue to explore opportunities for investment in first class regional shopping centres and expansion of established centres.



Above: Abbott Laboratories and Interamerican Transportation Systems, developments in the Meadowvale Business Park, Metropolitan Toronto

Office and Mixed-Use Properties

In 1984, construction commenced on office building projects in Ottawa, Ontario, London, England and Washington, D.C. Once completed, these projects will add over 600,000 square feet to Markborough's present commercial income property holdings of almost 1.7 million square feet. The Corporation also purchased its sole partner's 50% interest in Hudson's Bay Centre, a 20 storey office building in Denver, Colorado which is approximately 85% leased.

Ottawa, Ontario—Heritage Place

This 14 storey 239,000 square foot mirrored glass office tower and retail complex is less than a five minute walk from Parliament Hill. It occupies the entire block between Queen Street and the Sparks Street Mall in the centre of the capital's business, government and financial district. A new 50,000 square foot Zellers store will adjoin and be integrated into the project. The exterior of the new store includes an historic facade dating from 1872 which has been carefully and innovatively preserved

Fathom Oceanology,
Meadowvale Business Park

during the demolition and construction phases. Occupancy of the building is scheduled for August 1985.

London, England–Beaver House

Construction of this 230,000 square foot project is now underway on the site of Hudson's Bay Company's former fur trading headquarters, about 400 yards west of the Bank of England in the city's financial centre. The project consists of two buildings linked by a two storey glass enclosed bridge. Incidental to the main project, the Corporation is reconstructing the Mansion House underground station which lies below the site. Completion is scheduled for mid 1987.

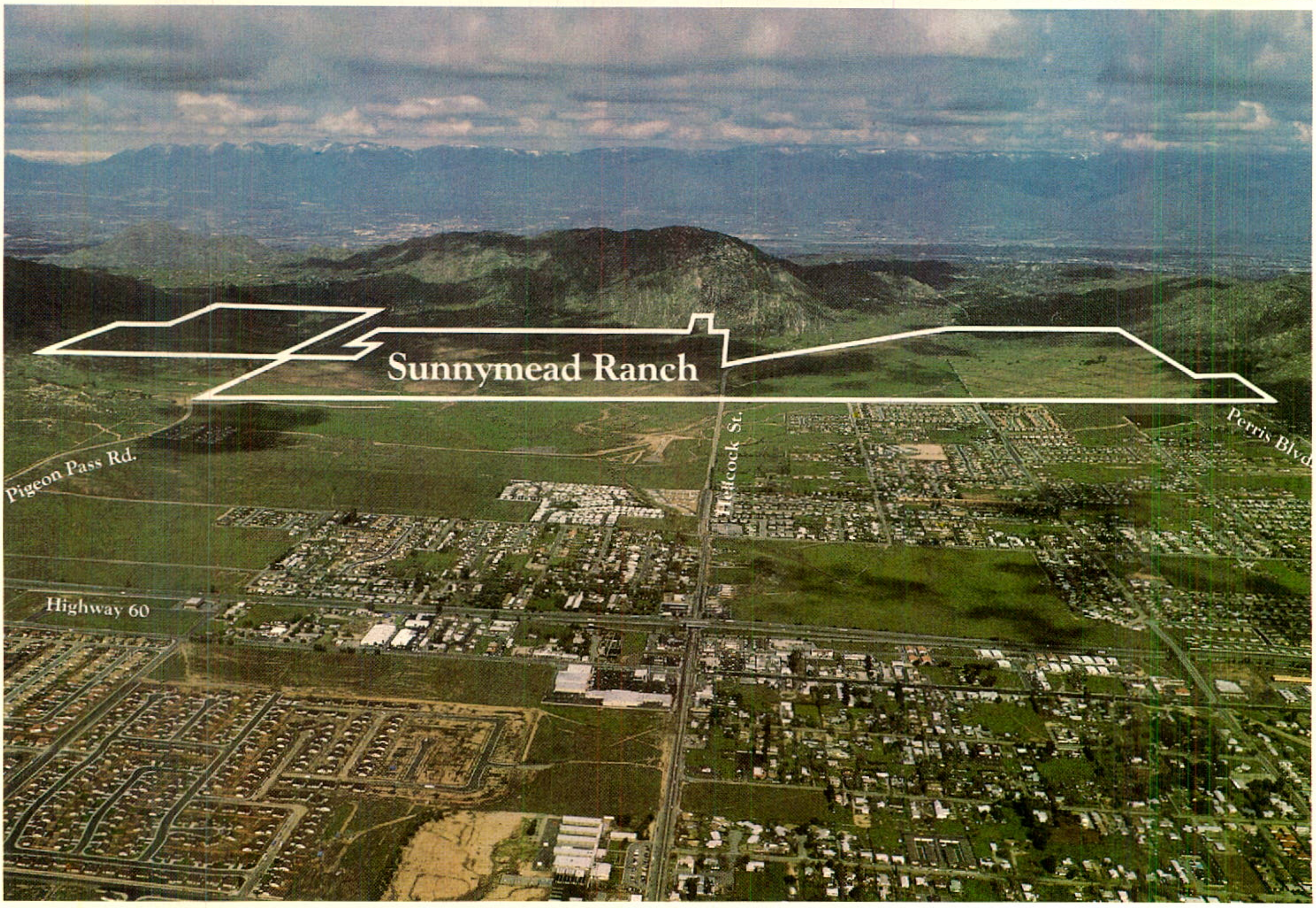
Washington, D.C.

