WEBB & KNAPP (CANADA) LIMITED

ANNUAL REPORT 1981

WEBB & KNAPP (CANADA) LIMITED

DIRECTORS

George B. Cross
John A. Kaye
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

TRANSFER AGENT AND REGISTRAR

National Trust Company, Limited – Vancouver, Toronto, Montreal and Winnipeg

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, Wolfe, Connell, Lightbody & Reynolds
Vancouver, B.C.

STOCK EXCHANGE LISTINGS

Vancouver and Montreal

HEAD OFFICE

317 Columbia Street,
New Westminster, B.C.
V3L 3V6

1. Kings Motor Inn Burnaby, B.C.
2. & 3. Warehouse, Mayfair Industrial Park Coquitlam, B.C.
4. 143 Unit Residential Development, Seattle, Washington
5. Reception-Corporate Head Office New Westminster, B.C.
6. Westminster Park, Surrey, B.C.
7. & 8. Lake City Industrial Warehouse Development Burnaby, B.C.


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REPORT TO SHAREHOLDERS

Our company continued to exhibit strong financial growth in 1981. Total revenue increased to $16,139,000 as compared to $11,955,000 in 1980. Net income rose from $170,000 to $1,066,000 or .38 per share as compared to .06 per share in the previous period. Cash flow rose from .48 per share to $1.05 per share.

It is our intention to continue to shift the emphasis of the company from residential land development to the production of revenue producing properties. This will continue the trend established in 1981 where 175,000 square feet were added to the 700,000 sq. ft. revenue property portfolio.

Northern Thunderbird Air Ltd. made a substantial contribution towards the year's earnings. Management has trimmed costs to weather the tight economy and has budgeted to maintain profitability in 1982. Future earnings growth will depend on the resurgence of our resource oriented northern economy.

Wolstencroft Realty Corporation was profitable during 1981 and should continue to operate on a breakeven basis for 1982. Management has expanded the sales staff and added two new branch offices subsequent to year end.

Both of these companies have been affected by the current high interest rates which will make it difficult to improve earnings in 1982, but should position us to capitalize on the recovery expected in 1983. Additional lines of bank credit are under negotiation, and the company has utilized Banker's Acceptances to reduce the overall cost of borrowing.

Net asset value remains in excess of $12.00 per share before provision for income tax, based on independent appraisals and management estimates of current market values. This valuation reflects substantial writedowns in the market value of the company's assets. Net asset value, fully taxed, is estimated to be in excess of $8.00 per share.

I would again like to express my thanks to the directors, executives, and staff who have all given strong support to the company during 1981.

Respectfully submitted

President

1981

WEBB & KNAPP (CANADA) LIMITED

(INCORPORATED UNDER THE CANADA BUSINESS CORPORATIONS ACT)

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, 1981 and the consolidated statements of income, deficit, cash flow from 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, 1981 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 which have been applied on a basis consistent with that of the preceding year.

New Westminster, B.C.,
February 19, 1982.

Touche, Ross & Co.
Chartered Accountants

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1981

	Note	1981	1980
		(000's)	
ASSETS			
Revenue producing properties	2	$18,103	$14,779
Development properties	3	21,944	7,472
Fixed assets	4	2,680	2,841
Investment in affiliate		789	831
Other assets	5	2,140	2,309
Goodwill		2,290	2,350
		$47,946	$30,582
LIABILITIES			
Mortgages payable	6	$16,151	$14,377
Bank indebtedness	7	23,890	11,996
Accounts payable		2,035	722
Shareholders' loans		–	838
Other liabilities	8	671	611
Deferred income taxes		2,009	752
		44,756	29,296
SHAREHOLDERS' EQUITY			
Capital stock	9	3,624	2,786
Deficit		(434)	(1,500)
Shareholders' equity		3,190	1,286
		$47,946	$30,582

Approved by the Directors:

J.W.F. TUTTON
Director

JOHN A. KAYE
Director

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1981

	Note	1981	1980
		(000's)	
REVENUE			
Revenue	10	$16,139	$11,955
Direct cost and expenses	10	12,280	9,904
Net revenue	10	3,859	2,051
Operating expenses			
Administrative and general		835	678
Amortization and depreciation		72	59
Interest		570	716
		1,477	1,453
INCOME FROM OPERATIONS		2,382	598
Provision for income taxes			
Current		36	16
Deferred		1,257	302
		1,293	318
INCOME BEFORE MINORITY INTEREST AND NON-RECURRING CHARGES		1,089	280
Minority interest		23	42
Income before non-recurring charges		1,066	238
Non-recurring charges		–	68
NET INCOME FOR THE YEAR		$ 1,066	$ 170
EARNINGS PER SHARE		$ .38	$ .06

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1981

	1981	1980
	(000's)	
Deficit at beginning of year	$ 1,500	$ 1,470
Net income for the year	1,066	170
	434	1,300
Premium on redemption of preferred shares	–	50
Dividend on preferred shares	–	150
Deficit at end of year	$ 434	$ 1,500

