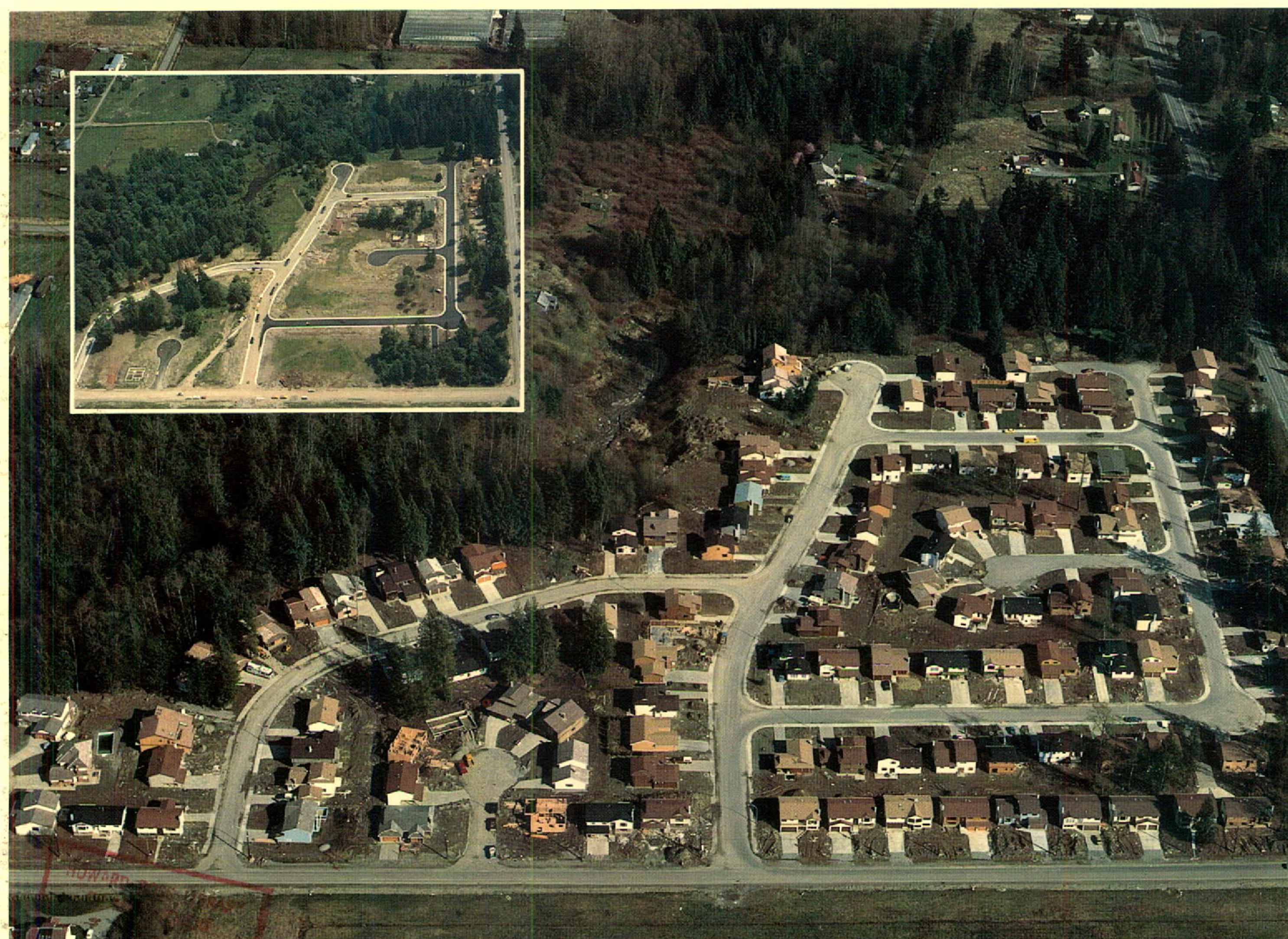
WEBB & KNAPP (CANADA) LIMITED

ANNUAL REPORT 1980



WEBB & KNAPP (CANADA) LIMITED

DIRECTORS

George B. Cross
John A. Kaye
James Tutton
G. Richard Waterfall
Walter J. Webb

OFFICERS

James Tutton, Chairman
Walter J. Webb, President
G. Richard Waterfall, Secretary
John Brigham, Vice President — Operations
Richard S. Russell, Vice President — Hotel Operations
Donald J. H. Williamson, Vice President — Finance and Administration

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company — Vancouver
Toronto, Montreal, Winnipeg and Halifax

AUDITORS

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

STOCK EXCHANGE LISTINGS

Vancouver and Montreal

HEAD OFFICE

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

Front cover:
Walnut Park, Langley

CHAIRMAN'S REPORT

I am pleased to report that total revenue in 1980 rose to $11,955,000 an increase of $8,010,000 over the previous year. Similarly income from operations increased to $598,000 from $365,000. Cash flow per common share rose to $0.48 from $0.27. This trend will continue into 1981 as increased profits are realized on the sale of development property from our land bank. The company is continuing to add raw land inventory to its development portfolio.

