Markborough Properties

Annual Report 1981

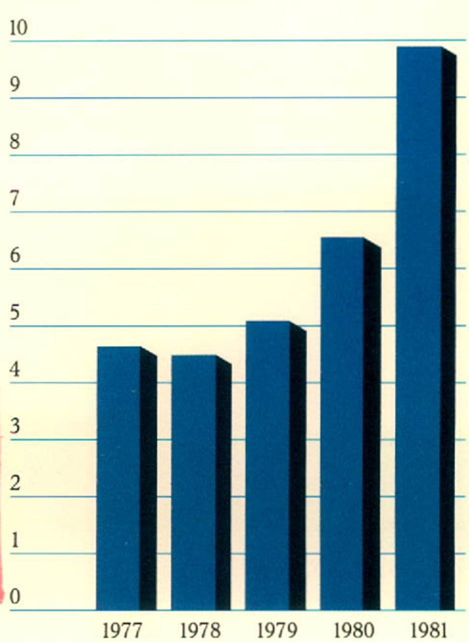
Contents

Markborough Properties Limited
Head Office: 90 Eglinton Avenue West, Toronto M4R 2E7

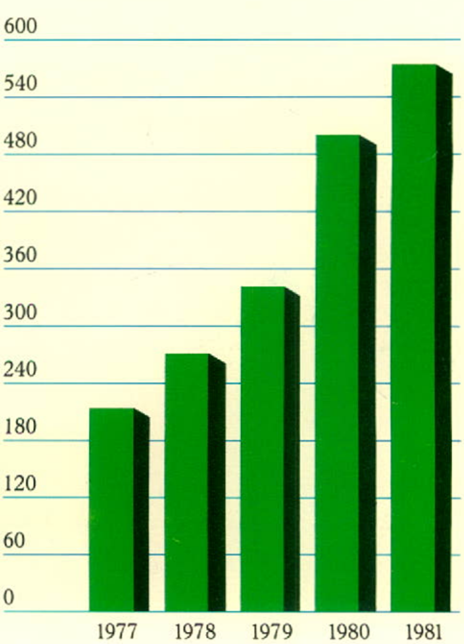
Financial Highlights

		1981	1980
Operating results for the year	Revenue from land operations	**$ 97,963,900**	$ 39,003,200
	Revenue from housing operations	**13,847,600**	15,179,800
	Revenue from income properties	**22,652,900**	16,271,100
	Net income before taxes	**13,553,900**	12,414,700
	Net income after taxes	**9,978,900**	6,628,700
	Per common share (weighted average):		
	Net income after taxes	**$ 2.24**	$ 1.49
	Cash flow	**3.58**	3.14
Financial position at the year end	Undeveloped land	**$ 227,892,600**	$ 231,321,300
	Income properties	**142,999,900**	134,189,500
	Bank debt and other short term advances	**105,057,800**	98,605,000
	Long term debt	**288,912,900**	256,479,300
	Share capital	**26,124,500**	25,111,900
	Retained earnings	**53,353,700**	43,374,800
Statistical at the year end	Common shares outstanding	**4,555,091**	4,439,928
	Ratio of income properties to undeveloped land	**.6 to 1**	.6 to 1
	Ratio of debt to equity	**5.0 to 1**	5.2 to 1

Net Income after Taxes (millions $)



Total Assets (millions $)



Annual Review

H. Peter Langer (left),
Chairman of the Board and Chief Executive Officer

Peter A. Anker (right),
President and Chief Operating Officer

Photographed in the lobby of the Meadowvale Inn

We are pleased to report that net profit increased 50 per cent over last year, reaching a level of almost $10 million. Total revenue in 1981 was $134.5 million compared to $70.5 million in 1980.

Land revenue increased to $98 million from $39 million. This included, for the first time, substantial land sales from our Boca Pointe project in Boca Raton, Florida. The results this year reflect the contribution of the first full year of our expanded Texas operations. We also sold a commercial site in Calgary, Alberta. Despite the revenue achievement, gross profit from land operations was only slightly higher at $12.6 million compared to $11.4 million last year mainly because our cost of sales bore the impact of higher interest charges. We also provided for $4.5 million to write down five projects in our land inventory in Southern Ontario.

Revenue from housing operations experienced a decrease to $13.8 million from $15.2 million. Gross profit declined to $1.1 million from $1.9 million due to lower gross profit margins.

Revenue from income property operations increased 39 per cent, but there was a loss of $3.3 million compared to a profit last year of $700,000. Normal start up costs associated with new buildings and the cost of financing were the chief contributing factors. It is interesting to note that the operating profit before interest from all of the buildings in the portfolio improved to $10.5 million as against $8 million in 1980.

The Company sold its 16.7 per cent interest in the College Park project in Toronto which produced a pre-tax gain of $12.8 million.

As our profits improved, our expenses increased. For example, interest expense was $7.6 million above last year. Similarly, general and administrative expense increased by $3.4 million. The increments are largely attributable to the expansion of our activities in the jurisdictions in which we operate. We have greater working capital requirements and have paid higher average interest rates on our debt. Our Company is still growing and with growth our overhead costs will rise. However, we are very conscious of what we spend and we intend to remain watchful of our costs of doing business.

As we have previously announced, we are intent on improving and expanding the income property base of the Company's assets. We completed the acquisition of sites for office buildings in Dallas, Texas and Denver, Colorado and are now well advanced in construction of both projects with occupancies scheduled for early 1983. We have recently purchased a 75 per cent interest in a comparable parcel of downtown land in Tulsa, Oklahoma.

Our inventory of land for development has probably reached a level where we are satisfied that we have sufficient supply in our portfolio to permit the orderly continuation of our land development operations. We have some exciting projects to come. Scottsdale Ranch and Gainey Ranch in Arizona. Sunnymead in California. Northridge in Calgary. And several currently productive developments – Woodbine in Calgary, Northchase in Houston and Boca Pointe – will continue to generate significant land sales.