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW FROM OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1981

	1981	1980
	(000's)	
NET INCOME FOR THE YEAR	$ 1,066	$ 170
ITEMS NOT AFFECTING CASH		
Deferred income taxes	1,257	557
Amortization, depreciation and provision for aircraft engine overhaul	439	580
Gain on sale of revenue property	(89)	–
Provision for market decline of properties	178	–
Accrual of loss (income) of joint ventures	53	(41)
Other	49	53
CASH FLOW FROM OPERATIONS	$ 2,953	$ 1,319
CASH FLOW PER SHARE	$ 1.05	$ .48

CONSOLIDATED STATEMENT OF SOURCE AND USE OF CASH

FOR THE YEAR ENDED DECEMBER 31, 1981

	1981	1980
	(000's)	
SOURCES OF CASH		
Cash flow from operations	$ 2,953	$ 1,319
Increase in mortgages payable	1,774	8,149
Increase in bank indebtedness	11,894	11,511
Increase in accounts payable	1,313	–
Proceeds from issuance of shares	838	–
Proceeds from sale of revenue property	257	–
Decrease in other assets	247	–
Advances from shareholders	–	838
Increase in deferred revenues	–	113
	19,276	21,930
USES OF CASH		
Increase in revenue producing properties	3,677	9,038
Increase in development properties	14,649	5,879
Increase in fixed assets	34	853
Increase in other assets	–	1,431
Decrease in shareholders' loans	838	–
Investment in an affiliate	–	761
Acquisition of goodwill	–	2,400
Redemption of preferred shares	–	1,000
Dividend on preferred shares	–	150
Premium on the redemption of preferred shares	–	50
Decrease in accounts payable	–	83
	19,198	21,645
INCREASE IN CASH	78	285
CASH AT BEGINNING OF YEAR	359	74
CASH AT END OF YEAR	$ 437	$ 359

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1981

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) 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.

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 uses the deferred method of income tax allocation. Deferred income taxes represent amounts deferred to future years due to the earlier deduction of certain expenses for income tax purposes.

i) Foreign exchange

The Company converts assets and liabilities at the rate of exchange prevailing at the balance sheet date.

2. REVENUE PRODUCING PROPERTIES

	1981	1980
	(000's)	
Buildings	$14,529	$10,915
Leasehold improvements	191	183
Other	431	105
	15,151	11,203
Accumulated depreciation and amortization	868	549
	14,283	10,654
Land	3,820	2,405
Equity in joint ventures	–	1,720
	$18,103	$14,779

3. DEVELOPMENT PROPERTIES

	1981	1980
	(000's)	
Acquisition costs	$ 9,736	$ 5,290
Carrying costs	3,072	1,376
Development and servicing costs	9,136	806
	$21,944	$ 7,472

4. FIXED ASSETS

	1981	1980
Buildings	$ 890	$ 861
Aircraft and equipment	2,561	2,580
Other	312	296
	3,763	3,737
Accumulated depreciation	1,250	1,063
	2,513	2,674
Land	167	167
	$ 2,680	$ 2,841

5. OTHER ASSETS

	1981	1980
Cash	$ 437	$ 359
Accounts receivable	451	443
Agreements receivable	419	877
Due from associates	265	288
Inventories	215	186
Other	353	156
	$ 2,140	$ 2,309

6. MORTGAGES PAYABLE

Due date	Weighted average interest rate	Revenue producing properties	Development properties	Other	Total
			(000's)		
1982	12.10%	$ 1,564	$ 175	$ 174	$ 1,913
1983	12.00%	254	288	204	746
1984	11.90%	639	526	304	1,469
1985	11.60%	7,975	6	277	8,258
1986	11.70%	1,552	6	607	2,165
Subsequent to 1986	9.50%	1,504	96	–	1,600
		$13,488	$ 1,097	$ 1,566	$16,151

Mortgages are secured by specific charges on the properties.

7. BANK INDEBTEDNESS

	1981	1980
	(000's)	
a) Demand loans for the financing of		
(i) Canadian development properties	$ 5,501	$ 2,956
(ii) U.S. development properties	5,091	–
(iii) Revenue producing properties	1,343	–
b) Operating loans	11,955	9,040
	$23,890	$11,996

Interest rates on the loans fluctuate with 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.

8. OTHER LIABILITIES

	1981	1980
	(000's)	
Minority interest	$ 214	$ 192
Aircraft maintenance provision	274	222
Deferred revenues	183	197
	$ 671	$ 611

9. CAPITAL STOCK

Authorized

2,000,000 cumulative, redeemable, voting, 5% series A preferred shares with a par value of $5.00 each

10,000,000 common shares without par value

Issued and fully paid		
2,904,947 common shares	$ 2,905	$ 2,765
Premium on common shares	719	21
	$ 3,624	$ 2,786

During the year 139,647 common shares were issued at $6.00 per share in settlement of loans from shareholders.

