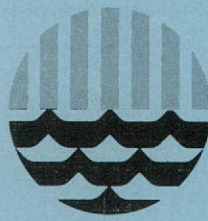


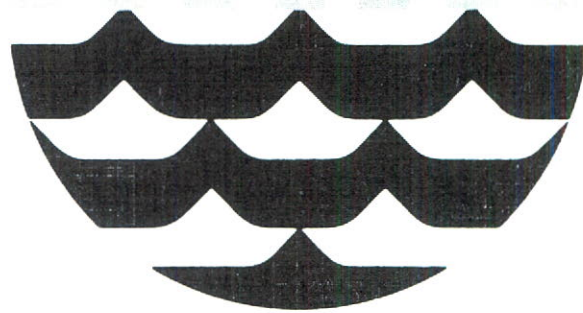
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WEBB & KNAPP (CANADA) LIMITED

HOWARD ROSS LIBRARY
OF MANAGEMENT
APR 30 1986
MCGILL UNIVERSITY

A N N U A L R E P O R T 1 9 8 5



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

The financial statements for 1985 record a net loss for the year of \$2,158,000 or 74¢ per share. This reflects the fact that no major projects were completed or sold during 1985. Management has initiated a number of programs for the development of land and buildings which will substantially enhance earnings in 1986.

The economic stimulus provided by Expo 86 and improved earnings in the forest resource sector should enable the company to expand its industrial portfolio in 1986.

The Revenue Property Division recorded a loss due to a writedown on the Bear Creek Mini warehouse. Steps have been taken to rectify this problem. Vacancies are almost negligible in the balance of the portfolio and additional space will be added in the current year.

The Development Division had 45 single family building lots in inventory at year end. Sixty-eight lots were sold during the year. An additional 74 lots will be developed in 1986 from our existing landbank. No major building developments were completed during the year but two projects had commenced for completion in 1986.

Wolstencroft Realty Corporation revenues rebounded by \$793,000 resulting in their first profitable year since 1981. Management continues to monitor all expenses to enhance cash flow.

The winding up of the Hotel Division continued during the year and the sale of the last property is under negotiation.

Northern Thunderbird Air Ltd. revenues were almost identical with the previous period while profit was substantially improved. The company discontinued its feeder service in October and took steps to solidify its position in the charter market.

Although the loss for the year was disappointing, the base has now been provided to rebuild our balance sheet in 1986. Many of our major assets have been owned for a long period and have a low book value in comparison to current market values. It is our intention to initiate a program to repurchase up to 5% of the company's shares on the open market, subject to the approval of the appropriate regulatory authorities.

Respectfully submitted,



President



WEBB & KNAPP
(CANADA) LIMITED

CONSOLIDATED STATEMENT OF LOSS

For the year ended
December 31, 1985

	Note	1985	1984
(IN THOUSANDS OF DOLLARS)			
Revenue	10	\$ 14,110	\$ 19,010
Direct cost and expenses		<u>14,126</u>	<u>17,062</u>
Net (loss) revenue	10	(16)	1,948
Other income			
(Loss) gain on sale of revenue properties		(592)	469
Gain on sale of fixed assets		<u>447</u>	<u>134</u>
		<u>(161)</u>	<u>2,551</u>
Operating expenses			
Administrative and general		455	649
Amortization and depreciation		74	71
Interest - unallocated		<u>1,159</u>	<u>990</u>
		<u>1,688</u>	<u>1,710</u>
Provision to reduce development properties to net realizable value	3	<u>1,141</u>	<u>816</u>
(Loss) income before income taxes and minority interest		(2,990)	25
Deferred income taxes (recovery)	11	<u>(886)</u>	<u>76</u>
Loss before minority interest		2,104	51
Minority interest		<u>54</u>	<u>15</u>
Net loss for the year		\$ <u>2,158</u>	\$ <u>66</u>
Loss per share		\$ <u>.74</u>	\$ <u>.02</u>