We believe that we now have the Company well positioned geographically to ensure its future growth. There are still, of course, other markets that appeal to us where we are not yet active and where we are seriously evaluating opportunities. We will be selective and cautious. The Company anticipates growth during the coming year as its ventures come to maturity. The maintenance of this growth would appear to be dependent on our ability to secure substantial sources of development funds. It is our belief that our product is first class and accordingly will be of interest to the investment community.

We would like to draw your attention to the changes in office of the Chief Executive Officer and the Chief Operating Officer. Also, as part of these changes, Mr. McGiverin who served for many years as Chairman of the Board of Directors becomes Deputy Chairman and Chairman of the Executive Committee. We thank him for his outstanding leadership.

We are especially grateful to our employees for their contribution in making it a successful year for the Company. We thank our Board of Directors for their understanding and support of our management.

H. P. Langer

H. Peter Langer
Chairman of the Board and Chief Executive Officer

Peter A. Anker
President and Chief Operating Officer

March 31, 1982

Land Development

Opposite: Woodbine, Calgary

Woodbine, Calgary

Markborough owns in excess of 11,000 acres of land for development. Its land development operations began in Southern Ontario and have expanded to include major holdings in Alberta and in the states of Arizona, California, Florida, Ohio and Texas.

Canada

Woodbine, Calgary

Ontario

In Ontario, the Company's land development activities are concentrated in the Metropolitan Toronto commutershed. The Meadowvale new community in Mississauga has grown to a population of 30,000 in the past decade. Other than some small parcels, all residential lands have now been sold. During the year, purchasers of multiple residential sites commenced construction on nine rental projects.

Meadowvale

The success of the Meadowvale Business Park continued with 12 new office and industrial projects commenced in 1981. Our inventory of serviced sites is low and we are now awaiting approval of the Secondary Plan for the industrial and commercial lands north of Highway 401. We expect to achieve draft plan approval for a phase of 200 acres in order to be able to offer additional serviced lands for sale this year.

The Company owns 403 acres of land in the East Credit district of Mississauga. The municipality has approved preparation of a Secondary Plan for a portion of these lands and the design of the draft plans of subdivision is proceeding.

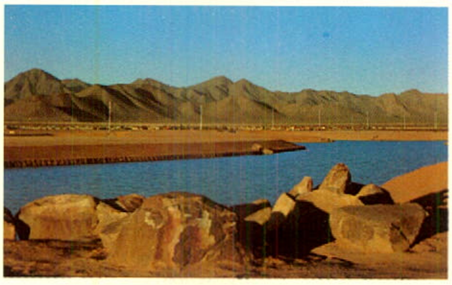
Meadowvale

East of Toronto, in the Region of Durham, the Company holds 765 acres for development in two locations. In Brooklin, 100 of our 545 acres have been designated by Official Plan Amendment for industrial use. In the residential project known as Durham Heights, we are endeavouring to secure the status of 52 acres of the lands to permit development of a major commercial facility as part of a town centre concept.

Alberta

Blue Grass Meadows, Whitby

Despite a housing market which weakened during the latter part of the year, the 550 acre Woodbine community in Southwest Calgary experienced a good record of land sales with $11.4 million in sales recorded. Remaining in inventory are 200 larger lots from the most recently serviced phase. In 1982, an additional phase will be serviced with land uses designed to meet the demand for higher density product. We have received advance commitments for the purchase of five townhouse blocks in the phase. In addition, a multi-family block and 100 conventional building lots will be serviced and available for sale in 1982.



Lake Sereno, Scottsdale Ranch

Transportation and servicing studies have been commissioned for the 116 acres of Woodbine located south of the Fish Creek Park. With the City of Calgary's decision to extend rapid transit southward to this area, we expect that the timing of development for these lands will be accelerated.

In 1980, we optioned 1,269 acres of land northeast of Calgary. The project has been named Northridge. We have experienced some delay with our application to annex the lands to the City but anticipate that our position will be clarified later this year.

Sunset Point, Phoenix

United States

Arizona

Our Arizona subsidiary's two major land development projects are the 1,120 acre Scottsdale Ranch and the 640 acre Gainey Ranch, both located in Scottsdale.

Sunset Point, Phoenix

Scottsdale Ranch's first housing product came to the market in late 1981. The development's features include a completed 46 acre lake, extensive landscaping and strong design control. It is already establishing a reputation as a preferred place to live in Scottsdale. In our own housing project, Mirador, model homes were opened for sales on February 20, 1982. House styles range in size from 2,000 to 2,800 square feet and early buyer response has been most encouraging. Our partner in the Scottsdale Ranch, Costain Arizona, has been very successful in marketing its homes. Site work and model home construction has commenced for a luxury racquet club development for which we are acting as general contractor. A 4,000 square foot information centre for Scottsdale Ranch will be completed in April, 1982.

Sugarwood, Houston

Last year we reported the acquisition of a second parcel of land in Scottsdale, the Gainey Ranch. Since acquisition, we have achieved zoning approval for the entire project which will permit us to create an outstanding prestige community. The development will contain a challenging 27 hole golf course together with attendant club facilities. Site grading for all of the project and golf course construction is expected to begin this Summer with the golf course scheduled to open for play in late 1983. Serviced land parcels will be deliverable to users by mid 1983.

In addition to house construction in Scottsdale Ranch, we are engaged in housing operations in three active subdivisions in the Phoenix area.

