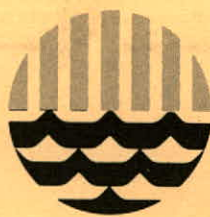


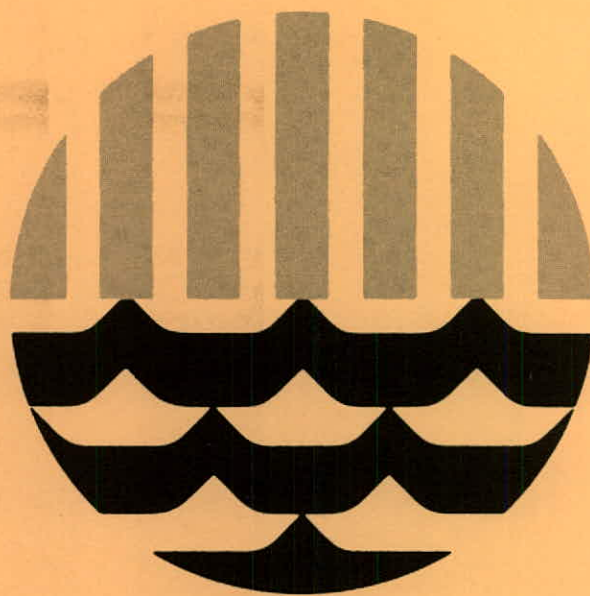
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WEBB & KNAPP (CANADA) LIMITED

THOMAS ROSS LIBRARY  
OF MANAGEMENT  
APR 20 1988  
MILL UNIVERSITY

**A N N U A L R E P O R T 1 9 8 7**



**WEBB & KNAPP  
(CANADA) LIMITED**

**HEAD OFFICE**

317 Columbia Street,  
New Westminster, B.C.  
V3L 3V6  
(604) 526-3711

**STOCK EXCHANGE LISTINGS**

Vancouver and Montreal  
Symbol: WBK

**PRESIDENT'S  
REPORT  
TO THE  
SHAREHOLDERS**

Corporate gross revenues remained relatively stable at \$13,204,000. The company is reporting a substantial loss of \$3,972,000 after writing off intangible assets. Goodwill was reduced by \$2,230,000 and the Deferred Income Tax was reduced by \$2,653,000.

Wolstencroft Realty Corporation revenues increased by \$429,000 but net revenues declined. The company remains profitable.

Northern Thunderbird Air Ltd. experienced a 12% increase in revenue which allowed this division to move back towards breakeven.

The Development Division constructed a Material Damage Training and Research Centre for the Insurance Corporation of B.C. Located on land owned by the company, this building was completed on time and on budget as a turnkey project.

Most services for the Willingdon Business Park had been installed by year end. Negotiations for the sale of individual parcels of land are underway and the company has completed the feasibility for a multi-tenant building and a 40,000 square foot office building.

Subsequent to year end, the company's bankers indicated they were no longer able to continue support for our lines of credit. A number of properties have been sold to reduce these borrowings and we continue to work with the bank to resolve these financial difficulties.

Respectfully submitted,



President



**WEBB & KNAPP  
(CANADA) LIMITED**

# CONSOLIDATED STATEMENT OF LOSS

For the year ended  
December 31, 1987

	Note	1987	1986 (RESTATED) (IN THOUSANDS OF DOLLARS)
Revenue	11	\$ 13,204	\$ 13,210
Direct cost and expenses		12,586	12,340
Net revenue	11	618	870
Other income			
Gain on sale of revenue properties		3,132	—
		3,750	870
Operating expenses			
Administrative and general		442	494
Amortization and depreciation		66	71
Interest - unallocated		960	1,006
		1,468	1,571
Provision to reduce development and revenue properties to net realizable value		1,627	1,801
Income (loss) before income taxes and minority interest and extraordinary items		655	(2,502)
Income taxes (recovery)			
Current		25	(110)
Deferred		(252)	(261)
	12	(227)	(371)
Income (loss) before minority interest and extraordinary items		882	(2,131)
Minority interest		4	48
Income (loss) before extraordinary items		886	(2,083)
Extraordinary items			
Write-off of deferred income tax debits of prior years		2,653	617
Write-off of goodwill		2,230	661
Benefit of losses carried forward applied against income tax payable		(25)	—
		4,858	1,278
Net loss for the year		(\$ 3,972)	(\$ 3,361)
Loss per share		(\$ 1.37)	(\$ 1.16)

# CONSOLIDATED STATEMENT OF DEFICIT

For the year ended  
December 31, 1987

Deficit at beginning of year as previously reported		\$ 8,610	\$ 5,370
Prior period adjustment			
Adjustment of prior year's brokerage operations	16	121	—
As restated		8,731	5,370
Net loss for the year		3,972	3,361
Deficit at end of year		\$ 12,703	\$ 8,731

# AUDITORS' REPORT

The Shareholders,  
Webb & Knapp (Canada) Limited.