In August 1984 Markborough and its joint venture partner, Viking Capital, Inc., acquired for development an 18,000 square foot property at 20th and L Streets in the "Golden Triangle" area of downtown Washington's central business district. Additional density was purchased from an adjoining property and excavation commenced in November 1984. A first class office building of over 150,000 square feet with ground floor retail shopping and underground parking is expected to be completed by the spring of 1986.

Industrial Buildings

Almost 85% of the Corporation's industrial building portfolio of over 1 million square feet is located in the Metropolitan Toronto region. Despite continuing uncertainty in this market area throughout 1984, the Corporation was able to secure a substantial number of lease renewals or new leasing commitments. The portfolio is now 98% leased.


Phoenix International Airport
Downtown Phoenix
Downtown Scottsdale
Camelback Mountain
Mummy Mountain
McCormick Ranch
Paradise Valley
Scottsdale Road
The Gainey Ranch
Mountain View Road
McCormick Ranch
Hayden Road
Shea Boulevard


Sunnymead Ranch
Perris Blvd
Pigeon Pass Rd.
Heacock St.
Highway 60

Land Development

Residential Community Developments

1984 was a milestone year for two of the Corporation's developments. In the latter part of the year an option was given for the sale of the last serviced residential lots in Meadowvale, a planned 3,000 acre urban community in the City of Mississauga on the western boundary of Metropolitan Toronto. In Boca Raton, Florida, the remaining land parcels in the 1,019 acre Boca Pointe development have been sold or committed under contract and construction of the last amenity packages for the community is in progress. Builders reported good sales levels of residential housing units in this prestigious showcase development.

Through careful planning and creative engineering, the Corporation's Arizona subsidiary, Markland Properties, Inc., has become the dominant land developer in the affluent north Scottsdale market where it is presently undertaking two major planned community projects. The Scottsdale Ranch project is built around Lake Serena, a 42 acre private lake constructed by Markland to solve a significant flood control problem in a critical ground water area. After sales in 1984 of 220 acres in Scottsdale Ranch, approximately 230 acres of the total 1,120 acres acquired in 1978 will remain in inventory. At the 640 acre Gainey Ranch, a water treatment plant which provides irrigation for the 27 hole championship golf course around which the community is planned (and as well allows for reclamation in water conscious Arizona), has been completed and the course is ready for play. In 1984, 70 acres were sold to builders.

Lexington Development Company, a Texas limited partnership in which the Corporation's Texas subsidiary is an 80% general partner, is a major land developer in the metropolitan areas of Houston and Austin. Lexington has a land bank presently in excess of 2,500 acres. Approximately 1,600 acres were sold in Texas in 1984, with 93% of these sales occurring in the Austin market.

In June 1984, the first home sales were offered in the 400 lot first phase of development at Sunnymead Ranch, a 1,400 acre master planned residential community in the Moreno Valley, ten miles east of Riverside, California. In July 1984, construction started on an

Above Right: Sunnymead Ranch Model Home

Above Left: The Gainey Ranch in Scottsdale, Arizona

Left: Sunnymead Ranch in California's Moreno Valley

interconnecting three lake and dam system covering 32 acres. The lakefront club facility is also proceeding with expected completion in November, 1985. The design of tract maps providing for almost 1,000 additional lots has been completed and the lots have now been recorded for sale in 1985.

