Four Seasons Hotels Limited
Annual Report Nineteen Seventy-Six

FOUR SEASONS HOTELS

Inn on the Park, Toronto
Four Seasons, Belleville
Four Seasons, Calgary
Four Seasons, Vancouver
Le Quatre Saisons, Montreal
The Clift, San Francisco
Four Seasons, Netanya, Israel
Inn on the Park, London, England
Four Seasons, Ottawa
(Carleton Towers)
Four Seasons, Edmonton, Alberta
(Opening June 1978)

Four Seasons Hotels Limited
1100 Eglinton Avenue East
Toronto, Canada M3C 1H8
Telephone: 416-449-1750
Telex: 06-966669

REGISTRAR AND TRANSFER AGENT
Guaranty Trust of Canada
Toronto, Montreal, Winnipeg,
Calgary, Vancouver

STOCK EXCHANGE LISTINGS
Toronto Stock Exchange
Montreal Stock Exchange

TRADING SYMBOL
FRS

GENERAL COUNSEL
Henry and Brown
Toronto, Canada

AUDITORS
Wm. Eisenberg & Co.
Chartered Accountants
Toronto, Canada

PROVINCE OF INCORPORATION
Ontario (December 31, 1968)

FINANCIAL HIGHLIGHTS 1976

	1976	1975
Revenue	$36,313,961	$29,257,131
Operating Profit		
Hotels	$ 4,366,296	$ 4,227,659
Profits from Partnerships and Joint Ventures		
Real Estate	$ 133,532	$ 621,015
Hotels	$ 134,616	—
Net earnings		
Before extraordinary items	$ 1,146,733	$ 1,504,574
After extraordinary items	$ 4,012,113	—
Earnings per share*		
Before extraordinary items	30.2¢	42.1¢
After extraordinary items	$ 1.25	—
Cash flow	$ 2,748,722	$ 3,446,654
Cash flow per share*	91.5¢	$ 1.15
Total consolidated assets	$71,033,670	$67,123,008
Retained earnings	$12,081,671	$ 8,698,394
Shareholders' Equity	$23,184,143	$19,800,866
Common shares		
Outstanding at year end	3,002,960	3,002,960
Owned in Canada	99%	99%

*Based on the weighted average number of shares outstanding throughout each year after providing for preference share dividends.

DIRECTORS AND OFFICERS

MAX SHARP
Toronto Canada
Chairman of the Board*

ISADORE SHARP
Toronto Canada
President and
Chief Executive Officer†*

MURRAY B. KOFFLER
Toronto Canada
Vice President*

EDMOND M. CREED
Toronto Canada
Secretary*

FREDERICK EISEN
Toronto Canada
Assistant Secretary

SIR GERALD GLOVER
London England†

LANFRANCO AMATO
Toronto Canada†

JAMES W. McDOWELL
Treasurer
Vice President Finance

*Member, Executive Committee
†Member, Audit Committee

MANAGEMENT COMMITTEE

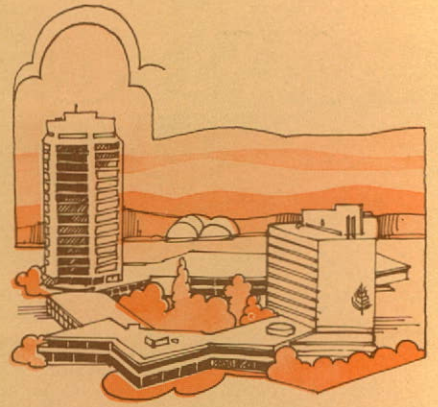
ISADORE SHARP
President

FRANK ORENSTEIN
Vice-President
Corporate Development

MICHAEL M. LAMBERT
Senior Vice-President
Operations

CHRIS WALLIS
Vice-President
Design and Construction

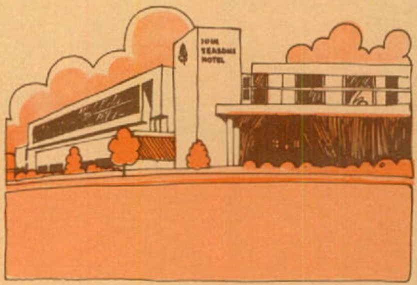
JAMES McDOWELL
Vice-President
Finance



INN ON THE PARK, TORONTO

The Inn on the Park Toronto, opened in 1963, is a 580-room hotel situated on a 15 acre site 15 minutes from downtown Toronto offering luxury hotel accommodations plus a combination of 1st class convention facilities for up to 1,000 people. Surrounded by landscaped gardens and a two-acre inner courtyard this hotel is ideally suited to recreational facilities such as swimming, tennis, badminton and shuffle-board. Also contained in the hotel is its own health club with sauna and exercise gym as well as a retail area of the finest shops in Toronto.

Highest international awards have been received for its cuisine and the hotel is known internationally for its excellence in decor, facilities and personalized service.

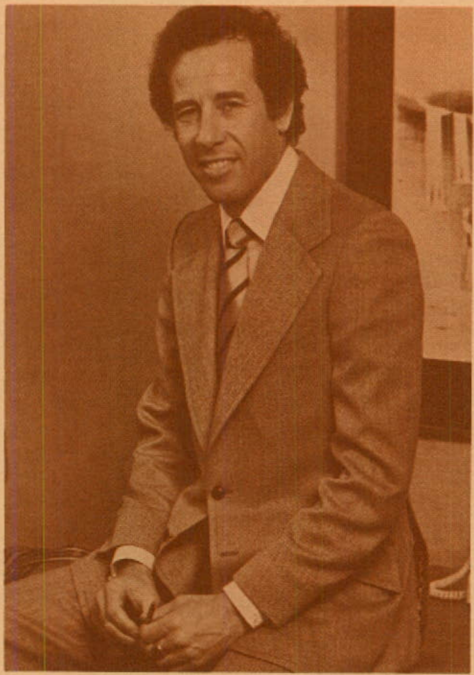


Four Seasons, Belleville

Opened in 1971, this 125-room hotel is unique in its combination of resort facilities on a lake location with Bell Canada Training Centre housed in a wing adjacent to the hotel.