We have examined the consolidated balance sheet of Webb & Knapp (Canada) Limited as at December 31, 1987 and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New Westminster, B.C.  
March 24, 1988.

TOUCHE ROSS & CO.  
Chartered Accountants



WEBB & KNAPP  
(CANADA) LIMITED

# CONSOLIDATED BALANCE SHEET

December 31, 1987

	Note	1987	1986 (RESTATED) (IN THOUSANDS OF DOLLARS)
<b>ASSETS</b>			
Development properties	3	\$ 10,018	\$ 9,181
Revenue producing properties	4	10,801	15,226
Fixed assets	5	1,452	1,543
Other assets	6	1,995	1,687
Deferred income taxes		—	2,223
Goodwill		—	2,290
		<u>\$ 24,266</u>	<u>\$ 32,150</u>
<b>LIABILITIES</b>			
Bank indebtedness	7	\$ 18,957	\$ 19,748
Mortgages payable	8	10,728	15,197
Accounts payable		2,697	1,622
Other liabilities	9	675	690
Deferred income taxes		288	—
		<u>33,345</u>	<u>37,257</u>
<b>EXCESS OF LIABILITIES OVER NET BOOK VALUE OF ASSETS</b>			
Capital stock	10	\$ 3,624	\$ 3,624
Deficit		(12,703)	(8,731)
		<u>(9,079)</u>	<u>(5,107)</u>
		<u>\$ 24,266</u>	<u>\$ 32,150</u>

On behalf of the Board

*Jan Turo* Director  
*A.L. Utanpuek* Director

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended  
December 31, 1987

Operating bank indebtedness was decreased by			
Cash flow to operations		(\$ 329)	(\$ 235)
Cash flow from operating assets and liabilities		776	1,696
		447	1,461
Cash flow from (to) investing activities		6,730	(506)
Cash flow to financing activities		(5,202)	(201)
Decrease in operating bank indebtedness for the year		1,975	754
Operating bank indebtedness at beginning of year		(13,376)	(14,130)
Operating bank indebtedness at end of year		<u>(\$11,401)</u>	<u>(\$13,376)</u>
Represented by:			
Demand operating bank loans	7	(\$11,466)	(\$13,322)
Cash (cheques written in excess of funds on deposit)	6	65	(54)
		<u>(\$11,401)</u>	<u>(\$13,376)</u>



WEBB & KNAPP  
(CANADA) LIMITED

# SUMMARY INFORMATION TO STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended  
December 31, 1987

1987                      1986  
(RESTATED)  
(IN THOUSANDS OF DOLLARS)

## OPERATIONS

Cash flow (to) from operations		
Loss for the year	(\$ 3,972)	(\$ 3,361)
Provision to reduce the carrying value of development properties to net realizable value	1,151	1,025
Gain on sale of revenue properties	(3,132)	—
Amortization, depreciation and provision for aircraft engine overhaul	520	568
Deferred income taxes (recovery)	(252)	144
Minority interest	(4)	(48)
Provision to reduce the carrying value of revenue properties to net realizable value	477	776
Write-off of goodwill	2,230	661
Write-off of deferred income tax debits of prior years	2,653	—
Cash flow to operations	(\$ 329)	(\$ 235)
Cash flow to operations per share	(\$ .11)	(\$ .08)

## OPERATING ASSETS AND LIABILITIES

Cash flow from (to) operating assets and liabilities		
Additions to development properties	(\$ 5,622)	(\$ 3,980)
Disposal of development properties	3,634	2,895
Increase in bank loans relating to development properties	3,332	3,520
Repayment of bank loans relating to development properties	(1,533)	(809)
Accounts payable	1,196	(448)
Accounts and agreements receivable	(323)	549
Other	93	94
Reduction of mortgages relating to development properties	(1)	(125)
Cash flow from operating assets and liabilities	\$ 776	\$ 1,696