We have embarked on an ambitious construction program, which will add some 300,000 square feet to our revenue property portfolio. This will increase our commercial and warehouse rental space by approximately 50%. A major portion of the new construction has been pre-leased and we are experiencing full occupancy at increasing rentals in the existing buildings. We are continuing lease negotiations with a number of new tenants, which should allow us to accelerate this building program beyond the $20,000,000 scheduled for 1981-82.

The hotel division has been strengthened and put under the direction of a vice-president. The Kings Motor Inn is being expanded to a full service facility, and we are moving to the architectural design stage for a major hotel to be located within the waterfront redevelopment in New Westminster.

Wolstencroft Realty Corporation continues to set new production records monthly. Their 160 salespersons and support staff, operating out of five offices, have been a major factor in our growth.

Northern Thunderbird Air Ltd. experienced another successful year of operations and is well positioned to share in the imminent resource developments planned for northern British Columbia.

The company, as a result of the policies instituted by your Board of Directors, is expected to realize very substantial improvements in earnings during the current year. Net asset value has been calculated to exceed $12.00 per share based on independent appraisals and management estimates of current market values. Total assets valued at market value exceed $60,000,000. Continued strong growth in earnings and assets should lead to the establishment of a firm dividend policy before year end.

I wish to express my thanks to the board members, our executive team and fellow employees whose constant efforts are helping create one of Western Canada's most successful companies.

James Tutton
Chairman of the Board

PRESIDENT'S REVIEW

The improvements in corporate performance outlined by the Chairman will be reflected in our operations over the next twelve months. The program that has been undertaken is consistent with the objectives announced in our previous report to shareholders and the results are encouraging.

Several significant developments have been initiated as part of an accelerated development program. Examples include a thirty acre office and industrial park strategically located in Burnaby, British Columbia. Site work has started for a commercial, office and industrial development on eight acres in our Lake City Industrial Park, Burnaby. A major facility is also underway in the new Mayfair Industrial Park, Coquitlam; a building to accommodate the expanding operations of one of our present tenants.

In keeping with our goals, opportunities to acquire sound, well located revenue properties have been examined. During the year the company has purchased existing industrial property in Lake City, and a number of similar acquisitions are under active consideration.

In other areas we are moving to maintain our position in the residential market. The company will be offering serviced lots in several locations throughout the Lower Mainland over the next twelve months. Indications are that a relatively strong demand for residential properties will continue for some time.

The emphasis over the year has been one of consolidation, re-organization, and the development of an effective corporate strategy. Management intends to achieve and maintain a competitive level of earnings that will sustain the rate of asset growth with an appropriate appreciation in net worth.

W.J. Webb
President

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1980.

	Note	1980	1979 (Restated)
		(000's)	
Deficit at beginning of year as previously stated		$1,701	$1,876
Adjustment of prior years' income	13	(231)	(181)
Deficit at beginning of year as restated		1,470	1,695
Net income for the year		170	225
		1,300	1,470
Premium on redemption of preferred shares		50	-
Dividend on preferred shares		150	-
Deficit at end of year		$1,500	$1,470

CONSOLIDATED STATEMENT OF SOURCE AND USE OF CASH

FOR THE YEAR ENDED DECEMBER 31,1980

	1980	1979 (Restated)
	(000's)	
SOURCES OF CASH		
Cash from operations after adjusting for charges and credits not involving an outlay of cash	$1,319	$ 742
Increase in mortgages payable	8,149	-
Increase in bank indebtedness	11,511	-
Advances from shareholders	838	-
Increase in deferred revenues	113	-
Increase in accounts payable	-	115
Proceeds from sale of fixed assets	-	83
Decrease in other assets	-	12
	$21,930	$ 952
USES OF CASH		
Increase in revenue producing properties	$ 9,038	$ 1
Increase in development properties	5,879	109
Increase in fixed assets	853	244
Investment in an affiliate	761	-
Acquisition of goodwill	2,400	-
Redemption of preferred shares	1,000	-
Dividend on preferred shares	150	-
Premium on redemption of preferred shares	50	-
Decrease in bank loans	-	140
Decrease in mortgages payable	-	406
Decrease in accounts payable	83	-
Increase in other assets	1,431	-
Increase in cash	285	52
	$21,930	$ 952
CASH FLOW PER COMMON SHARE	$ .48	$ .27

