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WEBB & KNAPP (CANADA) LIMITED

ANNUAL REPORT 1983

WEBB & KNAPP (CANADA) LIMITED

HEAD OFFICE

317 Columbia Street,
New Westminster, B.C.
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STOCK EXCHANGE LISTINGS

Vancouver and Montreal
Symbol: WBK

PRESIDENT'S REPORT TO THE SHAREHOLDERS

The financial statements for 1983 continue to reflect British Columbia's stagnant economy. Management continued to reduce departmental expenses while attempting to capitalize on every opportunity for revenue enhancement. Business, in all divisions, must be characterized as "spotty" with only a slight up-trend apparent at year end.

While the U.S. economy continued to expand through 1983, uncertainties over inflation, employment, and the direction of interest rates continued to stall economic growth in British Columbia.

It is our hope that the stimulus provided by the construction of EXPO '86, the ALRT system, Canada Place and the new Annacis crossing will continue the gradual up-trend now evident in the economy.

The Revenue Property Division continued as the central focus of our operation. Revenue Property vacancies were less than 5% at year end, reflecting the excellent locations and high standards of property management provided by our company. The 104,000 sq. ft. Archives building was completed and occupied in December 1983. The Division, in conjunction with the Development group continues to research a number of opportunities which should allow positive growth in 1984. As in the past, the company will continue to emphasize commercial and industrial development.

In December of 1983 the company sold its Highland Village condominium project located in Des Moines, Washington to an American tax shelter syndicator. A loss before income taxes of $1,196,000 was recorded in the final quarter.

The Land Development Department produced 17 additional lots in 1983 and sold 77 lots during the period. Year end inventory of 70 serviced residential lots was deemed adequate for the existing market. Building lot sales started off at a brisk pace in the Spring with price increases noted. Sales tended to drop off towards year end and prices have subsequently stabilized.

The Company has budgeted to sell 207 serviced lots in 1984, of which 70 will come from existing inventory, 66 from our land bank, and 71 from land to be acquired subsequent to year end. To fulfill this policy of cautious expansion, three land development projects were in the planning stage at year end.

The building lots developed by Webb & Knapp (Canada) Limited are marketed through our subsidiary, Wolstencroft Realty Corporation. During the year two offices were consolidated and Pemberton Realty Corporation was sold. The increase in brokerage revenue from $2,742,000 to $6,706,000 reflects the acquisition of the majority interest in Wolstencroft Realty Corporation. With approximately 150 licencees operating out of seven offices, the company continues as one of the dominant sales forces in the Lower Fraser Valley, commanding the number two position in total sales volume for the Fraser Valley Real Estate Board trading area.

Northern Thunderbird Air Ltd. continued as a profitable operation in 1983. Operating under the capable stewardship of the President, Mr. Jack Stelfox, we provided feeder services to Pacific Western Airlines at Prince George, Kamloops, Kelowna and Penticton, British Columbia. Operations have been severely affected by the lack of resurgence in our resource based Northern economy, but the company continues to perform above budget with a brighter outlook for 1984.

The Hotel Division continued to lose money in 1983. Lower than anticipated occupancy, resulting in under utilization of the food and beverage facilities, made it difficult to improve performance at the bottom line. New cost controls coupled with a strong marketing program should make 1984 a more rewarding year.

Total revenue in 1983 was $26,882,000 resulting in a net loss of $1,676,000 or $0.58 per share. The substantial increase in revenue results from the sale of the Highland Village condominium project and the consolidation of our increased revenues of Wolstencroft Realty Corporation. Net asset value remains in excess of $8.00 per share before provision for income tax. The hard work, long hours and dedication of our entire team should ensure that our company will return to profitability in 1984.