## INVESTING AND FINANCING ACTIVITIES

Cash flow from (to) investing activities		
Proceeds from sale of revenue properties	\$ 6,760	\$ —
Expenditures for revenue properties	(30)	(483)
Purchases of fixed assets	—	(23)
Cash flow from (to) investing activities	6,730	(506)
Cash flow (to) from Financing activities		
Discharge of mortgages on revenue properties	(4,613)	(136)
Repayment of bank loans on revenue properties	(734)	(1,103)
Increase in payable on revenue properties and fixed assets	325	1,071
Repayment of mortgages on revenue properties and fixed assets	(180)	(185)
Increase in bank loans on revenue properties	—	152
Cash flow (to) financing activities	(5,202)	(201)
Cash flow from (to) investing and financing activities	\$ 1,528	(\$ 707)



WEBB & KNAPP  
(CANADA) LIMITED

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1987



WEBB & KNAPP  
(CANADA) LIMITED

## 1. Summary of significant accounting policies

- a) The Company is a member of the Canadian Institute of Public Real Estate Companies. The Company's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of that Institute.
- b) Basis of reporting  
The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. (see Notes 2 and 17).
- c) Basis of consolidation  
The consolidated financial statements include:
  - i) The accounts of the Company and controlled subsidiary companies.
  - ii) The proportionate share of the assets and liabilities, revenues and expenses of those unincorporated entities in which the Company holds at least 50% interest.
  - iii) The proportionate share of the net income or loss of incorporated and unincorporated entities in which the Company has a substantial interest. The value of these investments has been adjusted to reflect the Company's equity in the book values of the net assets of these entities.
- d) Revenue recognition
  - i) Properties  
Sales of development and revenue producing properties are recorded as revenue when the purchaser has made a reasonable down payment and has a registerable interest in the property.
  - ii) Rental  
The Company records the net rental from revenue properties as revenue when that income exceeds costs and debt service payments. Prior to that time, subject to a reasonable maximum lease-up period, the cash flow deficiency is added to the cost of the properties.
  - iii) Commission income  
Real estate commissions are reflected in the financial statements on the settlement date of the transaction. If a transaction is financed by the Company, revenue is deferred until the funds are received.
- e) Capitalization of costs  
Development properties include all direct costs and certain indirect costs including specific interest and bank fees, property taxes and interest on the portion of total costs financed from general corporate borrowings.
- f) Valuation  
Development properties intended for retention as revenue producing properties are carried at cost. Development and revenue producing properties intended for sale are carried at the lower of cost and estimated net realizable value, determined on a unit by unit basis.
- g) Depreciation and amortization  
The Company charges the cost of buildings to operations over forty years in amounts increasing at a rate of 5% compounded annually.  
  
A provision is made for aircraft depreciation and overhaul.  
  
Other tangible assets are depreciated over their estimated useful lives using the declining balance method.
- h) Goodwill amortization  
Goodwill is amortized equally over forty years.

## 2. Continuing operations

The Company's continued existence as a going concern is dependent upon its ability to achieve profitable operations and to continue to make adequate financing arrangements. It is not possible at this time to predict with assurance the outcome of these matters. (see Note 17).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended  
December 31, 1987