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1980

INCORPORATED UNDER
THE CANADA BUSINESS CORPORATIONS ACT

	Note	1980 (000's)	1979 (Restated) (000's)
ASSETS			
Revenue producing properties	2	$14,779	$ 5,831
Development properties	3	7,472	1,593
Fixed assets	4	2,841	2,387
Investment in affiliate	5	831	-
Other assets	6	2,309	593
Goodwill		2,350	-
		$30,582	$10,404
LIABILITIES			
Mortgages payable	7	$14,377	$ 6,228
Bank indebtedness	8	11,996	485
Accounts payable		722	805
Shareholders' loans	9	838	-
Other liabilities	10	611	373
Deferred income taxes		752	197
		29,296	8,088
SHAREHOLDERS' EQUITY			
Capital stock	11	2,786	3,786
Deficit		(1,500)	(1,470)
Shareholders' Equity		1,286	2,316
		$30,582	$10,404

APPROVED BY THE DIRECTORS:

James Tutton

JAMES W.F. TUTTON

W.J. Webb

WALTER J. WEBB

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1980.

	Note	1980 (000's)	1979 (Restated) (000's)	Per Share 1980	Per Share 1979 (Restated)
Revenue		$11,955	$ 3,945		
Direct cost and expenses		9,904	3,114		
Net revenue		2,051	831	$ .74	$ .30
OPERATING EXPENSES					
Administrative and general		678	362		
Amortization and depreciation		59	22		
Interest		716	82		
		1,453	466		
INCOME FROM OPERATIONS		598	365	.22	.13
PROVISION FOR INCOME TAXES					
Current		16	9		
Deferred		302	185		
		318	194		
INCOME BEFORE MINORITY INTEREST, NON-RECURRING CHARGES AND EXTRAORDINARY ITEM		280	171		
MINORITY INTEREST		42	33		
INCOME BEFORE NON-RECURRING CHARGES AND EXTRAORDINARY ITEM		238	138	.09	.05
NON-RECURRING CHARGES	12	68	-		.05
INCOME BEFORE EXTRAORDINARY ITEM		170	138	.06	.06
EXTRAORDINARY ITEM		-	87		
NET INCOME FOR THE YEAR		$ 170	$ 225	$ .06	$ .08

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1980

I. 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 subsidiaries.

(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 title passes to purchaser.

(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 equity 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 net realizable value.

A provision for engine maintenance based on expired engine hours is added to the cost of used aircraft at the time of acquisition.

f. Depreciation and amortization

The Company follows the sinking fund method 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. The accumulated allowance is accounted for as a maintenance equilization provision for aircraft. 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, principally depreciation for tax purposes.

2. REVENUE PRODUCING PROPERTIES

	1980	1979 (Restated)
	(000's)	
Buildings	$10,915	$ 5,787
Leasehold improvements	183	-
Other	105	-
	11,203	5,787
Accumulated depreciation and amortization	549	330
	10,654	5,457
Land	2,405	374
Equity in joint ventures	1,720	-
	$14,779	$ 5,831

3. DEVELOPMENT PROPERTIES

	1980	1979 (Restated)
	(000's)	
Acquisition costs	$ 5,290	$ 893
Carrying costs	1,376	700
Development and servicing costs	806	-
	$ 7,472	$ 1,593

4. FIXED ASSETS

	1980	1979 (Restated)
	(000's)	
Buildings	$ 885	$ 223
Aircraft and equipment	2,653	2,996
Other	270	345
	3,808	3,564
Accumulated depreciation	1,134	1,181
	2,674	2,383
Land	167	4
	$ 2,841	$ 2,387

5. INVESTMENT IN AFFILIATE

The investment in Wolstencroft Realty Corporation is recorded on the equity basis.

6. OTHER ASSETS

	1980	1979 (Restated)
	(000's)	
Cash	$ 359	$ 74
Accounts receivable	443	314
Agreements receivable	877	3
Due from associates	288	-
Inventories	186	186
Other	156	16
	$ 2,309	$ 593

7. MORTGAGES PAYABLE

Due Date	Weighted Average Interest Rate	Revenue Producing Properties	Development Properties	Other	Total
		(000's)			
1981	11.75%	$ 840	$ 1,387	$ 157	$ 2,384
1982	11.25%	167	162	223	552
1983	11.75%	1,178	170	140	1,488
1984	14.50%	105	297	204	606
1985	11.50%	7,908	-	113	8,021
Subsequent to 1985	11.75%	913	-	413	1,326
		$11,111	$ 2,016	$ 1,250	$14,377

Mortgages are secured by specific charges on the properties.

8. BANK INDEBTEDNESS

	(000's)
a. Demand loans on development properties with interest at bank prime rate plus 1½%	$ 2,956
b. Operating loans with interest at bank prime rate plus 1%	9,040
	$11,996

The demand loans are secured by a debenture registered on certain development properties.