CONSOLIDATED STATEMENT OF DEFICIT

For the year ended
December 31, 1985

	1985	1984
(IN THOUSANDS OF DOLLARS)		
Deficit at beginning of year	\$ 3,212	\$ 3,146
Net loss for the year	<u>2,158</u>	<u>66</u>
Deficit at end of year	\$ <u>5,370</u>	\$ <u>3,212</u>



WEBB & KNAPP
(CANADA) LIMITED

CONSOLIDATED BALANCE SHEET

December 31, 1985

	Note	1985	1984
(IN THOUSANDS OF DOLLARS)			
ASSETS			
Revenue producing properties	2	\$ 15,882	\$ 17,479
Development properties	3	9,256	9,372
Fixed assets	4	1,618	1,823
Other assets	5	2,184	2,811
Deferred income taxes		2,367	1,481
Goodwill		3,038	3,124
		<u>\$ 34,345</u>	<u>\$ 36,090</u>
LIABILITIES			
Mortgages payable	6	\$ 14,572	\$ 13,504
Bank indebtedness	7	18,680	20,351
Accounts payable		2,205	1,227
Other liabilities	8	634	596
		<u>36,091</u>	<u>35,678</u>
EXCESS OF LIABILITIES OVER NET BOOK VALUE OF ASSETS			
Capital stock	9	\$ 3,624	\$ 3,624
Deficit		(5,370)	(3,212)
		<u>(1,746)</u>	<u>412</u>
		<u>\$ 34,345</u>	<u>\$ 36,090</u>

On behalf of the Board

Jim Turo Director
G.H. Utanpuek Director

AUDITORS' REPORT

The Shareholders,
Webb & Knapp (Canada) Limited.

We have examined the consolidated balance sheet of Webb & Knapp (Canada) Limited as at December 31, 1985 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, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New Westminster, B.C.
March 14, 1986.

Touche Ross & Co

TOUCHE ROSS & CO.
Chartered Accountants



WEBB & KNAPP
(CANADA) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended
December 31, 1985

SUMMARY INFORMATION TO STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended
December 31, 1985



WEBB & KNAPP
(CANADA) LIMITED

	1985	1984
	(IN THOUSANDS OF DOLLARS)	
Operating bank indebtedness and cash were decreased (increased) by		
Cash flow to operations	(\$ 2,395)	(\$ 51)
Cash flow from (to) operating assets	<u>1,553</u>	<u>(1,767)</u>
	(842)	(1,818)
Cash flow from investment and financing activities	<u>2,588</u>	<u>2,158</u>
Decrease in operating bank indebtedness and cash for the year	1,746	340
Operating bank indebtedness and cash at beginning of year	<u>(15,876)</u>	<u>(16,216)</u>
Operating bank indebtedness and cash at end of year	<u>(\$14,130)</u>	<u>(\$15,876)</u>
Represented by:		
Operating bank loan	(\$14,014)	(\$15,969)
(Bank indebtedness) cash	<u>(116)</u>	<u>93</u>
	<u>(\$14,130)</u>	<u>(\$15,876)</u>

	1985	1984
	(IN THOUSANDS OF DOLLARS)	
OPERATIONS		
Cash flow to operations		
Loss for the year	(\$ 2,158)	(\$ 66)
Deferred income taxes (recovery)	(886)	76
Loss (gain) on sale of revenue properties	592	(469)
Amortization, depreciation and provision for aircraft engine overhaul	541	533
Gain on sale of fixed assets	(447)	(134)
Other	<u>(37)</u>	<u>9</u>
Cash flow to operations	<u>(\$ 2,395)</u>	<u>(\$ 51)</u>
Cash flow to operations per share	<u>(\$.82)</u>	<u>(\$.02)</u>

OPERATING ASSETS

Cash flow from (to) operating assets		
Development properties	\$ 116	\$ 3,784
Mortgages relating to development properties	(310)	(4,179)
Bank loans relating to development properties	293	(818)
Accounts and agreements receivable	508	(461)
Accounts payable	978	(434)
Other	<u>(32)</u>	<u>341</u>
Cash flow from (to) operating assets	<u>\$ 1,553</u>	<u>(\$ 1,767)</u>