In addition to the year-round heated outdoor pool, tennis and badminton, guests can enjoy water sports on the Bay of Quinte.

PRESIDENT'S MESSAGE



I am pleased to report that 1976 was a year in which we made great strides in consolidating our position as an internationally recognized operator of quality, first-class hotels.

Hotel revenues were $36,313,961 compared to the $29,257,131 generated in 1975, with operating profits from the hotel division reaching $4,366,296 as compared to the $4,227,659 earned last year.

Although hotel revenues for 1976 were generally in line with budget, there were however, two major factors affecting earnings per share; the devaluation in the U.K. of almost 20 per cent as against the Canadian dollar and Real Estate profits that had been anticipated were delayed and did not assist 1976's earnings.

Net earnings for the year before the extraordinary items were $1,146,733 as compared to $1,504,574 for 1975. The extraordinary item of $2,865,380 is the net gain from the sale of our interest of the Four Seasons Sheraton after an allowance for discontinuance of certain hotel projects and, when added to ordinary net earnings produces a net earning position for the year of $4,012,113 or $1.25 a share. Our earnings per share before the extraordinary items were 30.2¢ as compared to 42.1¢ in 1975.

Working capital of $5,498,245 is a significant improvement over the $2,392,171 at the end of 1975, allowing for a solid base upon which to grow. We were extremely pleased with the efforts of management in keeping all operating costs to a minimum and we are confident that this trend will continue.

The past year has been a very productive year for our Company as we opened the Four Seasons, Vancouver; Le Quatre Saisons, Montreal; acquired the Clift Hotel in San Francisco; and the Four Seasons Ottawa (formerly the Carleton Towers) in early 1977. We were fortunate in being in a position to acquire, in partnership, the Carleton Towers in Ottawa as it was felt that this hotel would be a welcome addition to our group due to its existing fine reputation in that city.

The reception to our new properties in Montreal and Vancouver has been very gratifying. While it takes some period of time before the operating results can effectively contribute to the Company's earnings, nevertheless we are confident that the addition of the new hotels in the key cities of Canada will provide the Company with a sound base for future profits.

Construction of the new Four Seasons Edmonton is on schedule and will open in early summer, 1978. It is strategically located as part of Edmonton Centre and we are confident we can achieve an immediate success.

A decision was made by your Board to lease on a longterm basis the Four

Seasons Jarvis Street to a group of prominent businessmen. It was felt that our future in Toronto would best be served by the type of hotel planned for the Company's site on Avenue Road to be known as the Four Seasons, Yorkville. The Jarvis St. location and facilities offered were not consistent with the other new Four Seasons Hotels throughout Canada and accordingly, while we still retain an interest in the operation, it was prudent at this time, to enter into the lease arrangement. The Inn on the Park in Toronto has been keeping pace with the competition and substantial monies were spent this year in maintaining the facilities.

I am pleased to report that we have formed a joint venture partnership and will begin construction on Granite Place by early summer, 1977. The first phase calls for approximately 120 luxury condominiums and phase two will be a commercial office building and will start once a longterm tenant has been secured.

As indicated earlier the timing of several of our real estate ventures did not crystalize as anticipated during 1976, however the results and profits will be reflected in the following years. We are very optimistic about our real estate portfolio and feel confident that this division will provide the Company with handsome returns in the future.

The philosophy of Four Seasons continues to be direct and simple — to be the Company that is known and recognized for its standards of quality, excellence and personal, friendly service. Although quality must never be compromised we realize that it must be geared to suit our customers' needs. Our objectives and profits will be achieved through customer satisfaction.

It would appear that the efforts of the Federal Government have been successful in somewhat alleviating the pressures of inflation and hopefully, with the co-operation of labour, and business, this trend will continue. The economic forecast for Canada is still uncertain and the timing of a meaningful turn-around is difficult to predict. Accordingly restraint must be practised in areas of spending and energy consumption.

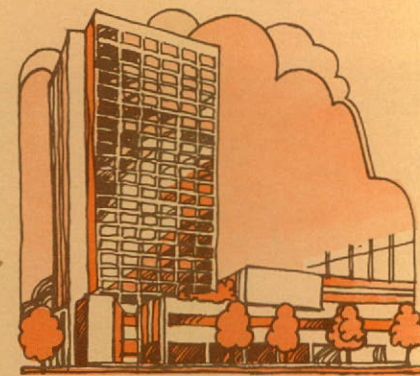
The Hotel Industry is directly affected by business trends and this past year in Canada proved to be one in which business re-adjusted to cope with the unpredictable economic situation, and correspondingly the results generally in the Hotel Industry were not entirely satisfactory. Our Company must adjust as well to the times and is making every effort to curb excessive spending and conserve resources. This trend will continue and our outlook for the future is to consolidate our position in the Industry.

Expansion will be undertaken on a very selective basis with situations being examined in certain key U.S. cities such as Chicago, Washington, and New York over the next few years.

On behalf of our Board of Directors I would like to thank our employees for their hard work and say with confidence that we see Four Seasons as now in a position to offer a consistent superlative difference in every city in which we operate. We see no end to what can be created by imaginative, dedicated efforts of all those involved in our Company.