Westcreek signage, Austin

Texas

Our Texas land development operations are located in Houston, Austin and Dallas. We had expanded our activities in Texas by acquiring an 80 per cent interest in two land development companies controlled by a

Entrance signage, Villages of Homestead

Neighbourhood Club, Villages of Homestead

Neighbourhood Club, Villages of Homestead

Lake excavation, Boca Pointe

Construction of the golf clubhouse, Boca Pointe

joint venture partner. The new entity, Lexington Development Company, had its first full year in 1981 and performed well, recording profits on land sales in accordance with budget. Lexington has ten active projects in Houston and six in Austin. In Northwest Houston, the 750 acre Northchase development continued to generate substantial sales of residential and commercial lots and blocks. In our 792 acre project in Austin, Wells Branch, we will shortly complete the sale of a 20 acre industrial site with an option to purchase an additional 64 acres. We have recently committed to purchase a strategically located 27 acre parcel of land in Austin for industrial and commercial development.

Metroplace is a 165 acre industrial and commercial development adjacent to the Dallas–Fort Worth Airport. We have granted a short term option to purchase its most westerly 79 acres.

Florida

Boca Pointe, the 1,019 acre planned community in Boca Raton, produced its first land sales. Despite a generally sluggish Florida market, in excess of $20 million in sales to builders were closed prior to year end. An attractive sales centre has been opened to market the project's full range of housing units. The principal recreational amenity of Boca Pointe is a 6,000 yard, 18 hole golf course designed by Golforce, a Jack Nicklaus corporation. It opened for play in January, 1982 to favourable public reaction. Its 40,000 square foot clubhouse is nearing completion. It will contain excellent athletic, lounge, dining and banquet facilities.

In Homestead, south of Miami, the Company owns a 50 per cent interest in the 3,200 acre Villages of Homestead planned community. Last year we concluded an agreement for the sale and option of 1,000 acres of industrial land for a free trade zone to be developed by the Miami Free Zone Corporation. The first sale of 140 acres was closed in January, 1982. We are now proceeding with the necessary servicing of these lands. The creation of this unique industrial park is expected to attract industry to Homestead and enhance the growth of the residential community.

California

Our largest land development project in Southern California is located at Sunnymead in Riverside County, east of Los Angeles. We have made plan applications for approval of 3,400 units on our 1,251 acres and anticipate the first serviced land to be available for sale this year. Although the housing market in Southern California has weakened appreciably, we are optimistic for the sales potential of this development. Sunnymead is an area offering modest priced housing within commuting distance of Orange County. It is attracting buyers from this and other areas of higher priced housing.

We have two other projects in California, 76 acres in Riverside County and 175 acres in San Bernardino County. Both have now obtained approval of their record maps and are available for sale.

Commercial and Industrial Development

Lobby, Meadowvale Inn

Duncan Mill Place, North York

Canadian Retail Hardware Association building, Meadowvale Business Park

The Co-operators building, Meadowvale Business Park

Kyrene Distribution Centre, Phoenix

The Company owns and manages over 2,700,000 square feet of quality office buildings, shopping centres and industrial buildings.

Shopping Centres

There are 15 shopping centres in our portfolio with a combined area of 1,019,000 square feet. The largest of the centres, the Meadowvale Town Centre in Mississauga and Woodside Square in Scarborough, were expanded by adding department store anchors and substantial additional retail space. The most recently opened centre is the 86,000 square foot Woodbine Square in Calgary. With a 35,000 square foot Safeway food store, it serves the community shopping requirements of the residents of our Woodbine development.

Hotels

The sale during the year of the Company's 16.7 per cent interest in the College Park project in downtown Toronto included our interest in the 995 room Chelsea Inn.

We retain ownership of one hotel, the 192 room Meadowvale Inn. Since its opening in October of 1980, its room occupancy has steadily increased. Average room occupancy during the fiscal year was at a satisfactory level of 75 per cent at an average room rate of $55.

Industrial

The Company's Ontario Industrial Division is engaged in the design and construction of single and multiple tenancy industrial buildings. It accepts design-build contracts for users purchasing their own facilities and constructs buildings for retention as income properties. Three single tenancy buildings in the Meadowvale Business Park were completed and leased to tenants, then sold to an institutional investor. A fourth building was completed and sold to its tenant subsequent to year end. In the Rexdale Business Park, twin multiple tenancy buildings were brought on stream with occupancy at 80 per cent of their 104,000 square feet. Also taken on stream in Rexdale was a 65,000 square foot building leased to a single tenant. The Division is currently constructing two design-build projects and a 20,600 square foot speculative building. We sold our remaining 12 acres of industrial land in Brampton and the sale will close this year.

Our operations in Phoenix include an industrial development capacity. To date, four industrial buildings have been completed. The most recent facility, a 70,000 square foot rail-served building in South Tempe was finished late in the year and its leasing has commenced.

Opposite: Meadowvale Town Centre


SHOPPERS DRUG MART
CANDY
"SWEET STAKES"

St. Paul Tower, Dallas

Hudson's Bay Centre, Denver

Offices

The Company owns six office buildings in Southern Ontario with a total gross leasable area of 750,000 square feet. It is our policy to develop medium-sized office buildings in the central areas of cities in North America where we are satisfied that the demand for office accommodation exists.

In Denver, at 16th and Stout Streets, we have under construction a 230,000 square foot, 21 storey building. It has been named Hudson's Bay Centre. Construction is scheduled for completion at the end of 1982 and the leasing programme has begun. The Denver leasing market for the kind of space that we can offer appears to be strong.

In Dallas, our 20 storey, 300,000 square foot St. Paul Tower project is underway with a construction schedule designed to deliver occupancy by early 1983. The downtown Dallas market will be competitive, but there is little vacant space and our building is well located.

We have just purchased a 75 per cent interest in a comparable site in Tulsa, Oklahoma, and are examining opportunities in several other cities.