The Corporation is also developing serviced lots in other ongoing projects in Columbus and Cleveland, Ohio, Homestead, Florida, Whitby, Aurora and Mississauga, Ontario and Calgary, Alberta. Despite a very weak housing market in Calgary, Markborough was able to achieve satisfactory sales in the move up market.

Housing

The Corporation's major involvement in housing is through Markland Properties in Arizona. Markland's activities are in three separate locations, Country Ridge in North Phoenix, Mirador on Scottsdale Ranch and the Golf Cottages at Gainey Ranch. In 1984, there were sales of 88 units for a gross profit of $2.4 million, a performance and contribution consistent with prior years.

Commercial and Industrial Design/Build

Given the historically high interest rates and business downturn of the last several years, many companies looking for new buildings are now prepared to foresake the possibility of capital appreciation of a facility in order to effect immediate cash and tax savings through sale and leaseback arrangements. The "build to suit" or "design/build" concept has become accepted in the past three to four years as a competitive method for a company to satisfy its real estate needs for a good quality building at a cost 20% to 40% less than the cost of ownership. While it has become difficult in areas such as Toronto to place a conventional mortgage on a building and show an acceptable return on equity invested if market lease rates are being mirrored, there has nonetheless been a strong demand among certain domestic and offshore investors for quality real estate producing returns Markborough believes are unattractive in the short to medium term. The Corporation has now successfully demonstrated its ability in almost 50 transactions over the past eight years to assemble and deliver land, building, project financing and legal documentation to the satisfaction of investors. In the past year alone, the Corporation completed six design/build facilities in the Metropolitan Toronto region ranging in size from 22,750 square feet to over 55,000 square feet. Many companies will continue to view this as a desirable method to realize value from the real estate component of their business and Markborough will be an active participant in this market.

Above: Scottsdale Model Home built by Markland Properties

Right: Jim Nelford, U.S.P.G.A. tournament player, is the Tour Professional at Gainey Ranch and is shown here on the Lakes Course, one of Gainey's three nine-hole championship courses.

Consolidated Statement of Income and Expenses

Year ended January 31, 1985

Markborough Properties Limited

	This year (000's)	Pro-forma (Note 1) Last year (000's)
Revenue from land operations	**$253,936**	$120,790
Less cost	**195,178**	95,867
Profit from land operations	**58,758**	24,923
Revenue from housing operations	**16,111**	21,610
Less cost	**13,641**	19,068
Profit from housing operations	**2,470**	2,542
Revenue from income properties	**121,117**	101,920
Less:		
Operating expenses	**31,831**	27,574
Realty taxes	**17,812**	13,966
Operating profit from income properties	**71,474**	60,380
Interest and other income	**14,115**	9,069
Gain on sale of income properties	**435**	6,155
Income before interest, depreciation and general and administrative expenses	**147,252**	103,069
Less:		
Interest	**49,771**	47,367
Depreciation on income properties	**11,394**	9,877
General and administrative expenses	**14,371**	10,927
Income before income taxes	**71,716**	34,898
Provision for income taxes (Note 10):		
Current	**11,389**	3,766
Deferred	**21,827**	13,411
	33,216	17,177
Net income for the year	**$ 38,500**	$ 17,721
Earnings per share (Note 12)	**$3.48**	$1.60

Consolidated Statement of Retained Earnings

Year ended January 31, 1985

	This year (000's)	Pro-forma (Note 1) Last year (000's)
Retained earnings at beginning of the year	**$255,386**	$237,665
Net income for the year	**38,500**	17,721
	293,886	255,386
Dividends paid on common shares	**105,000**	–
Retained earnings at end of the year	**$188,886**	$255,386