Respectfully submitted,

James Tutt

WEBB & KNAPP (CANADA) LIMITED

CONSOLIDATED STATEMENT OF LOSS

For the year ended December 31, 1983

	Note	1983	1982
		(In Thousands of Dollars)	
Revenue	11	$26,882	$11,410
Direct cost and expenses		28,923	12,378
Net Loss	11	2,041	968
Other income			
Gain on sale of revenue properties		1,331	1,909
Gain on sale of fixed assets		—	276
		1,331	2,185
Operating expenses			
Administrative and general		906	733
Amortization and depreciation		99	72
Interest		818	441
		1,823	1,246
Provision to reduce development properties to net realizable value	3	1,215	2,450
Loss before income taxes and minority interest		3,748	2,479
Deferred income taxes	12	(2,066)	(1,465)
Loss before minority interest		1,682	1,014
Minority interest		(6)	22
Net loss for the year		$ 1,676	$ 1,036
Loss per share		$ .58	$ .36

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF DEFICIT

For the year ended December 31, 1983

	1983	1982
	(in Thousands of Dollars)	
Deficit at beginning of year	$1,470	$ 434
Net loss for the year	1,676	1,036
Deficit at end of year	$3,146	$1,470

See accompanying notes to consolidated financial statements.

WEBB & KNAPP (CANADA) LIMITED

CONSOLIDATED BALANCE SHEET

As at December 31, 1983

	Note	1983	1982
		(In Thousands of Dollars)	
ASSETS			
Revenue producing properties	2	**$20,764**	$18,622
Development properties	3	**13,756**	25,005
Fixed assets	4	**2,079**	2,245
Other assets	5	**3,542**	3,583
Deferred income taxes		**1,557**	—
Goodwill		**3,211**	3,454
		$44,909	$52,909
LIABILITIES			
Mortgages payable	6	**$19,991**	$17,055
Bank indebtedness	7	**21,735**	30,110
Accounts payable		**1,719**	1,520
Other liabilities	8	**986**	1,551
Deferred income taxes		**—**	519
		44,431	50,755
SHAREHOLDERS' EQUITY			
Capital Stock	9	**3,624**	3,624
Deficit	10	**(3,146)**	(1,470)
Shareholders' equity		**478**	2,154
		$44,909	$52,909

Approved by the directors.

Director

Director

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT

The Shareholders,
Webb & Knapp (Canada) Limited.

We have examined the consolidated balance sheet of Webb & Knapp (Canada) Limited as at December 31, 1983 and the consolidated statements of loss, deficit, cash flow to operations and source and use 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 December 31, 1983 and the results of its operations and the changes in its cash 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 13, 1984.

Touche Ross & Co

TOUCHE ROSS & CO.
Chartered Accountants

WEBB & KNAPP
(CANADA) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOW TO OPERATIONS

For the year ended December 31, 1983

	1983	1982
	(In Thousands of Dollars)	
Net loss for the year	**($1,676)**	($1,036)
Items not affecting cash		
Deferred income taxes	**(2,066)**	(1,465)
Amortization, depreciation and provision for aircraft engine overhaul	**642**	385
Gain on sale of revenue properties	**(1,331)**	(1,909)
Gain on sale of fixed assets	**—**	(247)
Provision to reduce development properties to net realizable value	**1,215**	2,450
Other	**96**	11
Cash flow to operations	**($3,120)**	($1,811)
Cash flow per share	**($ 1.07)**	($ .62)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF CASH

For the year ended December 31, 1983

	1983	1982
	(In Thousands of Dollars)	
Sources of Cash		
Decrease (increase) in development properties	**$10,034**	($ 5,095)
Increase in mortgages payable	**3,559**	3,023
Proceeds from sale of revenue properties	**2,079**	4,060
Increase (decrease) in accounts payable	**199**	(1,412)
Proceeds from sale of fixed assets	**—**	806
	15,871	1,382
Uses of cash		
Cash flow to operations	**3,120**	1,811
Decrease (increase) in bank indebtedness	**8,375**	(6,294)
Increase in revenue properties	**3,199**	2,967
Discharge of mortgages on sale of revenue properties	**623**	2,277
Decrease (increase) in other liabilities	**102**	(340)
Increase in other assets	**147**	827
Discharge of bank indebtedness on sale of fixed assets	**—**	464
Acquisition of interest in subsidiary	**—**	65
Increase in fixed assets	**—**	31
	15,566	1,808
Increase (decrease) in cash	**305**	(426)
Cash at beginning of year	**11**	437
Cash at end of year	**$ 316**	$ 11

See accompanying notes to consolidated financial statements.