Consolidated Statement of Income and Expenses

Year Ended January 31, 1982

Income and Expenses

	This year	Last year
Revenue from land operations	**$ 97,963,900**	$ 39,003,200
Less cost	**85,407,700**	27,631,100
Profit from land operations	**12,556,200**	11,372,100
Revenue from housing operations	**13,847,600**	15,179,800
Less cost	**12,783,400**	13,309,600
Profit from housing operations	**1,064,200**	1,870,200
Revenue from income properties	**22,652,900**	16,271,100
Less:		
Operating expenses	**7,245,400**	4,551,000
Mortgage and other interest	**13,773,600**	7,245,400
Realty taxes	**2,522,700**	2,245,000
Depreciation	**2,372,800**	1,523,200
	25,914,500	15,564,600
Profit (loss) from income properties	**(3,261,600)**	706,500
Interest and other income	**9,213,600**	3,837,600
Gain on sale of income properties	**12,782,500**	2,432,600
Income before interest and general and administrative expenses	**32,354,900**	20,219,000
Bank and debenture interest	**9,508,000**	1,887,500
General and administrative expenses	**9,293,000**	5,916,800
	18,801,000	7,804,300
Income before income taxes	**13,553,900**	12,414,700
Provision for income taxes:		
Current	—	—
Deferred	**3,575,000**	5,786,000
	3,575,000	5,786,000
Net income for the year	**$ 9,978,900**	$ 6,628,700
Earnings per share (based on weighted average number of shares outstanding during the year)	**$ 2.24**	$ 1.49

Consolidated Statement of Retained Earnings

Year Ended January 31, 1982

Retained Earnings

	This year	Last year
Retained earnings at beginning of the year	**$ 43,374,800**	$ 36,746,100
Net income for the year	**9,978,900**	6,628,700
Retained earnings at end of the year	**$ 53,353,700**	$ 43,374,800

Markborough Properties Limited (incorporated under the laws of Ontario)

Consolidated Balance Sheet

January 31, 1982

		This year	Last year
Assets	Accounts receivable	**$ 12,591,500**	$ 7,522,600
	Mortgages and other secured receivables (Note 2)	**60,668,400**	45,557,700
	Land and housing for sale:		
	Serviced land (Note 4)	**113,415,500**	66,441,500
	Housing under construction	**5,787,300**	6,911,100
		119,202,800	73,352,600
	Land for future development (Note 4)	**227,892,600**	231,321,300
	Prepaid expenses and other assets	**10,080,200**	8,553,400
	Income properties:		
	Land (Note 4)	**19,625,100**	16,107,100
	Buildings	**118,002,100**	86,328,900
	Equipment	**3,572,900**	1,956,900
	Construction in progress (Note 5)	**10,463,000**	37,272,400
		151,663,100	141,665,300
	Less accumulated depreciation	**8,663,200**	7,475,800
		142,999,900	134,189,500
		$ 573,435,400	$ 500,497,100

Liabilities and Shareholder's Equity		This year	Last year
	Bank indebtedness (Note 6)	**$ 98,756,400**	$ 93,829,000
	Accounts payable and accrued liabilities:		
	On construction and development in progress	**5,334,100**	11,249,200
	Other, including accrued interest	**17,285,800**	16,449,400
	Due to affiliated company	**6,301,400**	4,776,000
	Provision for development costs	**44,960,900**	21,165,400
	Sinking fund debentures	**—**	4,000,000
	Mortgages payable (Note 7)	**288,912,900**	252,479,300
	Deferred income taxes	**32,405,700**	28,062,100
		493,957,200	432,010,400
	Shareholder's equity:		
	Capital stock (Note 9) —		
	Authorized – 50,000,000 common shares, without par value		
	Issued – 4,555,091 shares	**26,124,500**	25,111,900
	Retained earnings	**53,353,700**	43,374,800
		79,478,200	68,486,700
		$ 573,435,400	$ 500,497,100

Approved by the Board:

H.P. Langer, Director

D.F. Prowse, Director

Consolidated Statement of Source and Application of Cash

Year Ended January 31, 1982

		This year	Last year
Cash was provided from:	Operations —		
	Net income for the year	$ 9,978,900	$ 6,628,700
	Add (deduct) —		
	Depreciation	2,372,800	1,523,200
	Income taxes, deferred	3,575,000	5,786,000
	Gain on sale of income properties	(12,782,500)	(2,432,600)
		3,144,200	11,505,300
	Mortgages on income properties and land	103,090,100	127,319,200
	Land, housing, development and related costs realized through sales	98,191,100	40,940,700
	Proceeds of sales of income properties, net	27,213,500	4,998,800
	Proceeds on issue of capital stock (Note 9)	1,152,700	—
	Total cash provided	232,791,600	184,764,000
Cash was applied to:	Land —		
	Acquisition	42,362,500	93,237,000
	Development and related costs	47,426,700	20,373,200
	Carrying charges	31,215,100	18,367,100
	Housing construction	10,370,900	9,982,500
	Income properties —		
	Construction	17,886,800	44,091,300
	Increase in accounts, mortgages and other secured receivables	20,179,600	12,453,400
	Decrease in other liabilities	5,836,900	(5,804,000)
	Income taxes	—	1,255,500
	Principal payments, sinking fund debentures	4,000,000	1,500,000
	Mortgage principal repayments –		
	Income properties	752,100	755,000
	Land	57,548,300	9,531,300
	Redemption of capital stock (Note 9)	140,100	—
	Total cash applied	237,719,000	205,742,300
	Net outgoing cash	$ 4,927,400	$ 20,978,300

Auditors' Report

To the Shareholder of Markborough Properties Limited:

We have examined the consolidated balance sheet of Markborough Properties Limited as at January 31, 1982 and the consolidated statements of income and expenses, retained earnings and source and application of cash 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, 1982 and the results of its operations and the source and application of its cash for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceeding year.