Consolidated Balance Sheet
January 31, 1985

Markborough Properties Limited

	This year (000's)	Pro-forma (Note 1) Last year (000's)
Assets		
Accounts receivable	**$ 43,681**	$ 30,065
Mortgages and other secured receivables (Note 3)	**173,670**	82,503
Land and housing for sale	**253,939**	133,964
Land for future development	**272,077**	346,000
Prepaid expenses and other assets	**16,014**	12,353
Income properties (Note 4)	**709,554**	610,425
Investments in affiliated companies (Note 5)	**142,373**	142,373
	$1,611,308	$1,357,683
Liabilities and Shareholder's Equity		
Bank indebtedness	**$ 96,697**	$ 105,996
Accounts payable and accrued liabilities (Note 7)	**99,345**	43,589
Due to parent and affiliated company (Note 8)	**168,091**	40,921
Provision for development costs	**67,304**	42,811
Mortgages payable (Note 9)	**622,871**	524,890
Deferred income taxes	**134,891**	110,867
	1,189,199	869,074
Capital stock (Note 11)	**233,223**	233,223
Retained earnings	**188,886**	255,386
	$1,611,308	$1,357,683

Approved by the Board:

Peter A. Anker, Director

Donald F. Prowse, Director

Consolidated Statement of Changes in Financial Position

Year ended January 31, 1985

	This year (000's)	Pro-forma (Note 1) Last year (000's)
Cash was provided from:		
Operations–		
Net income for the year	**$ 38,500**	$ 17,721
Add (deduct)–		
Depreciation	**11,394**	9,877
Provision for deferred income taxes	**21,827**	13,411
Gain on sale of income properties	**(435)**	(6,155)
	71,286	34,854
Mortgages on income properties and land	**221,169**	196,918
Advances from parent and affiliated company, net	**127,170**	14,385
Land, housing, development and related costs realized through sales	**208,819**	114,935
Proceeds on sale of income properties, net	**3,316**	9,411
Net change in other assets and liabilities	**52,095**	(30,333)
Total cash provided	**683,855**	340,170
Cash was applied to:		
Land–		
Acquisition	**60,292**	30,462
Development and related costs	**139,635**	63,032
Carrying charges	**35,570**	26,418
Housing construction	**10,366**	14,820
Income properties–		
Acquisition	**41,267**	17,567
Construction	**46,342**	12,200
Increase in accounts, mortgages and other secured receivables	**104,783**	15,224
Mortgage principal repayments	**131,301**	96,681
Dividends paid on common shares	**105,000**	–
Total cash applied	**674,556**	276,404
Net incoming cash	**$ 9,299**	$ 63,766

Auditors' Report

To the Shareholder of
Markborough Properties Limited:

We have examined the consolidated balance sheet of Markborough Properties Limited as at January 31, 1985 and the consolidated statements of income and expenses, 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 January 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Toronto, March 13, 1985

Price Waterhouse
Chartered Accountants

Notes to Consolidated Financial Statements
January 31, 1985

1. Amalgamation and reorganization
The Company was formed on February 1, 1984 by the amalgamation of two affiliated companies, Markborough Properties Limited (M.P.L.) and Hudson's Bay Company Developments Limited (H.B.C.D.L.), under the provisions of the Canada Business Corporations Act. The amalgamation was accounted for as a pooling of interests. The amalgamated company carries on business as Markborough Properties Limited.

The amalgamation was followed by a reorganization, in which certain assets were transferred to other affiliates as explained in Note 5. The comparative pro-forma consolidated balance sheet and statement of retained earnings give effect to such transfers and reflect the final resolution of certain matters relating to the amalgamation and reorganization. The comparative pro-forma consolidated statements of income and expenses and changes in financial position reflect the results of operations of M.P.L. and H.B.C.D.L. relating to the continuing assets of the amalgamated company, including those assets acquired at fair value from an affiliate immediately prior to the amalgamation. Certain of the prior year's pro-forma financial statement amounts have also been reclassified to conform with the current year's presentation.

2. Summary of significant accounting policies
The accounting policies of the Company conform to accounting principles generally accepted in Canada. The Company's significant accounting policies are as follows:

(a) Principles of consolidation–
The consolidated financial statements include the accounts of the Company's subsidiaries, all of which are wholly-owned, and the Company's share of the assets, liabilities, revenues and expenses of the incorporated and unincorporated joint ventures in which it participates.

(b) Land and housing–
Land and housing are carried at the lower of cost or net realizable value at the estimated time of development and sale.

The cost of land for future development includes pre-development expenses and carrying charges (interest and realty taxes).

The Company records as land for sale, the estimated cost on a fully developed basis of those parcels of land on which the planning, engineering, servicing and governmental authorization procedures are completed to the point that the land can be regarded as available for sale. The amount recorded includes land costs and full provision for the estimated complete development costs. The liability for the unexpended portion of the estimated development costs is shown as provision for development costs and includes any costs still to be incurred on land which has been sold. Housing includes construction costs incurred to date.