INVESTMENT AND FINANCING ACTIVITIES

Investment activities		
Proceeds from sale of revenue properties	\$ 1,189	\$ 4,585
Proceeds from sale of fixed assets	850	197
Expenditures for revenue properties	(527)	(309)
Purchases of fixed assets	<u>(300)</u>	<u>(4)</u>
Cash flow from investment activities	<u>1,212</u>	<u>4,469</u>
Financing activities		
Discharge of mortgages on revenue property	(542)	(2,033)
Increase (decrease) in mortgages payable	1,927	(275)
Bank loans on revenue properties	<u>(9)</u>	<u>(3)</u>
Cash flow from (to) financing activities	<u>1,376</u>	<u>(2,311)</u>
Cash flow from investment and financing activities	<u>\$ 2,588</u>	<u>\$ 2,158</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

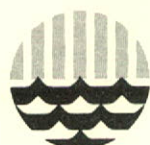
December 31, 1985

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 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.
- c) 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.
- d) Capitalization 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.
- e) Valuation
Development properties intended for retention as revenue producing properties are carried at cost. Development properties intended for sale are carried at the lower of cost and estimated net realizable value, determined on a unit by unit basis.
- f) 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.
- g) Goodwill
Goodwill is amortized equally over forty years.

2. Revenue producing properties

	1985	1984
	(IN THOUSANDS OF DOLLARS)	
Buildings	\$ 12,673	\$ 13,710
Leasehold improvements	273	273
Furniture, fixtures and equipment	837	797
Other	772	448
	<u>14,555</u>	<u>15,228</u>
Accumulated depreciation and amortization	1,903	1,551
	<u>12,652</u>	<u>13,677</u>
Land	3,230	3,802
	<u>\$ 15,882</u>	<u>\$ 17,479</u>



WEBB & KNAPP
(CANADA) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1985

	1985	1984
	(IN THOUSANDS OF DOLLARS)	
3. Development properties		
Acquisition costs	\$ 3,594	\$ 4,780
Carrying costs	4,822	4,679
Development and servicing costs	2,876	2,409
Loan fee	750	—
	<u>12,042</u>	<u>11,868</u>
Less reduction to net realizable value		
Provision at beginning of year	2,496	2,178
Provision for the year	1,141	816
Realized through cost of sales	(851)	(498)
Provision at end of year	<u>2,786</u>	<u>2,496</u>
	<u>\$ 9,256</u>	<u>\$ 9,372</u>

During the year interest totalling \$1,110,000 (1984 - \$1,298,000) was added to the cost of development properties.

	1985	1984
	(IN THOUSANDS OF DOLLARS)	
4. Fixed assets		
Buildings	\$ 890	\$ 890
Aircraft and equipment	774	1,391
Other	602	621
	<u>2,266</u>	<u>2,902</u>
Accumulated depreciation	815	1,246
	<u>1,451</u>	<u>1,656</u>
Land	167	167
	<u>\$ 1,618</u>	<u>\$ 1,823</u>

	1985	1984
	(IN THOUSANDS OF DOLLARS)	
5. Other assets		
Cash	(\$ 116)	\$ 93
Accounts receivable	759	559
Agreements receivable	398	1,106
Due from associates	337	482
Inventories	144	187
Trust assets	368	286
Other	294	98
	<u>\$ 2,184</u>	<u>\$ 2,811</u>

Due date	Weighted average interest rate	Revenue producing properties	Develop-ment properties	Other	Total
1986	11.28%	\$ 4,756	\$ 125	\$ 420	\$ 5,301
1987	11.08%	921	—	—	921
1988	10.88%	121	221	—	342
1989	10.85%	135	—	—	135
1990	10.83%	7,460	—	—	7,460
Subsequent to 1990	10.54%	413	—	—	413
		<u>\$13,806</u>	<u>\$ 346</u>	<u>\$ 420</u>	<u>\$14,572</u>