Price Waterhouse
Chartered Accountants

Toronto, March 10, 1982

Notes to Consolidated Financial Statements

January 31, 1982

1. Summary of accounting policies:

The accounting policies of the Company conform to accounting principles generally accepted in Canada and comply with guidelines published by the Ontario Securities Commission relating to the recognition of profits in real estate transactions.

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 both the incorporated and unincorporated joint ventures in which it participates.

b) Land, housing and income properties —
Except for certain land acquired by amalgamation (see Note 4), land and housing are carried at the lower of cost or net realizable value and income properties are carried at cost. Cost includes pre-development expenses and carrying charges (interest and real estate taxes).

The Company follows the practice, customary in the industry, of recording 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 raw 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 lots which have been sold. Housing under construction includes all construction costs incurred to date.

c) Depreciation policy —
The buildings included in income properties are being depreciated on a 3%, 40-year sinking fund basis. Under this method depreciation is charged to income in an amount which increases annually, consisting of a fixed charge together with interest compounded at the rate of 3% per annum on the amount accumulated at the prior year end, so as to fully depreciate the buildings over a 40-year period. Equipment is being depreciated at 15% per annum on a straight-line basis.

d) Income properties —
Revenue from income properties includes gross rental revenue from all the Company's properties except hotels and industrial buildings. Revenue from the Company's interest in hotels has been included after deducting operating expenses. Revenue from industrial buildings is on a net basis as operating expenses and realty taxes are paid for by the tenants.

Revenue from income properties 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. Initial leasing costs of income properties are capitalized and amortized over the first term of the lease.

e) Translation of foreign currencies —
U.S. dollar assets and liabilities, including the accounts of the Company's subsidiaries and joint ventures in the U.S., are translated at the rate of exchange prevailing at the balance sheet date. The net gain resulting from this method of translation has been deferred and will be included in income when realized.

Revenues and expenses of the Company's operations in the U.S. have also been translated at year-end rates. The net exchange gain of $253,500 resulting from this translation is included in net income for the year.

f) Pension plan —
Actuarial valuations of the Company's pension plan are made as required by law. Estimated current service costs are paid and expensed during the year and any actuarially calculated deficiencies are amortized over the period required by law. Independent actuaries have estimated that there were no unfunded liabilities at January 1, 1982, the date of the latest actuarial valuation.

2. Mortgages and other secured receivables:

Mortgages and other secured receivables, which arise from sales of real property, bear interest at an average rate of 13.5% and mature as follows —

Fiscal year ending January 31, 1983	$ 18,046,400
1984	12,133,600
Subsequent to January 31, 1984	30,488,400
	$ 60,668,400

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

3. Business acquisition:

Effective November 30, 1981 the Company acquired all the outstanding shares of an affiliated company for a total consideration of $22,200. This consideration was satisfied by the issue of 835 common shares of the Company.

The net assets acquired, at book value, are summarized as follows —

Land for future development	$ 7,474,200
Less liabilities assumed	7,452,000
Total consideration	$ 22,200

4. Valuation of land:

Certain parcels of land are carried at $1,300,000 in excess of their values for income tax purposes as a result of the amalgamation which took place in 1965. As this land is sold, additional income taxes of approximately $600,000 will be charged to income.

Carrying charges accumulated to date on land for future development amount to $51,732,500, including $22,157,800 in the current year.

5. Construction in progress:

Estimated cost to complete construction of eight projects in progress is approximately $42,235,000. Of this amount, $40,845,000 of interim financing has been arranged.

6. Bank indebtedness:

Bank indebtedness includes $41,546,000 secured by demand debentures creating a first floating charge on the assets of the Company. The remaining indebtedness, $57,210,400, relates to bank advances to subsidiaries and the Company's share of bank advances to joint ventures.

7. Mortgages payable:

Mortgages payable comprise the following —

On land, at an average interest rate of 13.3% with varying repayment terms and maturing by 1992	$ 185,171,900
On income property permanent financing, at an average interest rate of 9.7% payable in equal instalments of principal and interest and maturing by 2006	49,711,200
On income property interim financing, at an average interest rate of 16.4% with varying repayment terms and maturing by 1985	54,029,800
	$ 288,912,900

Principal repayments are due approximately as follows —

Fiscal year ending January 31, 1983	$ 57,289,100
1984	59,416,700
1985	28,218,000
1986	42,147,600
1987	49,608,400
Subsequent to January 31, 1987	52,233,100
	$ 288,912,900

8. Amalgamation:

Effective August 1, 1981 the Company amalgamated with an affiliated company under the provisions of the Ontario Business Corporations Act. The only asset of the affiliated company prior to the merger was its 99.9% share interest in the predecessor company. The remaining .1% share interest was acquired as a result of the amalgamation. Under the terms of the amalgamation agreement, the amalgamated company continued to operate as Markborough Properties Limited.

9. Capital stock:

The following changes took place during the year—

a) As a result of the amalgamation described in Note 8, the share capital structure of the Company was amended to the following:

Authorized—
50,000,000 common shares, without par value
4,672 redeemable preference shares with a par value of and redeemable at $30 per share

Issued—
4,435,256 common shares
4,672 redeemable preference shares

b) Effective August 11, 1981 the Company redeemed all the outstanding preference shares at the redemption price of $30 per share.

c) On December 8, 1981, 835 common shares were issued to an affiliated company to purchase all the outstanding common stock of another affiliated company (see Note 3). The total value assigned to these shares was $22,200.

d) On December 31, 1981, all the outstanding warrants to purchase common shares were exercised by the parent company. As a result, 119,000 common shares were issued for $1,130,500.