Isadore Sharp
President

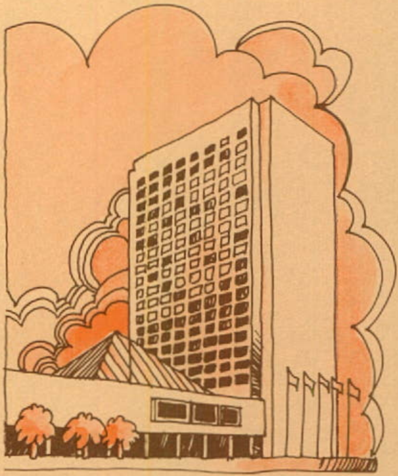
May 1977



FOUR SEASONS CALGARY
The 400-room Four Seasons Calgary is located in the heart of downtown adjoining the Calgary Convention Centre and the Glenbow Museum and Art Gallery.

Facilities include casual family dining, elegant international cuisine and dancing in The Traders, an entertainment room and year-round swimming and sauna.

The hotel also services the food and beverage requirements of the Convention Centre which is fully equipped to handle meetings from 20 to 2,500 people including audio-visual presentations and closed circuit TV.



THE FOUR SEASONS EDMONTON

This 322-room Four Seasons Hotel is expected to be completed in early 1978. The hotel, located in the new Edmonton Centre Complex, is being built in conjunction with the Oxford Development Company Limited. The property is certain to provide this city with a fine, first-class facility catering to the businessman as well as local residents.

FOUR SEASONS HOTELS LIMITED

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1976

ASSETS	1976	1975
CURRENT ASSETS		
Cash on Hand and in Bank	$ 5,473,729	$ 829,714
Accounts Receivable	2,659,617	2,728,034
Management Fees Receivable	43,699	120,130
Inventory of Food, Beverages and Supplies — at lower of cost or replacement value	1,415,509	1,083,004
Short Term Loans Receivable (Note 15a)	2,608,893	1,638,929
Other Amounts Receivable (Note 15b)	1,218,009	363,742
Prepaid Expenses	194,944	233,452
Loan Receivable — South Side Development Limited	—	13,137,848
	$13,614,400	$20,134,853
DEFERRED DEVELOPMENT AND CONSTRUCTION COSTS (Note 3)	$ 207,778	$ 3,148,546
INVESTMENTS (Note 4)		
South Side Development Limited	$ —	$ 49,000
Real Estate Partnerships and Joint Ventures	2,239,733	2,094,799
Hotel Partnerships and Joint Ventures	3,309,282	110,715
Other (Note 15c)	657,054	482,624
	$ 6,206,069	$ 2,737,138
FIXED ASSETS (Note 5)		
Land	$ 3,012,363	$ 2,995,590
Buildings	26,808,204	22,437,668
Furniture, Fixtures and Equipment	18,301,085	13,298,993
Leasehold Improvements (at Cost)	1,834,070	1,721,740
Vehicles (at Cost)	24,694	30,307
	$49,980,416	$40,484,298
Less: Accumulated Depreciation	$ 7,804,132	$ 6,179,440
	$42,176,284	$34,304,858
Linen, Tableware and Uniforms (Inventoried at the lower of Cost or Replacement Value)	$ 2,535,829	$ 2,237,499
	$44,712,113	$36,542,357
OTHER ASSETS (Note 6)		
Unamortized Financing Costs	$ 139,222	$ 174,826
Unamortized Pre-Opening and Opening Expenses	6,154,088	$ 4,385,288
	$ 6,293,310	$ 4,560,114
	$71,033,670	$67,123,008

The accompanying notes are an integral part of the financial statements.

LIABILITIES	1976	1975
CURRENT LIABILITIES		
Bank Indebtedness (Note 7)	$ 774,020	$11,500,368
Accounts Payable and Accrued Charges	5,467,560	4,284,217
Long Term Debt due within one year (Note 8)	527,500	546,016
Income Taxes Payable	1,347,075	1,412,081
	$ 8,116,155	$17,742,682
Long Term Debt (Note 8)	$34,606,550	$24,793,517
Deferred Income Taxes (Note 9)	5,126,822	$ 4,785,943
TOTAL LIABILITIES	$47,849,527	$47,322,142
SHAREHOLDERS' EQUITY		
Capital Stock (Note 10)		
AUTHORIZED		
2,000,000 First Preference Shares, with a Par Value of $10 each, issuable in series		
6,000,000 Common Shares without Par Values		
ISSUED AND FULLY PAID		
400,000 Series A First Preference Shares 6% Cumulative, Redeemable, Convertible, with a Par Value of $10 each	$ 4,000,000	$ 4,000,000
3,002,960 Common Shares, without Par Value	4,096,449	4,096,449
RETAINED EARNINGS	12,081,671	8,698,394
SURPLUS ARISING FROM APPRAISAL OF FIXED ASSETS (Note 5)	3,006,023	3,006,023
TOTAL SHAREHOLDERS' EQUITY	$23,184,143	$19,800,866
	$71,033,670	$67,123,008

The accompanying notes are an integral part of the financial statements.