(c) Income properties–
Income properties completed and under construction are carried at cost. Cost includes interest, realty taxes and other carrying charges incurred in the pre-development and construction periods and initial leasing costs.

Revenue is recorded as income at the earlier of the date when 70% of the property is leased or when a period has elapsed subsequent to substantial completion deemed under the circumstances to be reasonable for leasing. Operating results prior to this date are capitalized.

Buildings are generally being depreciated on the sinking fund basis at rates ranging between 3% and 5% over terms of 35 to 50 years. Equipment is being depreciated on a straight-line basis over the estimated useful life of the asset.

(d) Interest allocation–
Interest on specific debt secured by land or income properties under construction is capitalized to such assets.

Interest on other borrowings is pooled. Interest is capitalized to income properties under construction and land for future development at the weighted average rate for that portion of their total costs not financed by specific debt. The remaining unallocated interest is expensed.

3. Mortgages and other secured receivables
Mortgages and other secured receivables, which arise from sales of real property, bear interest at an average year-end rate of 11.0% and mature as follows:

	(000's)
Fiscal year ending January 31,1986	$ 69,867
1987	37,125
Subsequent to January 31, 1987	66,678
	$173,670

Under certain conditions, the amounts due may be paid prior to maturity.

Mortgages and other secured receivables include advances on behalf of a joint venture partner of $8,380,000 (last year–$Nil).

4. Income properties
Income properties consist of:

	This year (000's)	Last year (000's)
Land	$108,145	$ 78,282
Buildings	601,320	563,154
Equipment	6,841	6,696
Construction in progress	45,169	1,720
	761,475	649,852
Less accumulated depreciation	51,921	39,427
	$709,554	$610,425

The Company's share of estimated cost to complete construction of eight projects in progress is $148,262,000. Specific project financing and general lines of credit are available to fund the construction of these projects.

5. Investments in affiliated companies
Investments in affiliated companies acquired as part of the reorganization, consist of 8% non-cumulative, non-voting, redeemable, retractable Class A shares of the affiliated companies listed below. The investments are stated at cost, which represents the fair value of the assets transferred to the respective affiliates at the date of transfer.

	(000's)
Hudson's Bay Company Real Estate Limited	$ 87,147
Hudson's Bay Company Investments Limited	48,446
Hudson's Bay Company Fur Sales International Limited	4,929
Zellers Inc.	1,851
	$142,373

On February 1, 1985, these shares were redeemed for cash (Note 15).

6. Interest
Interest incurred during the year has been allocated as follows:

	This year (000's)	Last year (000's)
Capitalized–		
Land and housing	$ 35,368	$ 24,895
Income properties under construction	3,616	5,184
Expensed	49,771	47,367
	$ 88,755	$ 77,446

7. Accounts payable and accrued liabilities
Accounts payable and accrued liabilities consist of the following:

	This year (000's)	Last year (000's)
On construction in progress	$ 5,908	$ 1,861
Partner's minority interest in joint venture	28,378	188
Current taxes payable	9,400	1,303
Other, including interest	55,659	40,237
	$ 99,345	$ 43,589

8. Due to parent and affiliated company

The amounts due to parent and affiliated company are unsecured, have an average year-end interest rate of 10.7% and are due as follows:

	(000's)
Fiscal year ending January 31, 1986	$ 74,204
1987	21,000
1988	21,000
1989	21,000
1990	21,000
Subsequent to January 31, 1990	9,887
	$168,091

Interest incurred during the year on amounts due to parent and affiliated company amounted to $6,402,000.

9. Mortgages payable

Mortgages payable are comprised of the following:

	This year (000's)	Last year (000's)
On land, at an average year-end interest rate of 11.4% (last year–11.2%) with varying repayment terms and maturing by 1993	$226,753	$191,917
On income property permanent financing, at an average year-end interest rate of 11.4% (last year–11.1%) payable in equal instalments of principal and interest and maturing by 2005	293,773	260,532
On income property interim financing, at an average year-end interest rate of 11.1% (last year–11.0%) with varying repayment terms and maturing by 1988	102,345	72,441
	$622,871	$524,890

Included in mortgages payable is foreign debt in the amount of U.S. $186,861,000.