	1987	1986
	(IN THOUSANDS OF DOLLARS)	
<b>3. Development properties</b>		
Acquisition costs	\$ 2,139	\$ 2,868
Carrying costs	5,208	5,110
Development and servicing costs	5,267	3,907
Loan fee	615	615
	<u>13,229</u>	<u>12,500</u>
Less reduction to net realizable value		
Provision at beginning of year	3,319	2,786
Provision for the year	1,151	1,025
Realized through cost of sales	(1,259)	(492)
Provision at end of year	<u>3,211</u>	<u>3,319</u>
	<u>\$ 10,018</u>	<u>\$ 9,181</u>
During the year interest totalling \$1,349,000 (1986 - \$1,412,000) was added to the cost of development properties.		
<b>4. Revenue producing properties</b>		
Buildings	\$ 6,107	\$ 12,237
Leasehold improvements	273	273
Furniture, fixtures and equipment	60	836
Other	199	1,022
	<u>6,639</u>	<u>14,368</u>
Accumulated depreciation and amortization	886	2,266
	<u>5,753</u>	<u>12,102</u>
Land	1,089	3,124
	<u>\$ 6,842</u>	<u>\$ 15,226</u>
Revenue properties held for resale	3,959	—
	<u>\$ 10,801</u>	<u>\$ 15,226</u>
<b>5. Fixed Assets</b>		
Buildings	\$ 890	\$ 890
Aircraft and equipment	792	780
Other	599	619
	<u>2,281</u>	<u>2,289</u>
Accumulated depreciation	992	913
	<u>1,289</u>	<u>1,376</u>
Land	163	167
	<u>\$ 1,452</u>	<u>\$ 1,543</u>
<b>6. Other assets</b>		
Cash (cheques written in excess of funds on deposit)	\$ 65	(\$ 54)
Accounts receivable	435	401
Agreements receivable	485	207
Due from associates	246	243
Inventories	156	138
Trust assets	429	457
Other	179	295
	<u>\$ 1,995</u>	<u>\$ 1,687</u>
<b>7. Bank Indebtedness</b>		
a) Demand loans for the financing of		
i) Development properties	\$ 7,491	\$ 5,692
ii) Revenue producing properties	—	734
b) Demand operating loans	11,466	13,322
	<u>\$ 18,957</u>	<u>\$ 19,748</u>

Interest rates on the bank indebtedness fluctuate in accordance with changes in the bank prime lending rate.

The demand loans are secured by debentures registered on specific properties, and include a restriction on the payment of dividends.

Operating loans are secured by fixed and floating debentures on the assets of the Company, assignment of receivables and hypothecation of certain shares of its subsidiaries.



**WEBB & KNAPP  
(CANADA) LIMITED**



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1987

## 8. Mortgages payable

Due date	Weighted average interest rate	Revenue producing properties	Development properties	Other	Total
(IN THOUSANDS OF DOLLARS)					
1988	11.60%	\$ 2,663	\$ 221	\$ 8	\$ 2,892
1989	11.74%	299	—	9	308
1990	11.73%	4,741	—	10	4,751
1991	12.18%	434	—	380	814
1992	12.77%	96	—	—	96
Subsequent to 1992	12.76%	1,867	—	—	1,867
		<u>\$10,100</u>	<u>\$ 221</u>	<u>\$ 407</u>	<u>\$10,728</u>

1987                      1986  
(IN THOUSANDS OF DOLLARS)

## 9. Other liabilities

Minority interest	\$ 101	\$ 105
Aircraft maintenance provision	101	79
Deferred revenues	44	49
Trust liabilities	429	457
	<u>\$ 675</u>	<u>\$ 690</u>

## 10. Capital stock

### Authorized

2,000,000 cumulative, redeemable, voting, 5% series A preferred shares with a par value of \$5 each  
10,000,000 common shares without par value

### Issued and fully paid

2,904,947 common shares	\$ 2,905	\$ 2,905
Premium on common shares	719	719
	<u>\$ 3,624</u>	<u>\$ 3,624</u>

Pursuant to a letter of financing dated June 30, 1986, the Company has agreed, subject to the rules and regulations of the Vancouver and Montreal Stock Exchanges, to provide The Royal Bank of Canada with a ten year option to purchase, for a total consideration of \$10, sufficient common shares of the Company so that immediately following the exercise of the option the Bank will hold 10% of the issued and outstanding common shares of the Company.

## 11. Segmented information

	Revenue producing properties	Development	Brokerage	Airline	Other	Total
(IN THOUSANDS OF DOLLARS)						
a) Revenue	\$ 3,225	\$ 3,877	\$ 3,941	\$ 1,422	\$ 739	\$13,204
b) Net revenue (loss)	\$ 212	\$ 161	\$ 48	(\$ 29)	\$ 226	\$ 618
Other income						3,132
Administration, depreciation and interest						(1,468)
Provision to reduce development and revenue properties to net realizable value						(1,627)
Income taxes						(227)
Minority interest						4
Extraordinary items						(4,858)
Loss for the year						<u>(\$ 3,972)</u>
c) Identifiable assets						
Operating assets	\$10,757	\$10,018	\$ 1,407	\$ 518	\$ 823	\$23,523
Other assets, unallocated						743
Total assets						<u>\$24,266</u>
Depreciation and amortization	\$ 350	\$ —	\$ 29	\$ 53	\$ 69	\$ 501

d) Administration and interest expenses that are directly attributable to specific industry segments have been allocated to those segments.