Approved on behalf of the board

I. Sharp, Director

E. Creed, Director

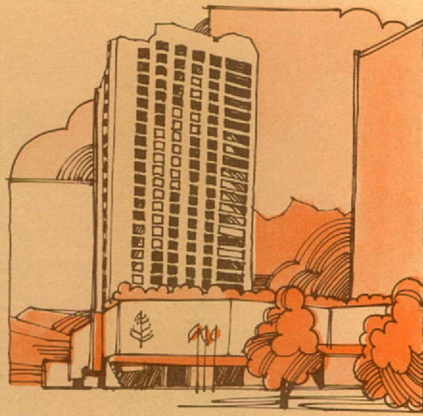
AUDITORS' REPORT

TO THE SHAREHOLDERS OF
FOUR SEASONS HOTELS LIMITED

We have examined the Consolidated Balance Sheet of Four Seasons Hotels Limited as at December 31, 1976 and the Consolidated Statements of Earnings, Retained Earnings, and Changes in Financial Position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these Consolidated Financial Statements present fairly the financial position of the Company as at December 31, 1976, and the result 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.

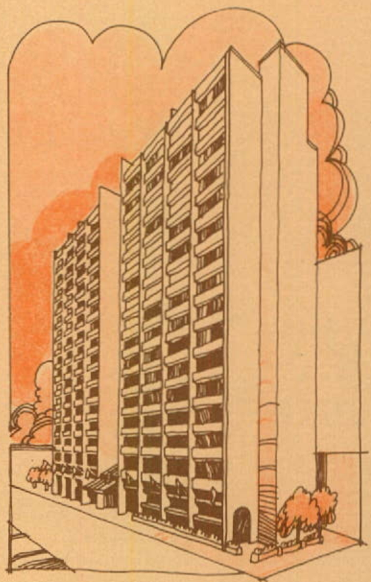
Wm. Eisenberg & Co.
Chartered Accountants
Toronto, Canada, May 9, 1977



FOUR SEASONS VANCOUVER

The newly opened Four Seasons Vancouver located in the very heart of the business and shopping district offers 430 rooms of luxury accommodation where guests can enjoy closed circuit colour movies and prompt 24-hour room service.

Dining is an adventure with 3 distinctly different rooms featuring everything from elegant continental cuisine to more informal atmospheres plus a skylit garden lounge amidst sparkling fountains and unsurpassed greenery. Also featured is an entertainment lounge with disco-dancing, banquet facilities for up to 600 people and year-round swimming, whirlpool and sauna.



Four Seasons Hotel
Ottawa (Carleton Towers)

This 236-room, luxury hotel joined the group in January 1977. Located minutes from Parliament Hill in the heart of downtown this hotel offers gracious dining in the elegant main dining room plus a touch of Paris in the Sidewalk Café. Other facilities include an entertainment room, year-round swimming and health spa, plus meeting and conference rooms for up to 300 persons.

Four Seasons Hotels Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1976

SOURCE OF FUNDS	1976	1975
Operations		
Net earnings before extraordinary items	$ 1,146,733	$ 1,504,574
Add non-cash charges to income:		
— Depreciation	1,481,386	1,243,411
— Amortization of pre-opening and financing expenses	195,450	25,764
— Deferred income taxes	(74,847)	672,905
Cash Flow from Operations	2,748,722	3,446,654
Proceeds from sale of share — South Side Developments Limited (Note 13a)	5,355,286	—
Financing		
Long Term Debt:		
— Term bank loans (net increase)	—	57,920
— Income Debenture (Note 8)	20,166,000	—
Other		
Investment reclassified as short term loan — South Side Development Limited	—	13,137,848
	$28,270,008	$16,642,422
APPLICATION OF FUNDS		
Additional Deferred Development and Construction Costs	$ 142,773	$ 1,219,555
Additions to Investments		
— South Side Development Limited	—	1,245,303
— Real Estate Partnerships and Joint Ventures	144,934	517,846
— Hotel Partnerships and Joint Ventures	2,532,363	—
— Other	174,430	390,791
Additions to Fixed Assets		
— Hotel properties, furniture, fixtures and operating equipment	9,972,525	8,314,779
Increase in Pre-Opening and Opening Expenses	1,250,710	1,373,073
Reduction of Long Term Debt (Net of Discounts Earned)	10,317,363	1,404,417
Dividends Paid		
— Preference Shares	240,000	240,000
— Common Shares	360,355	360,355
Other		
— Share issue costs adjustment	28,481	—
	$25,163,934	$15,066,119
NET INCREASE IN WORKING CAPITAL	$ 3,106,074	$ 1,576,303
WORKING CAPITAL AT BEGINNING OF YEAR	$ 2,392,171	$ 815,868
WORKING CAPITAL AT END OF YEAR	$ 5,498,245	$ 2,392,171

The accompanying notes are an integral part of the financial statements.

FOUR SEASONS HOTELS LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1976

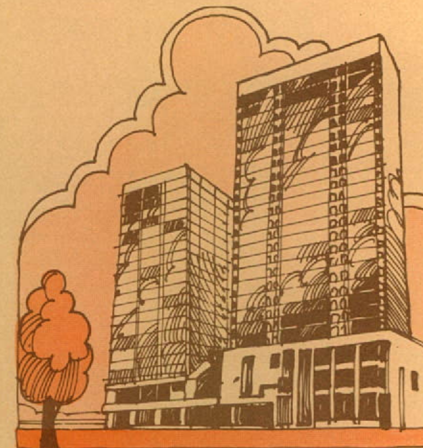
	1976	1975
HOTEL REVENUE	$36,313,961	$29,257,131
Cost of Sales	7,442,690	5,851,279
Payroll and Related Expenses	12,819,379	9,980,887
Other Expenses	8,768,421	7,175,005
House Profit — Hotels	$ 7,283,471	$ 6,249,960
Rent, Municipal Taxes and Insurance	$ 2,917,175	$ 2,022,301
Operating Profits — Hotels	$ 4,366,296	$ 4,227,659
SHARES OF PROFIT — PARTNERSHIPS AND JOINT VENTURES		
— Hotels	$ 134,616	$ —
— Real Estate Operations (Note 12)	133,532	621,015
INTEREST EARNED	$ 705,185	$ 1,289,922
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING CHARGES	$ 5,339,629	$ 6,138,596
Interest on Long Term Debt	$ 1,713,907	$ 1,637,235
Depreciation (Note 2)	1,481,386	1,243,411
Amortization (Note 6b)	188,382	16,100
EARNINGS BEFORE TAXES	$ 1,955,954	$ 3,241,850
Income Taxes — Current	884,068	1,064,371
— Deferred	(74,847)	672,905
NET EARNINGS BEFORE EXTRAORDINARY ITEMS	$ 1,146,733	$ 1,504,574
Extraordinary Items (Note 13)	2,865,380	$ —
Net Earnings for the Year	$ 4,012,113	$ 1,504,574
Earnings per Share (Note 14)		
Before Extraordinary Items	30.2¢	42.1¢
After Extraordinary Items	$ 1.25	42.1¢