Principal repayments are due as follows:

	(000's)
Fiscal year ending January 31, 1986	$153,771
1987	63,971
1988	49,016
1989	81,011
1990	25,587
Subsequent to January 31, 1990	249,515
	$622,871

10. Income taxes

The Company's effective income tax rate is arrived at as follows:

	This year	Last year
Combined Canadian federal and Ontario income tax rate	51.0%	51.8%
Increase (decrease) in income tax rate resulting from:		
Lower foreign rate	(2.3)	(4.2)
Lower effective rate on capital gains	(1.5)	(0.7)
Lower rate in other provincial jurisdictions	(0.9)	–
Other	–	2.3
Effective income tax rate	46.3%	49.2%

Deferred income taxes represent the effects of transactions which are reported in different periods for financial and tax reporting purposes. The deferred income tax provision reflects the tax effects of:

	This year (000's)	Last year (000's)
Depreciation	$ (2,264)	$ 1,253
Carrying charges	16,120	3,127
Reserves	(5,189)	2,750
Losses carried forward	13,160	6,281
	$ 21,827	$ 13,411

11. Capital stock

Capital stock is comprised as follows:

	This year (000's)	Last year (000's)
Common shares	$130,754	$130,754
Class A shares	29,313	29,313
Contributed surplus	73,156	73,156
	$233,223	$233,223

The authorized capital stock of the Company consists of an unlimited number of common shares without par value and an unlimited number of Class A shares.

Common shares–

Upon amalgamation, the 4,555,091 outstanding common shares of M.P.L. were converted into 45,550,910 shares of the Company and the 2,226,369 outstanding common shares of H.B.C.D.L. were converted into 151,393,092 shares of the Company, resulting in 196,944,002 issued common shares. During the year, the number of issued common shares was reduced to 11,054,624 by a consolidation of the existing issued common shares.

Class A shares and contributed surplus–

The Class A shares are 8% non-cumulative, non-voting shares. Immediately prior to the amalgamation, H.B.C.D.L. issued 102,469,000 Class A shares to an affiliate in exchange for real estate acquired at fair value. Upon amalgamation, these shares were converted into the same number of Class A shares of the Company. The shares are redeemable and retractable for $102,469,000. The excess of the redemption price over the stated capital is represented by contributed surplus. On February 1, 1985, all of these shares were redeemed at their full redemption price (Note 15).

12. Earnings per share

Earnings per share is calculated based on the number of outstanding common shares of the amalgamated company adjusted retroactively for the consolidation of shares described in Note 11.

13. Joint venture operations

The Company's share of its joint venture operations is summarized as follows:

	This year (000's)	Last year (000's)
Assets		
Accounts receivable	$ 17,855	$ 11,254
Mortgages and other secured receivables	101,508	29,463
Land and housing for sale	56,499	41,053
Land for future development	84,267	69,636
Prepaid expenses and other assets	7,687	7,152
Income properties	382,254	364,760
	$650,070	$523,318
Liabilities and Equity		
Bank indebtedness	$ 1,114	$ 4,632
Accounts payable and accrued liabilities	68,370	21,016
Provision for development costs	18,769	10,133
Mortgages payable	338,641	269,354
Deferred income taxes	8,614	7,902
	435,508	313,037
Investment in joint ventures	214,562	210,281
	$650,070	$523,318

	This year (000's)	Last year (000's)
Income and Expenses		
Revenue from land operations	$143,830	$ 54,829
Less cost	99,472	31,856
Profit from land operations	44,358	22,973
Revenue from housing operations	215	243
Less cost	189	201
Profit from housing operations	26	42
Revenue from income properties	63,551	56,433
Less expenses	22,981	20,312
Operating profit from income properties	40,570	36,121
Interest and other income	7,447	3,870
Income before interest, depreciation and general and administrative expenses	92,401	63,006
Less:		
Interest	29,703	23,048
Depreciation on income properties	6,901	6,332
General and administrative expenses	2,511	1,918
Income before income taxes	$ 53,286	$ 31,708

The Company is contingently liable at January 31, 1985 for $404,947,000 representing the liabilities of its co-owners in unincorporated joint ventures but against such contingent liability the Company would have a claim upon the joint venture assets of its co-owners. The value of the assets of each of these joint ventures exceeds the contingent liability.

14. Related party transactions

In the normal course of business, the Company enters into transactions with its parent and certain affiliated companies. These transactions are negotiated as if the parties are dealing at arm's length.