10. Joint venture operations:

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

Assets	**This year**	Last year
Accounts receivable	$ **5,852,700**	$ 3,580,000
Mortgages and other secured receivables	**13,752,300**	8,327,400
Land and housing for sale	**45,000,200**	20,828,600
Land for future development	**58,822,400**	75,325,600
Prepaid expenses and other assets	**646,000**	551,700
Income properties	**18,920,000**	19,646,300
	$ **142,993,600**	$ 128,259,600
Liabilities and Equity		
Bank indebtedness	$ **16,003,100**	$ 22,963,600
Accounts payable and accrued liabilities	**10,170,100**	9,735,100
Provision for development costs	**6,531,500**	848,900
Mortgages payable	**61,892,700**	54,110,900
	94,597,400	87,658,500
Investment in joint ventures	**48,396,200**	40,601,100
	$ **142,993,600**	$ 128,259,600

10. Joint venture operations (continued):

Income and Expenses	**This year**	Last year
Revenue from land operations	$ **23,113,600**	$ 6,152,400
Less cost	**17,820,100**	5,593,800
Profit from land operations	**5,293,500**	558,600
Revenue from housing operations	**1,267,800**	2,424,300
Less cost	**1,372,600**	2,664,000
(Loss) from housing operations	**(104,800)**	(239,700)
Revenue from income properties	**4,953,800**	4,954,900
Less expenses	**4,955,400**	5,108,800
(Loss) from income properties	**(1,600)**	(153,900)
Interest and other income	**3,163,600**	41,700
Income before interest and general and administrative expenses	**8,350,700**	206,700
Bank and debenture interest	**4,137,300**	—
General and administrative expenses	**1,834,200**	—
	5,971,500	—
Income before income taxes	$ **2,379,200**	$ 206,700

The Company is contingently liable at January 31, 1982 for $50,992,000 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 total value of these joint venture assets exceeds the contingent liability.

Accounts receivable include advances on behalf of joint venture partners of $4,178,300 (last year – $2,386,300).

A portion (U.S. $6,000,000) of the cost of certain joint venture net assets acquired on January 21, 1981 is contingent on the operating results of the new venture and can be earned over the five-year period following the date of acquisition. It is the Company's policy not to record this contingent cost or the related liability in the accounts until the earnings for each year have been determined. No such accrual is required for the year ended January 31, 1982.

11. Segmented information:

Segmented information is summarized as follows—

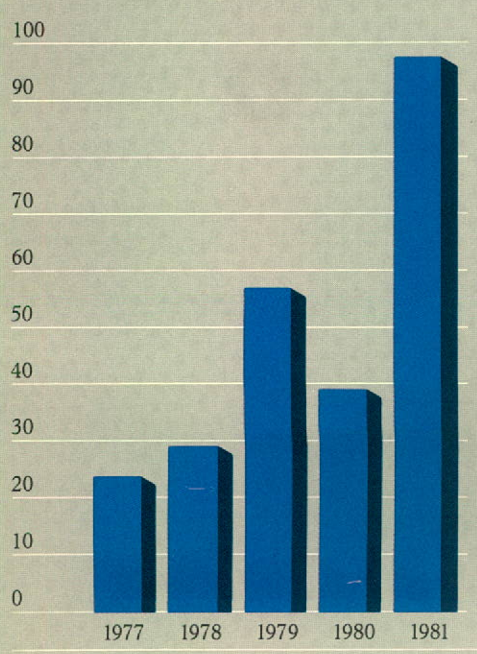
		Canada		United States		Total	
		This year	Last year	**This year**	Last year	**This year**	Last year
				(thousands of dollars)			
Revenue:	Land operations	$ **50,523**	$ 31,944	$ **47,441**	$ 7,059	$ **97,964**	$ 39,003
	Housing operations	—	—	**13,848**	15,180	**13,848**	15,180
	Income property operations	**22,273**	15,884	**380**	387	**22,653**	16,271
		$ **72,796**	$ 47,828	$ **61,669**	$ 22,626	$ **134,465**	$ 70,454
Operating profit:	Land operations	$ **6,095**	$ 11,530	$ **6,461**	$ (158)	$ **12,556**	$ 11,372
	Housing operations	—	—	**1,064**	1,870	**1,064**	1,870
	Income property operations	**(3,174)**	770	**(88)**	(63)	**(3,262)**	707
		$ **2,921**	$ 12,300	$ **7,437**	$ 1,649	**10,358**	13,949
	Interest and other income					**9,214**	3,837
	Gain on sale of income properties					**12,783**	2,433
	Bank and debenture interest					**(9,508)**	(1,887)
	General and administrative expenses					**(9,293)**	(5,917)
	Provision for income taxes					**(3,575)**	(5,786)
	Net income for the year					$ **9,979**	$ 6,629
Assets:	Land operations	$ **120,982**	$ 120,087	$ **220,326**	$ 177,676	$ **341,308**	$ 297,763
	Housing operations	—	—	**5,787**	6,911	**5,787**	6,911
	Income property operations	**129,086**	130,651	**13,914**	3,539	**143,000**	134,190
	Other	**31,145**	31,483	**52,195**	30,150	**83,340**	61,633
		$ **281,213**	$ 282,221	$ **292,222**	$ 218,276	$ **573,435**	$ 500,497

Ten Year Comparison (thousands of dollars except where noted)