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1976

	1976	1975
RETAINED EARNINGS AT BEGINNING OF YEAR	$ 8,698,394	$ 7,794,175
Add: Net Earnings for the Year	4,012,113	1,504,574
	$12,710,507	$ 9,298,749
Less: Dividends Paid — Preferred Shares	240,000	240,000
— Common Shares	360,355	360,355
Adjustment of Share Issue Costs	28,481	—
RETAINED EARNINGS AT END OF YEAR	$12,081,671	$ 8,698,394

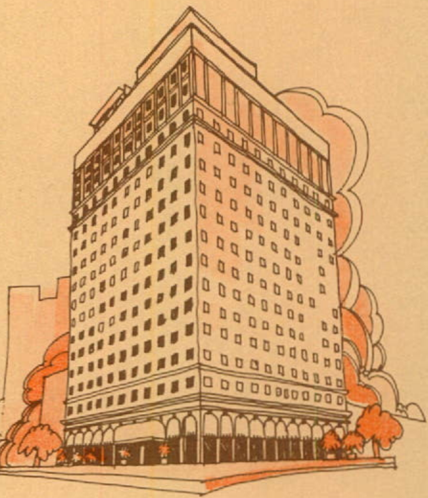
The accompanying notes are an integral part of the financial statements.



LE QUATRE SAISONS

Opened just prior to the 1976 Olympic Games, Le Quatre Saisons located in the heart of downtown Montreal is a deluxe 330-room property distinguished by its elegant interiors and highly personalized guest services.

Dining facilities range from Pierre de Coubertin featuring international cuisine to more casual family dining in La Panetière Other facilities include spectacular lounges, disco-dancing, year-round swimming with sauna and whirlpool and banquet facilities for up to 450 people in its main ballroom.



CLIFT HOTEL, SAN FRANCISCO

Like the grand hotels of England and Europe, the 430-room Clift stands out for its elegance and quality of personalized service. Located minutes from Union Square and the best shopping areas of the city, guest accommodations range from oversized rooms and suites to deluxe penthouses with furnishings selected for luxury and comfort.

Awarded the Five Star Award by Mobil Travel Guide in 1976, The Clift is in a class of its own for its excellence of international cuisine and private dining facilities.

FOUR SEASONS HOTELS LIMITED

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 1976

1. ACCOUNTING PRESENTATION

The Consolidated Balance Sheet of Four Seasons Hotels Limited includes its wholly-owned subsidiaries. The Company's investment in hotel and real estate partnerships and joint ventures whether directly or through subsidiaries, is recorded on the equity basis.

Hotel operations are included for the 52 week period ended December 26, 1976 and December 28, 1975.

Balances and transactions in other currencies have been translated into Canadian dollars on the following basis:

Current assets and current liabilities:

— at exchange rates in effect at December 31st,

Fixed assets and related long term debt, and other non-current assets and non-current liabilities:

— at exchange rates in effect when the assets were acquired and the liabilities were incurred,

Sales and Expenses:

— at the monthly average rate of exchange for the year.

2. DEPRECIATION POLICY

Annual depreciation is recorded by the Company as follows:

Buildings — 5% sinking fund basis over the lesser period of the estimated life of the building or 40 years.

Buildings on leased land — 5% sinking fund basis over the original terms plus one renewal, not to exceed a 40 year period.

Furniture, fixtures and equipment — 10% straight line basis

Leasehold Improvements — straight line basis over the guaranteed terms of the leases.

Vehicles — 30% diminishing balance basis.

3. DEFERRED DEVELOPMENT AND CONSTRUCTION COSTS

The deferred development and construction costs were incurred in respect of the following hotel projects:

Montreal	$ —	$ 509,442
Rome	—	488,124
Paris	—	783,893
Toronto-Yorkville	$ 58,911	674,254
Edmonton	114,319	5,686
Other	34,548	687,147
	$ 207,778	$ 3,148,546

The costs consist of architectural and design fees and other amounts directly related to the development of specific projects which will be added to the cost of the project assets or deferred as pre-opening expenses.

During 1976 project development costs amounting to $142,773 were deferred and previously deferred costs amounting to $1,161,135 were transferred to fixed assets and pre-opening expenses. In addition deferred costs of $1,922,406 were written off in respect of discontinued projects, see note 13 (b) re: extraordinary items.

4. INVESTMENTS

(a) Real Estate Partnerships and Joint Ventures

The Company and its subsidiaries are engaged in several real estate developments through partnerships and joint ventures.