15. Subsequent event

On February 1, 1985 the shares comprising the Company's investments in affiliated companies were fully redeemed at their book value of $142,373,000. The proceeds were in part used to redeem the Company's Class A shares at their full redemption price of $102,469,000.

16. Segmented information (thousands of dollars)

Segmented information is summarized as follows:

	Canada		United States		Total	
	This year	Last year	**This year**	Last year	**This year**	Last year
Assets:						
Land and housing operations	**$ 195,580**	$ 227,983	**$ 330,436**	$ 251,981	**$ 526,016**	$ 479,964
Income property operations	**649,017**	588,155	**60,537**	22,270	**709,554**	610,425
Other	**197,865**	180,839	**177,873**	86,455	**375,738**	267,294
	$1,042,462	$ 996,977	**$ 568,846**	$ 360,706	**$1,611,308**	$1,357,683
Revenue:						
Land operations	**$ 39,580**	$ 14,302	**$ 214,356**	$ 106,488	**$ 253,936**	$ 120,790
Housing operations	**–**	–	**16,111**	21,610	**16,111**	21,610
Income property operations	**119,908**	101,526	**1,209**	394	**121,117**	101,920
	$ 159,488	$ 115,828	**$ 231,676**	$ 128,492	**$ 391,164**	$ 244,320
Profit:						
Land operations	**$ 5,655**	$ (4,103)	**$ 53,103**	$ 29,026	**$ 58,758**	$ 24,923
Housing operations	**–**	–	**2,470**	2,542	**2,470**	2,542
Income property operations	**71,225**	60,176	**249**	204	**71,474**	60,380
	76,880	56,073	**55,822**	31,772	**132,702**	87,845
Interest and other income	**3,121**	3,418	**10,994**	5,651	**14,115**	9,069
Gain on sale of income properties	**435**	1,510	**–**	4,645	**435**	6,155
	$ 80,436	$ 61,001	**$ 66,816**	$ 42,068	**147,252**	103,069
Interest					**49,771**	47,367
Depreciation on income properties					**11,394**	9,877
General and administrative expenses					**14,371**	10,927
Income before income taxes					**71,716**	34,898
Provision for income taxes					**33,216**	17,177
Net income for the year					**$ 38,500**	$ 17,721

Board of Directors

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President and Chief Executive Officer
Markborough Properties Limited
Toronto

Tullio Cedraschi
President and Chief Executive Officer
CN Investment Division
Canadian National Railways
Montreal

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Chairman of the Board
Royal LePage Limited
Toronto

Stuart S. Jardine
Chairman of the Board
George Wimpey Canada Limited
Toronto

H. Peter Langer
Chairman of the Board
Markborough Properties Limited
Toronto

Alexander J. MacIntosh, Q.C.
Partner
Blake, Cassels & Graydon
Toronto

†Douglas W. Mahaffy
Senior Vice President, Finance
and Administration
Hudson's Bay Company
Toronto

Donald S. McGiverin
Governor
Hudson's Bay Company
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Donald F. Prowse
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Markborough Properties Limited
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*T. Iain Ronald
Executive Vice President
Hudson's Bay Company
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William W. Siebens
President
Candor Investments Ltd.
Calgary

*Chairman of the Executive Committee
†Chairman of the Audit Committee

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Chairman of the Board

Donald S. McGiverin
Deputy Chairman of the Board

Peter A. Anker
President and Chief Executive Officer

Donald F. Prowse
Executive Vice President

John A. Brough
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Jack A. Hasen
Regional Vice President, Eastern Region

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Senior Vice President, Finance

Kenneth E. Nixon
Regional Vice President, Western Region

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Christopher J. Desjardins
Vice President and Secretary

Dennis L. M. Harrs
Senior Vice President, Shopping Centres

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Vice President, Western Canadian Region

F. Peter Langer
Vice President, Property Management

Simon W. Nyilassy
Controller

Patricia I. Thomas
Assistant Secretary

Simon M. H. Chan
Assistant Treasurer

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Markborough California Properties, Inc.
Markborough Colorado Inc.
Markborough Columbia, Inc.
Markborough Equities Limited
Markborough Florida, Inc.
Markborough Holdings Inc.
Markborough Ohio, Inc.
Markborough Texas Inc.
Markborough Texas Properties, Inc.
Markland Properties, Inc.

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