	1985	1984
	(IN THOUSANDS OF DOLLARS)	
7. Bank indebtedness		
a) Demand loans for the financing of		
i) Development properties	\$ 2,981	\$ 2,688
ii) Revenue producing properties	1,685	1,694
b) Demand operating loans	14,014	15,969
	<u>\$ 18,680</u>	<u>\$ 20,351</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, 1985

1985 1984
(IN THOUSANDS OF DOLLARS)

8. Other liabilities

Minority interest	\$ 153	\$ 99
Aircraft maintenance provision	59	160
Deferred revenues	54	51
Trust liabilities	368	286
	<u>\$ 634</u>	<u>\$ 596</u>

1985 1984
(IN THOUSANDS OF DOLLARS)

9. 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 September 24, 1985, 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 an option for 10 years to acquire 10% of the shares of the Company for total consideration of \$10.

10. Segmented information

	Revenue producing properties	Develop- ment	Broker- age	Airline	Hotel	Other	Total
	(IN THOUSANDS OF DOLLARS)						
a) Revenue	\$ 2,015	\$ 3,228	\$ 4,569	\$ 2,263	\$ 1,471	\$ 564	\$14,110
b) Net revenue (loss)	(\$ 74)	(\$ 145)	\$ 50	\$ 88	(\$ 57)	\$ 122	(\$ 16)
Loss on sale of revenue properties							(592)
Gain on sale of fixed assets							447
Administration, depreciation and interest							(1,688)
Provision to reduce development properties to net realizable value							(1,141)
Income taxes							886
Minority interest							(54)
Loss for the year							<u>(\$ 2,158)</u>
c) Identifiable assets							
Operating assets	\$12,918	\$ 9,256	\$ 1,307	\$ 604	\$ 2,964	\$ 1,006	\$28,055
Other assets, unallocated							6,290
Total assets							<u>\$34,345</u>
Capital additions	\$ 71	\$ —	\$ 5	\$ 305	\$ 179	\$ 6	\$ 566
Depreciation and amortization	\$ 228	\$ —	\$ 56	\$ 58	\$ 125	\$ 74	\$ 541

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, 1985

11. Deferred income taxes

Deferred income taxes (recovery) are (\$886,000) in 1985 (1984 - \$76,000). These amounts differ from the expected income taxes (recovery) using statutory rates due to the following:

	1985	1984
	(IN THOUSANDS OF DOLLARS)	
Income taxes (recovery)		
using statutory rates	(\$ 1,555)	\$ 13
Portion of current year's loss carry forward		
not recognized	659	—
Subsidiary's business (income) loss excluded	(26)	187
Portion of capital gains not taxed	—	(404)
Acquisition costs of assets		
in excess of tax cost	—	238
Other	36	42
	<u>(\$ 886)</u>	<u>\$ 76</u>

The consolidated group has available losses carried forward amounting to \$4.88 million. These losses expire as follows:

1987	\$ 247
1990	55
1991	288
1992	4,298
	<u>\$ 4,888</u>

Of these losses, \$3.03 million has been recognized in these financial statements.

12. 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 1985	Total 1984
	(IN THOUSANDS OF DOLLARS)			
Assets	\$ 332	\$ 6,220	\$ 6,552	\$ 7,009
Liabilities	\$ 66	\$ 4,332	\$ 4,398	\$ 4,640
Revenues	\$ 28	\$ 2,082	\$ 2,110	\$ 2,352
Expenses	\$ 21	\$ 2,112	\$ 2,133	\$ 2,492

13. Contingent liabilities and commitments

The Company is contingently liable in the amount of \$946,000 for the obligations of certain co-owners of its joint ventures and partnerships. Of this amount, \$175,000 relates to a venture in which certain directors of the Company have an interest.

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, 1985 is \$3,546,000.

14. Remuneration of directors and senior officers

The total remuneration of directors and senior officers for the year, as defined in the British Columbia Securities Act, was \$301,500 (1984 - \$340,500).



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*
Richard S. Russell, *Vice-President — Hospitality Group*
Donald J.H. Williamson, *Vice-President —
Finance and Administration*

AUDITORS

Touche, Ross & Company, 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