A financial summary of the Company's and its subsidiaries proportionate interest in the real estate partnerships and joint ventures is as follows:

Assets	1976	1975
Mortgages Receivable	$ 2,604,484	$ 2,664,680
Houses and Condominium Units for Sale	4,137,099	525,552
Land held for development and sale	4,419,351	4,524,858
Investment properties under Development	8,480,376	7,342,711
Other Assets	115,926	171,810
	$19,757,236	$15,229,611
Liabilities		
Bank Loans	$ 9,257,601	$ 8,692,268
Mortgages and Loans Payable	7,609,913	3,955,925
Other Liabilities	649,989	486,619
	$17,517,503	$13,134,812
Company's Equity	$ 2,239,733	$ 2,094,799
	$19,757,236	$15,229,611

(b) Hotel Partnerships and Joint Ventures

The Company and its subsidiaries are engaged in certain hotel projects through partnerships and joint ventures.

A financial summary of the Company's and its subsidiaries proportionate interest in the hotel partnerships and joint ventures is as follows:

Assets	1976	1975
Current Assets	$ 912,794	$ 42,542
Fixed Assets		
Land Buildings and Equipment at Cost	$12,834,864	$ 4,782,780
Less: Accumulated Depreciation	104,421	—
	$12,730,443	$ 4,782,780
Land and Hotels Under Development	7,710,365	2,784,084
	$20,440,808	$ 7,566,864
Other Assets		
Unamortized Pre-opening and Opening Expenses	$ 1,143,805	$ 98,365
	$22,497,407	$ 7,707,771
Liabilities		
Current Liabilities	$ 1,016,092	$ —
Long Term Debt	18,172,033	7,597,056
	$19,188,125	$ 7,597,056
Company's Equity	3,309,282	110,715
	$22,497,407	$ 7,707,771

5. LAND, BUILDINGS, FURNITURE, FIXTURES AND EQUIPMENT

The land, buildings, furniture, fixtures and equipment were appraised by Chaffe, Mackenzie and Ray Limited as at September 1, 1968. The surplus arising from this appraisal was $3,006,023. All additions to these fixed assets after September 1st, 1968 were recorded at cost. Buildings include $9,503,400 on leased land, (1975 — $5,494,060), under lease terms and renewals extending for 65 years. Substantially all property and equipment is pledged to secure long-term debt.

6. (a) UNAMORTIZED FINANCING COSTS

Financing costs relating to long term debt are amortized in equal annual instalments over the terms of the respective debt issues. Discounts earned on debt retirement have been credited to the related unamortized financing cost. Financing costs relating to share issues have been charged net of income taxes to retained earnings in the year of the share issue.

(b) UNAMORTIZED PRE-OPENING AND OPENING EXPENSES

It is the Company's policy to defer hotel pre-opening and opening expenses until after a hotel is fully operational. Opening expenses include any operating losses up to a maximum period of 12 months after opening. Subsequently, these expenses are amortized over five years on a straight line basis. For larger hotels, in excess of 250 rooms, the five-year amortization period begins with the second year after a hotel is fully operational.

During 1976, hotel pre-opening and opening expenses were increased by $1,957,182 and reduced by amortization of $188,382.

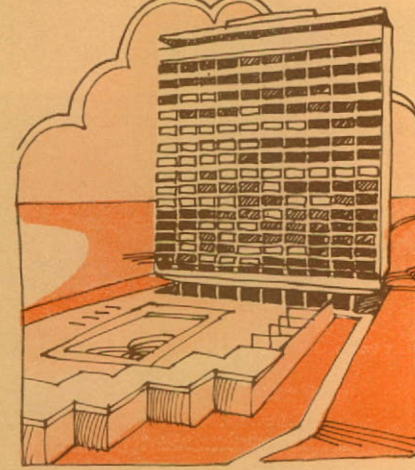
7. BANK INDEBTEDNESS

The bank indebtedness is secured by a general assignment of book debts (see also Note 8 re Income Debenture).

8. LONG TERM DEBT

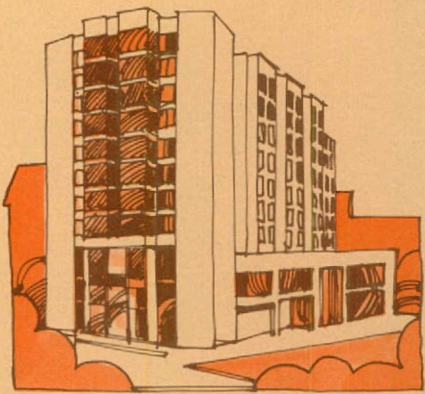
Long term debt comprises the following:

	At Dec. 31 1976	At Dec. 31 1975
Term Bank Loans and Income Debenture		
• Income Debenture — Secured by a fixed charge of $13,000,000 on a specific property, and the assignment of a specific lease, and a floating charge on all of the other assets of the Company (subject only to the prior floating charge of the Series A Debenture), due December 31, 1984, with interest at 60% of the bank's Eurodollar rate plus 1½% (payable in U.S. funds $20,000,000).	$20,166,000	$ —
Bank loans (payable in U.S. funds $9,000,000)	—	9,110,925
Mortgages Payable		
• Great West Life Assurance Company, due July 15, 1984, interest at 7%, plus a participation in the gross bedroom rentals of the Four Seasons Motor Hotel	677,933	748,700
• Marya Pocius, due October 31, 1982, interest only at 7%	310,000	310,000
• Shell Canada Limited, due August 1, 1988, interest at 6¾%	237,617	250,908
• Great West Life Assurance Company, due February 1, 1987, interest at 7¼%, plus a participation in the gross bedroom rentals of the Inn on the Park, Toronto	3,047,000	3,221,000
• Great West Life Assurance Company, due June 1, 1996, interest at 9½% plus a participation in the gross bedroom rentals of the Inn on the Park, Toronto	4,272,500	4,418,000
• First Mortgage Sinking Fund Bonds, Series A, on the Four Seasons Hotel, Belleville, due April 1, 1996, interest at 8¾% ($2,000 of Bonds were retired in 1976. Sinking Fund requirements have been prepaid for part of 1977)	2,632,000	2,634,000
• Conditional Sale Contract for furniture, fixtures and equipment — Inn on the Park, London (payable in Sterling £260,408)	—	638,000
Debenture Payable		
• Series A Debentures: A first floating charge on all the Company's assets situated in the Province of Ontario, due February 3, 1989, interest at 7% per annum. The Company is required to establish a sinking fund sufficient to retire $250,000 of principal on February 3 in each of the years 1973 to 1988 inclusive. ($217,000 Series A Debentures were retired in 1976. Sinking Fund requirements have been prepaid for part of 1977)	3,791,000	4,008,000
	$35,134,050	$25,339,533
Less: Due within one year	527,500	546,016
	$34,606,550	$24,793,517



Four Seasons Israel

Located in one of Israel's most popular seaside resorts this property stands atop a 200 foot cliff overlooking its own half mile of Mediterranean beach. It consists of a 130-suite co-operatively owned apartment hotel which are rented by Four Seasons Management to visitors when unoccupied by their owners.



Inn On The Park,
London, England

Since its opening in 1970, the 230-room Inn on the Park, London has become known as one of the finest hotels in the world. Located in Park Lane in London's elegant Mayfair district this luxury hotel is distinguished by design, fine appointments and personalized service.

Hotel facilities include several conference and banquet rooms and dining offering both haute cuisine and informal atmospheres.

Long Term Debt due in each of the next five years:

	Canadian Funds	U.S. Funds
1977	$ 527,500	$ —
1978	782,300	9,000,000
1979	798,950	2,000,000
1980	821,500	2,000,000
1981	828,700	2,000,000

9. INCOME TAXES

For income tax purposes, the Company has claimed capital cost allowances on buildings, furniture, fixtures and equipment which are in excess of the depreciation recorded in the accounts. The Company has also claimed for tax purposes in the current year, certain costs such as hotel development and pre-opening and opening expenses and finance and interest charges which are deferred or capitalized for accounting purposes. The resulting reduction of current income taxes for 1976 amounting to $340,879 (net), in respect of earnings including the extraordinary items, will become payable in future years when these amounts already claimed for tax purposes will be charged against income and accordingly, this amount was added to deferred income taxes. See also Note 19 (c) — contingent liability re income tax re-assessments.

10. CAPITAL STOCK

(a) Series A First Preference Shares

Each Series A First Preference Share is convertible to one Common Share upon payment of $1.00 for each Series A Preference Share converted up to June 1, 1977; and upon payment of $3.00 for each Series A Preference Share converted up to June 1, 1982.

(b) Common Shares

As at December 31, 1976, Common Shares were reserved as follows:

— For issuance to preferred shareholders under conversion privileges attaching to Series A Preference Shares		400,000
— For issuance under share purchase Warrants		199,840
— For issuance to employees for stock options:		
at $3.62 per share	132,000	
at 10% below market price at the date the option is granted	1,830	133,830
		733,670

(c) Warrants

On November 15, 1971, Warrants were issued to the holders of the 7% Sinking Fund Debentures, Series A. The Warrants entitle the bearers thereof to purchase an aggregate of 200,000 shares at $5 per share up to February 3, 1976 and at $6 per share thereafter up to February 3, 1979 when they expire. The Company has reserved 199,840 shares for issuance upon the exercise of the outstanding Warrants.

(d) Stock Options

During 1974, the Company granted an option to a director and senior officer to purchase a total of 132,000 Common Shares at $3.62 per share for a period of ten years from September 20, 1974.

11. RESTRICTIONS ON DIVIDENDS

The Trust Deed for the 7% Sinking Fund Debentures, Series A contains provisions restricting the payment of any cash dividends which would have the effect of reducing consolidated retained earnings below $1,945,703, or reducing shareholders' equity (as therein defined) below consolidated funded obligations (as therein defined).

The payment of dividends in 1976 did not reduce consolidated retained earnings and shareholders' equity below the amounts defined under the Trust Deed. See also Note 21.

12. SHARE OF PROFITS — REAL ESTATE OPERATIONS

Share of profits includes a non-taxable gain of $262,377 on the sale of an investment property.

13. EXTRAORDINARY ITEMS

Extraordinary items consist of:

(a) Gain on sale of 49% interest in South Side Development Limited (Four Seasons-Sheraton Hotel, Toronto) net of deferred income taxes of $1,326,000	$3,980,286
(b) Loss on discontinuance of hotel development projects — deferred development and construction costs written off net of deferred income taxes of $807,500	(1,114,906)
	$2,865,380

14. EARNINGS PER SHARE

Earnings per share for 1976 after providing for Preference Share dividends of $240,000 were 30.2¢ before extraordinary items and $1.25 after extraordinary items, based upon the weighted average number of shares outstanding during the year — 3,002,960 shares (1975 — 3,002,960 shares).

The exercise of all outstanding Warrants and employees' stock options in 1976 would have resulted in a dilution in earnings per share of less than 1¢. The conversion of the Preference Shares to Common Shares in 1976 would have had no dilutive effect on earnings per share.

15. LOANS TO DIRECTORS, OFFICERS AND EMPLOYEES

(a) Short terms loans receivable include $115,209 due from officers.