WEBB & KNAPP (CANADA) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1983

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 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

The Company uses the completion basis of accounting for commission income, whereby real estate commissions are not reflected in the financial statements until settlement date of the transaction. If a transaction is financed by the Company, revenue is deferred until the funds are received.

iv) Deferred revenues

Deferred revenues are credited to income on a straight-line basis as the revenue is earned.

d) Capitalization of costs

Development properties

The Company capitalizes all direct costs and certain indirect costs including specific interest, 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 follows the sinking fund method of accounting for depreciation of buildings whereby the cost is charged to operations over forty years in annual amounts increasing at a rate of 5% compounded annually.

A provision for aircraft engine overhaul is made based on an estimated cost per flying hour. Depreciation is provided on aircraft on a straight-line basis over their estimated useful lives.

Other tangible assets are depreciated over their estimated useful lives using the declining balance method.

g) Goodwill

Goodwill is amortized over forty years using the straight-line method.

h) Income taxes

The Company follows the tax allocation method of accounting for income taxes whereby deferred income taxes are provided in respect of timing differences between accounting and taxable income.

i) Foreign exchange

The Company converts assets and liabilities at the rate of exchange prevailing at the balance sheet date. Unrealized gains and losses are included in determining results of operations.

2. Revenue producing properties

	1983	1982
	(In Thousands of Dollars)	
Buildings	$15,880	$14,362
Leasehold improvements	272	272
Furniture, fixtures and equipment	756	746
Other	323	191
	17,231	15,571
Accumulated depreciation and amortization	1,256	1,015
	15,975	14,556
Land	4,789	4,066
	$20,764	$18,622

3. Development properties

	(In Thousands of Dollars)	
Acquisition costs	$ 5,472	$10,571
Carrying costs	4,453	5,394
Development and servicing costs	6,009	11,668
	15,934	27,633
Less reduction to net realizable value		
Provision at beginning of year	2,628	178
Provision for the year	1,215	2,450
Realized through cost of sales	(1,665)	—
Provision at end of year	2,178	2,628
	$13,756	$25,005

During the year interest costs totalling $2,628,000 (1982 - $3,786,000) were capitalized to development properties. A portion of that interest is included in the cost of sales of development properties and in the cost of properties transferred to revenue producing properties during the year.

4. Fixed assets

	1983	1982
	(In Thousands of Dollars)	
Buildings	$ 890	$ 890
Aircraft and equipment	1,657	1,657
Other	656	656
	3,203	3,203
Accumulated depreciation	1,291	1,125
	1,912	2,078
Land	167	167
	$ 2,079	$ 2,245

5. Other assets

	(In Thousands of Dollars)	
Cash	$ 316	$ 11
Accounts receivable	1,097	445
Agreements receivable	644	993
Due from associates	258	292
Inventories	201	216
Trust assets	492	940
Other	534	686
	$ 3,542	$ 3,583

6. Mortgages payable

Due Date	Weighted average interest rate	Revenue producing properties	Development properties	Other	Total
		(In Thousands of Dollars)			
1984	11.15%	$ 4,665	$ 999	$ 73	$ 5,737
1985	12.34%	3,889	19	7	3,915
1986	12.29%	2,575	22	420	3,017
1987	12.07%	1,055	24	15	1,094
1988	12.11%	287	27	—	314
Subsequent to 1988	12.26%	2,480	3,434	—	5,914
		$14,951	$ 4,525	$ 515	$19,991

7. Bank indebtedness

	1983	1982
	(In Thousands of Dollars)	
a) Demand loans for the financing of		
i) Canadian development properties	$ 3,506	$ 7,700
ii) U.S. development properties	—	8,528
iii) Revenue producing properties	1,697	763
b) Operating loans	16,532	13,119
	$21,735	$30,110

WEBB & KNAPP (CANADA) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1983

Bank Indebtedness (cont'd)

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.

Operating loans are secured by fixed and floating debentures on the assets of the Company and assignment of receivables and insurance proceeds.