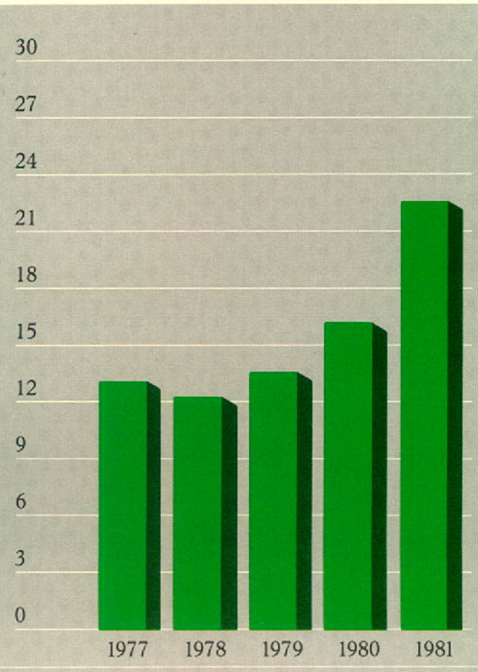
	1981	1980	1979	1978	1977*	1976	1975	1974	1973	1972
Operating results for the year										
Revenue from land operations	**$ 97,964**	$ 39,003	$ 57,409	$ 29,648	$ 23,825	$ 40,933	$ 16,925	$ 12,915	$ 29,449	$ 7,047
Revenue from housing operations	**13,848**	15,180	14,819	5,607	—	—	—	—	—	—
Revenue from income properties	**22,653**	16,271	13,789	12,260	13,281	8,720	7,741	7,037	6,132	5,234
Net income before taxes	**13,554**	12,415	10,245	8,994	8,270	18,109	8,906	7,425	12,376	2,041
Net income after taxes	**9,979**	6,629	5,025	4,524	4,681	9,489	4,283	3,529	6,065	985
Per common share (weighted average):										
Net income after taxes	**2.24**	1.49	1.13	1.06	1.17	2.37	1.07	0.88	1.53	0.26
Cash flow	**3.58**	3.14	2.58	2.15	1.39	3.54	1.70	0.98	3.15	0.70
Financial position at the year end										
Undeveloped land	**$227,893**	$231,321	$141,574	$112,226	$ 97,994	$ 83,719	$ 63,215	$ 60,458	$ 34,736	$ 27,778
Income properties	**143,000**	134,190	97,200	78,007	64,711	57,062	51,292	46,155	40,199	38,096
Total assets	**573,435**	500,497	345,394	276,046	224,767	186,381	142,105	133,876	110,977	80,837
Bank debt and other short term advances	**105,058**	98,605	72,851	46,323	23,094	9,972	9,609	3,980	—	920
Long term debt	**288,913**	256,479	147,995	119,587	100,573	90,261	70,808	70,664	56,542	44,352
Share capital	**26,125**	25,112	25,112	25,112	20,956	20,956	20,956	20,956	20,695	20,615
Retained earnings	**53,354**	43,375	36,746	33,054	29,196	26,076	17,467	13,185	9,656	3,591
Statistical at the year end										
Common shares outstanding	**4,555**	4,440	4,440	4,440	4,002	4,002	4,002	4,002	3,959	3,944
Ratio of income properties to undeveloped land	**.6 to 1**	.6 to 1	.7 to 1	.7 to 1	.7 to 1	.7 to 1	.8 to 1	.8 to 1	1.2 to 1	1.4 to 1
Ratio of debt to equity	**5.0 to 1**	5.2 to 1	3.6 to 1	2.9 to 1	2.5 to 1	2.1 to 1	2.1 to 1	2.2 to 1	1.9 to 1	1.9 to 1

*As a result of a change in year end, operating results for 1977 are for fifteen months.

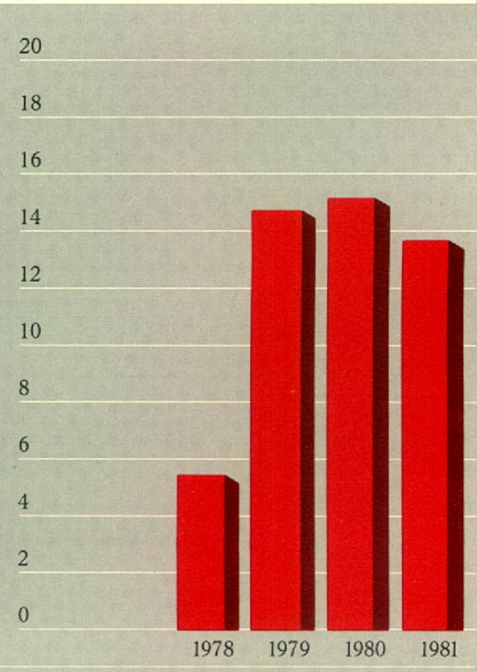
Revenue from Land Operations
(millions $)



Revenue from Income Properties
(millions $)



Revenue from Housing Operations
(millions $)



Board of Directors

Peter A. Anker
President and Chief Operating Officer
Markborough Properties Limited
Toronto

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

Alexander R. Grant
Chairman and Chief Executive Officer
George Wimpey Canada Limited
Toronto

Gordon C. Gray
Chairman and Chief Executive Officer
A.E. LePage Limited
Toronto

Captain Joseph Jeffrey
Chairman of the Board
London Life Insurance Company
London

H. Peter Langer
Chairman of the Board and
Chief Executive Officer
Markborough Properties Limited
Toronto

Alexander J. MacIntosh
Partner
Blake, Cassels & Graydon
Toronto

* Donald S. McGiverin
President and Chief Executive Officer
Hudson's Bay Company
Toronto

John G.W. McIntyre
Corporate Vice President
Real Estate and Development
Hudson's Bay Company
Toronto

Donald F. Prowse
Executive Vice President
Markborough Properties Limited
Toronto

† Peter W. Wood
Executive Vice President
Hudson's Bay Company
Toronto

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

Principal Subsidiary Companies

Markborough California, Inc.
Markborough Colorado Inc.
Markborough Holdings Inc.
Markborough Texas Inc.
Markborough Texas Properties, Inc.
Markland Properties, Inc.