10. SEGMENTED INFORMATION

	Revenue producing properties	Develop-ment	Broker-age	Air-line	Other	Total
			(000's)			
a) Revenue	$ 2,091	$ 6,842	$2,486	$3,435	$1,285	$16,139
b) Net revenue	$ 293	$ 3,136	$ 28	$ 243	$ 159	$ 3,859
Administration, depreciation and interest						1,477
Income taxes						1,293
Minority interest						23
Net income for the year						$ 1,066

	Revenue producing properties	Develop-ment	Broker-age	Air-line	Other	Total
c) Identifiable assets						
Operating assets	$18,103	$21,944	$ 789	$1,743	$ 684	$43,263
Other assets and goodwill						4,683
Total assets						$47,946
Capital expenditures	$ 3,677	$14,649	$ –	$ –	$ –	$18,326

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

Included in operating assets are development properties located in the U.S.A. with a carrying value of $6,048,000. All other assets and all revenues are Canadian.

11. 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 1981	Total 1980
	(000's)			
Assets	$ 6,103	$ 5,326	$11,429	$ 3,444
Liabilities	$ 3,704	$ 3,925	$ 7,629	$ 2,879
Revenues	$ –	$ 1,096	$ 1,096	$ 635
Expenses	$ –	$ 1,074	$ 1,074	$ 569

12. CONTINGENT LIABILITIES AND COMMITMENTS

The Company is contingently liable for the obligations of its associates in joint ventures and partnerships in the amount of $5,758,000. The assets of each joint venture and partnership are adequate to satisfy the individual obligations of the joint venture or partnership.

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, 1981 amounts to $647,000.

13. RELATED PARTY TRANSACTIONS

a) An affiliated company was paid $206,000 in real estate commissions on property sales of $3,926,000. The Company received $69,400 from this affiliate representing franchise and management fees.

b) Management fees amounting to $214,000 were received from syndicates in which the Company has an equity interest.

14. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The total remuneration of directors and senior officers for the year, as defined in the Canada Business Corporations Act, was $376,000 (1980 – $330,000).

15. SUBSEQUENT EVENT

In January 1982 a revenue property with a book value of $2,057,000 was sold for $4,000,000.

PROPERTY VALUES AS AT DECEMBER 31, 1981

A continuing appraisal program has been initiated and 60% of all properties have been appraised within the last 14 months.

Where properties have been appraised within the last 14 months the appraised values have been used. The remainder of property valuations are management estimates.

	Revenue Producing Properties	Development Properties	Total
APPRAISED VALUE OR MANAGEMENT ESTIMATE	$31,249,000	$40,043,000	$71,292,000
BOOK VALUE	$18,103,000	$22,320,000	$40,423,000
ADJUSTMENTS:			
Costs to complete development	$ 435,000	$ 300,000	$ 735,000
Development costs to date on land appraised as undeveloped	–	(2,450,000)	(2,450,000)
	$18,538,000	$20,170,000	$38,708,000
APPRAISAL SURPLUS	$12,711,000	$19,873,000	$32,584,000

MAJOR DEVELOPMENTS — 1981

Construction of new warehousing and the acquisition of an existing warehouse added 175,000 sq. ft. to the revenue property portfolio.

An addition to the existing 100-room Kings Motor Inn was completed to provide 42 additional rooms, banquet rooms, restaurant and lounge. The Company owns 42% of this full service hotel.

CONSTRUCTION:

MAYFAIR INDUSTRIAL PARK, COQUITLAM, B.C.

Facility: 65,000 sq. ft. warehouse
Tenant: Consumers Glass
Value: $3,000,000

LAKE CITY INDUSTRIAL PARK, BURNABY, B.C.

Facility: 63,000 sq. ft. warehouse and office
Tenant: Pacific Brewers Distributors Ltd.
Value: $3,200,000

BURNABY, B.C.

Facility: 42-Room addition to the Kings Motor Inn with new restaurant, lounge and banquet facilities
Value: $3,300,000 (42% interest)

The Company acquired 80% interest in Highland Village, a 143-unit townhouse development in the Seattle area. Phase I consists of 54 units and is complete and fully rented. Phase II was substantially complete at year end. It is intended that the strata title townhouse units be offered for sale when the U.S. housing market improves.

ACQUISITIONS:

BURNABY, B.C.

Acquisition of 48,000 sq. ft. warehouse
Value: $2,200,000

COQUITLAM, B.C.

2.5 acre site strategically located at Lougheed Highway and Westwood Street
Purchase Price: $1,500,000

SEATTLE, WASHINGTON STATE

80% interest in 143-Unit Townhouse development
Value: $8,000,000


WEBB & KNAPP
(CANADA)
6
8