**WEBB & KNAPP  
(CANADA) LIMITED**

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1987

## 12. Income taxes

The recovery of income taxes is \$227,000 in 1987 (1986 - \$371,000). The tax amounts differ from the expected income taxes using statutory rates due to the following:

	1987	1986
	(IN THOUSANDS OF DOLLARS)	
Provision for (recovery of) income taxes using the federal and provincial statutory rates	\$ 338	(\$ 1,300)
Portion of current year's loss carried forward not utilized	237	874
Non-taxable portion of capital gains	(842)	—
Other	40	55
	<u>(\$ 227)</u>	<u>(\$ 371)</u>

The consolidated group has available losses for income tax purposes carried forward amounting to approximately \$6,948,000. These losses expire as follows:

	(IN THOUSANDS OF DOLLARS)
1990	\$ 184
1991	324
1992	4,289
1993	1,692
1994	459
	<u>\$ 6,948</u>

A potential tax benefit attributed to losses of \$1,388,000 is recognized in these financial statements by reducing deferred income taxes payable. No benefit has been recognized regarding the remaining losses of \$5,560,000 carried forward.

## 13. Joint ventures and partnerships

The Company's proportionate share in the assets, liabilities, revenues and expenses of joint ventures and partnerships is as follows:

	Development properties	Revenue producing properties	Total 1987	Total 1986
	(IN THOUSANDS OF DOLLARS)			
Assets	\$ 213	\$ 4,658	\$ 4,871	\$ 6,180
Liabilities	\$ 23	\$ 3,090	\$ 3,113	
Revenues	\$ 1	\$ 2,032	\$ 2,033	\$ 2,424
Expenses	\$ 68	\$ 1,999	\$ 2,067	\$ 2,333

## 14. Contingent liabilities and commitments

The Company is contingently liable in the amount of \$150,000 for the obligations of certain co-owners of its joint ventures and partnerships.

The Company has commitments to complete servicing requirements for land development. These undertakings and certain other commitments have been guaranteed by way of irrevocable letters of credit. The balance outstanding as at December 31, 1987 is \$1,665,000.

## 15. Remuneration of directors and senior officers

The total remuneration of senior officers for the year, as defined in the British Columbia Securities Act, was \$327,900 (1986 - \$310,365).

## 16. Prior period adjustment

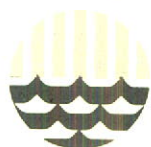
The deficit at the beginning of 1987, the consolidated revenue and net income for the year ended December 31, 1986 have been restated to reflect the overstatement by \$121,000 of the income of a subsidiary. The overstatement of income arose on consolidation of the subsidiary's 1986 operating results.

## 17. Subsequent events

- a) On January 15, 1988, the Company's bank demanded repayment on February 15, 1988, of all the Company's indebtedness to them. As of March 24, 1988, the bank had not taken action to enforce their demand and continues to work with the Company to effect a resolution of its financing.
- b) On January 29, 1988, the Company sold four buildings in Lake City Industrial Park and one building in Mayfair Industrial Park for \$8,650,000. Cash proceeds of \$2,600,000 were received and mortgages payable totalling \$5,900,000 were assumed by the purchaser.

## 18. Comparative figures

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



WEBB & KNAPP  
(CANADA) LIMITED

## DIRECTORY

### DIRECTORS

George B. Cross  
John A. Kaye  
Donald H. Reed  
James Tutton  
Edward A. Walker  
Christopher Wansbrough  
G. Richard Waterfall

### OFFICERS

James Tutton, *President*  
G. Richard Waterfall, *Secretary*  
John C. Brigham, *Vice-President — Operations*  
Donald J.H. Williamson, *Vice-President —  
Finance and Administration*

### AUDITORS

Touche Ross & Co., Chartered Accountants,  
New Westminster, B.C.

### BANKER

The Royal Bank of Canada  
613 Columbia Street,  
New Westminster, B.C.

### SOLICITORS

Ray, Connell, Lightbody, Reynolds & Heller  
Vancouver, B.C.

### TRANSFER AGENT & REGISTRAR

National Trust Company, Vancouver, Toronto and Montreal



WEBB & KNAPP  
(CANADA) LIMITED