Officers

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Chief Executive Officer

Donald S. McGiverin
Deputy Chairman of the Board

Peter A. Anker
President and Chief Operating Officer

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Executive Vice President

Donald R. Cole
Regional Vice President

Kenneth E. Nixon
Regional Vice President

John B. Alguire
Senior Vice President

George H. Mundy
Senior Vice President

James C. Shapland
Senior Vice President and Secretary

John A. Brough
Vice President and Treasurer

F. Peter Langer
Vice President

William B. Bryck
Controller

Reginald W. Munro
Assistant Secretary

Corporate Data

Legal Counsel
Blake, Cassels & Graydon, Toronto

Auditors
Price Waterhouse, Toronto

Offices

Head Office

90 Eglinton Avenue West
Toronto, Ontario
M4R 2E7

Eastern Region
Donald R. Cole
Regional Vice President

Western Region
Kenneth E. Nixon
Regional Vice President

Construction Division
John B. Alguire
Senior Vice President

Financial Division
George H. Mundy
Senior Vice President

Industrial Division
Paul D. Koster
Manager

Legal Division
James C. Shapland
Senior Vice President

Property Management Division
F. Peter Langer
Vice President

Meadowvale, Mississauga

6711 Mississauga Road
Suite 108
Mississauga, Ontario, L5N 2W3

Dennis R. Flood
General Manager

Calgary, Alberta

1305 – 11th Avenue Southwest
Suite 302
Calgary, Alberta, T3C 0M7

Douglas W. Kelly
Vice President

Homestead, Florida

311 Northeast Eighth Street
Homestead, Florida 33030

C. Donald Brooks
Vice President

Boca Raton, Florida

1499 West Palmetto Park Road
Interstate Plaza, Suite 122B
Boca Raton, Florida 33432

Donald A. Sinclair
General Manager

Houston, Texas

6750 West Loop South
Suite 700
Houston, Texas 77035

John P. Collins
President
Lexington Development Company

Phoenix, Arizona

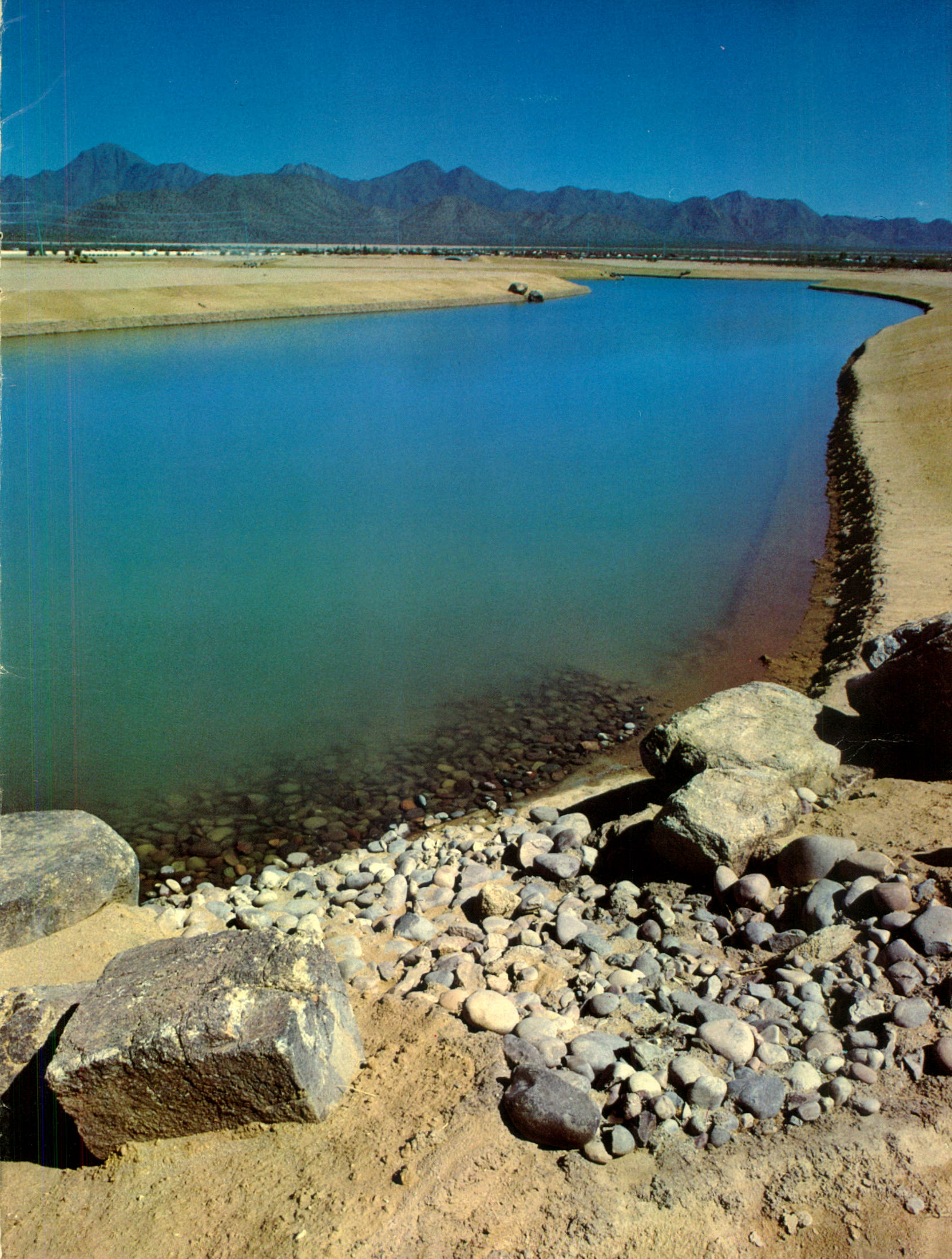
5251 North 16th Street
Suite 900
Phoenix, Arizona 85016

James M. Kilday
President
Markland Properties, Inc.

Newport Beach, California

4000 McArthur Boulevard
Suite 3500
Newport Beach, California 92660

William W. Johnson
President
Markborough California, Inc.



Annual Report 1981 **Markborough Properties Limited**
90 Eglinton Avenue West, Toronto, Canada M4R 2E7