	1983	1982
	(In Thousands of Dollars)	
8. Other liabilities		
Minority interest	$ 84	$ 236
Aircraft maintenance provision	253	200
Deferred revenues	157	175
Trust liabilities	492	940
	$ 986	$ 1,551

	1983	1982
	(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
	$ 3,624	$ 3,624

10. Deficit

Under the terms of a bank debenture, the Company is restricted from the payment of dividends without prior consent of the debenture holder.

11. Segmented information

	Revenue producing properties	Develop-ment	Broker-age	Airline	Hotel	Other	Total
	(In Thousands of Dollars)						
a) Revenue	$ 2,684	$13,652	$ 6,706	$ 2,182	$ 1,264	$ 394	$26,882
b) Net revenue (loss)	$ 280	($ 1,744)	($ 141)	$ 45	($ 431)	($ 50)	($ 2,041)
Gain on sale of revenue properties							1,331
Administration, depreciation and interest							(1,823)
Provision to reduce development properties to net realizable value							(1,215)
Deferred income taxes							2,066
Minority interest							6
Loss for the year							$ 1,676
c) Identifiable assets							
Operating assets	$17,824	$13,756	$ 1,043	$ 966	$ 2,940	$ 1,063	$37,592
Other assets and goodwill							7,317
Total assets							$44,909

WEBB & KNAPP (CANADA) LIMITED

11. Segmented information (continued)

	Revenue producing properties	Develop-ment	Broker-age	Airline	Hotel	Other	Total
			(In Thousands of Dollars)				
c) Identifiable assets (cont'd)							
Capital additions	$ 3,027	$ —	$ —	$ —	$ 172	$ —	$ 3,199
Depreciation and amortization	$ 181	$ —	$ 53	$ 107	$ 128	$ 9	$ 478

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

Included in operating assets are development properties located in the United States with a carrying value of $594,700. All other assets are situated in Canada. All revenues, except those for a property in the State of Washington, U.S.A., which was sold during the year for $6,957,000 Canadian funds, are derived from Canadian sources.

12. Deferred income taxes

Deferred income tax recovery was $1,465,000 in 1982 and $2.066.000 in 1983, representing effective tax rates of 59.1% and 55.1% respectively. These rates differ from the basic federal and provincial income tax rates due to the following:

	1983 $	1983 %	1982 $	1982 %
	(In Thousands of Dollars)			
Income tax recovery calculated using combined basic rates	**$ 1,949**	**52.0**	$ 1,289	52.0
Non-taxable portion of capital gains	**433**	**12.8**	435	17.5
Potential tax benefit, resulting from business losses of subsidiary not accounted for	**(168)**	**(5.1)**	(343)	(13.8)
Non-deductible goodwill amortization	**(87)**	**(2.7)**	(72)	(2.9)
Other	**(61)**	**(1.9)**	156	6.3
	$ 2,066	**55.1**	$ 1,465	59.1

13. Joint ventures and partnerships

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

	Develop-ment properties	Revenue producing properties	Total 1983	Total 1982
		(In Thousands of Dollars)		
Assets	**$ 744**	**$ 6,370**	**$ 7,114**	$15,574
Liabilities	**$ 541**	**$ 4,385**	**$ 4,926**	$11,626
Revenues	**$ 259**	**$ 1,811**	**$ 2,070**	$ 1,509
Expenses	**$ 177**	**$ 2,057**	**$ 2,234**	$ 1,814

14. Contingent liabilities and commitments

The Company is contingently liable for the obligations of certain co-owners of its joint ventures and partnerships in the amount of $729,000. The co-owners' share of the assets is available for the purpose of satisfying such obligations.

The Company has commitments to complete the 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, 1983 was $139,100.

15. Related party transactions

The Company had no material related party transactions.

16. 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 $356,500 (1982 - $364,817).

WEBB & KNAPP (CANADA) LIMITED

DIRECTORY

DIRECTORS

George B. Cross
John A Kaye
Donald H. Reed
James Tutton
Edward A. Walker
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, Limited — Vancouver, Toronto, Montreal and Winnipeg

WEBB & KNAPP
(CANADA) LIMITED