(b) Other accounts receivable include $75,642 due from directors.

(c) Other investments include mortgage loans of $511,180 due from officers and employees in respect of houses acquired by them for their own occupancy.

16. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid in 1976 to directors and senior officers of the Company was $438,764 (1975 — $506,823).

17. LEASES

The Company has entered into lease agreements for certain hotel properties for periods up to year 2000. The lease terms may be extended under renewal options. The total minimum annual rents payable under all leases currently in force amount to $3,303,835, exclusive of

additional amounts based on percentages of revenue, real property taxes and other occupancy charges.
The Company has pledged with a landlord a single debenture of $3,000,000 as security for its performance of its obligations under a specific lease. The debenture is secured upon the chattels, fixtures and improvements owned by the Company and used in the leased hotel.

18. LICENCE TRANSFER FEE RE 1969
As a result of the amalgamation and the issuance of 250,000 shares of the Company to the public in 1969, the Liquor Licence Commission of Ontario has taken the position that the licence transfer fee provisions of the Liquor Licence Act of Ontario are applicable and that fees in the amount of $128,335 are payable, which position the Company, on the advice of counsel, is disputing. In 1974, the transfer fees were paid under protest and an appeal is pending.

19. CONTINGENT LIABILITIES
(a) The Company is contingently liable for all the obligations of the partnerships in which it has a direct interest (Note 4 (a) and (b)). However against this contingent liability the Company would have a claim upon the assets of its partners.

(b) The Company has guaranteed the bank loan obligations of certain of its real estate subsidiaries and its hotel subsidiaries.

(c) The Company has been re-assessed by the Department of National Revenue for income taxes in the amount of $400,000 in respect of 1970, 1971 and 1972. The taxes claimed are mainly related to timing differences arising from the Company's tax treatment of deferred development expenses. The Company has filed notices of objection to the re-assessments and has posted a bank letter of credit as security pending final resolution of this matter. This contingency is substantially covered in the Company's provision for deferred income taxes and accordingly should not materially affect earnings.

20. COMMITMENTS AND SUBSEQUENT EVENTS

Inn on the Park, Rome
The Company has entered into a joint venture agreement with a major Italian government-controlled company to develop a 387-room luxury hotel in Rome, Italy. In 1973, the joint venture in which the Company owns a 50% interest, purchased a 20-acre site overlooking Vatican. Development had been delayed because of uncertain economic conditions. The Company and its partner are seeking to sell the property.

Four Seasons, Paris
The Company has been awarded the right to construct a 400-room deluxe hotel in Zone A of the Defense Region of Paris, a major redevelopment project under the auspices of the government of France. The Company has entered into an agreement with a subsidiary of S. A. Louis Dreyfus et Cie to form a joint venture in which the Company will hold a 50% interest. The joint venture will arrange the long-term financing for the construction of the hotel, including the furniture, fixtures and equipment. Construction will commence when the government agency has completed its contractual obligation in the redevelopment project and when long term financing arrangements have been completed. The Company will operate the hotel on behalf of the joint venture under a management agreement.

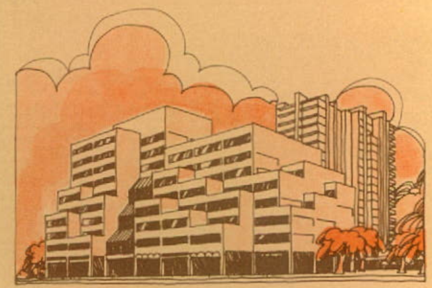
Four Seasons, Yorkville, Toronto
The Company has entered into a joint venture agreement with a subsidiary of S. A. Louis Dreyfus et Cie to develop a 300-room luxury hotel in Toronto's Yorkville district. The joint venture, in which the Company owns a 50% interests, has acquired the site and will construct the hotel including the furniture, fixtures and equipment. Zoning approvals have been obtained and construction will commence when financing arrangements have been completed. The Company will operate the hotel on behalf of the joint venture under a management agreement.

Four Seasons, Edmonton
The Company has entered into a joint venture tenancy agreement to lease a 322-room hotel under construction as part of the Edmonton Centre in downtown Edmonton. The Company has a ⅓ interest in the joint venture and will operate the hotel on behalf of the joint venture under a management agreement.

Four Seasons, Ottawa (Carleton Towers)
The Company has entered into a joint venture agreement to purchase the 236-room Carleton Towers Hotel in Ottawa. The joint venture, in which the Company has a ⅓ interest, arranged the long term financing and completed the purchase on January 15, 1977. The Company will operate the hotel for the joint venture under a long term agreement.

Four Seasons Motor Hotel, Toronto
On April 10, 1977, the Company leased its hotel on Jarvis Street in Toronto to a joint venture tenant under a long term lease agreement with an option to purchase the hotel. The joint venture, in which the Company has retained a 24.5% interest, will operate the hotel but the Company will not be involved in the management and the hotel will not bear the Four Seasons' name.

21. ANTI-INFLATION LEGISLATION
The Company is subject to the Canadian Government's anti-inflation legislation which limits increases in profit margins, employee compensation and dividend payments.
This legislation has not affected the financial results of the Company's operations for 1976. Dividends to be paid in 1977 may not exceed the same rate per share that was paid in 1976.



GRANITE PLACE, TORONTO
The Company, in partnership with other interests, will be constructing a major residential, office and retail complex in midtown Toronto, with the first phase of luxury condominium apartments being ready for sale by 1979. The office building and residential components will be of the highest quality and when completed will set a new tone for the St. Clair area in Toronto.

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