Operating loans are secured by general assignment of the Company's receivables and fixed and floating debentures on the assets of the Company.

9. SHAREHOLDERS' LOANS

The shareholders' loans are non-interest bearing advances and have no stated terms of repayment.

On March 12, 1981 the directors approved a resolution to be ratified at the annual meeting, which will enable the shareholders who have loans outstanding to convert the loans to common shares of the Company at $6.00 per share, which was the closing bid price on the Vancouver Stock Exchange the previous day.

10. OTHER LIABILITIES

	1980	1979 (Restated)
	(000's)	
Minority interest	$ 192	$ 150
Aircraft maintenance provision	222	137
Deferred revenues	197	86
	$ 611	$ 373

11. CAPITAL STOCK

	1980	1979 (Restated)
	(000's)	
Authorized		
2,000,000 redeemable, 5% series A preferred shares of a par value of $5.00 each		
10,000,000 common shares with a par value of $1.00 each		
Issued and fully paid		
200,000 preferred shares	$ -	$ 1,000
2,765,300 common shares	2,765	2,765
	2,765	3,765
Premium on common shares	21	21
	$ 2,786	$3,786

During the year, the Company paid all cumulative dividends and redeemed 200,000 preferred shares for cash.

12. NON-RECURRING CHARGES

	1980	1979 (Restated)
	(000's)	
Re-organization costs (net of $80,000 income taxes)	$ 81	$ -
Less gain on sale of fixed assets and revenue producing properties (net of $216,000 income taxes)	13	-
	$ 68	-

13. ADJUSTMENT OF PRIOR YEARS' INCOME

	1980	1979 (Restated)
	(000's)	
a. Adjustment of retained earnings for the change in accounting policy (Note 15a)	$ 480	$ 382
b. Reassessment of social services tax on aircraft	(31)	(31)
	449	351
Less applicable income taxes	223	175
	226	176
Minority Interest	5	5
	$ 231	$ 181

14. ACQUISITION AND AMALGAMATIONS

On February 28, 1980 the Company acquired all the issued shares of Wolstencroft Agencies Ltd. The consolidated financial statements include the accounts of Wolstencroft Agencies Ltd. from that date.

On July 1, 1980 the following wholly-owned subsidiaries were amalgamated into Webb & Knapp (Canada) Limited:

a. Wolstencroft Agencies Ltd.

b. Lake City Industrial Corporation Ltd.

c. Brunette Investments Ltd.

d. C.B. Riley Ltd.

15. CHANGES IN ACCOUNTNG POLICIES

a. Depreciation policy

During the year the Company changed its accounting policy with respect to depreciation of revenue producing properties from the straight-line method to the sinking fund method. The effect on prior years' retained earnings is shown in Note 13.

Current year's depreciation charges would have increased by $80,000 and net income for the year would have decreased by $40,000 net of income taxes, had the Company continued to use its former depreciation method.

b. Policy on capitalized interest

The Company now capitalizes interest on its equity in development properties which is financed from general corporate borrowings. Interest of $275,000 was capitalized for the current year with respect to general corporate borrowings on the Company's equity in development properties. Previously, only interest on borrowing specific to such properties was capitalized.

16. JOINT VENTURES

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

	Proportionate Consolidation Proportionate Consolidation Method	Equity Method	Total
	(000's)		
ASSETS			
Revenue properties	$ 3,375	$ 471	$ 3,846
Development properties	69	472	541
LIABILITIES			
Revenue properties	2,879	256	3,135
Development properties	-	264	264
REVENUES			
Revenue properties	635	265	900
Development properties	-	22	22
EXPENSES			
Revenue properties	569	196	765
Development properties	-	25	25

17. SEGMENTED INFORMATION

	Revenue Producing	Develop-ment	Broker-age	Airline	Other	Total
	(000's)					
a. Revenue	$ 1,761	$ 3,038	$3,252	$3,040	$ 864	$11,955
b. Net revenue	445	835	253	325	193	2051
Administration, depreciation and interest						1,453
Income taxes						318
Non-recurring charge and minority interest						110
Net income for the year						$ 170

SEGMENTED INFORMATION (continued)

c. Identifiable assets

	Revenue Producing	Develop-ment	Broker-age	Airline	Other	Total
	(000's)					
Operating assets	$14,779	$ 7,472	$ 831	$ 1,696	$ 1,145	$25,923
Other assets and goodwill						4,659
Total assets						$30,582
Capital expenditures	$ 8,634	$ 6,459	$ 769	$ 132	$ 816	$16,810

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

18. CONTINGENT LIABILITIES AND COMMITMENTS

The Company is contingently liable for the obligations of joint ventures against which the Company would have claims on the joint ventures' related assets.

The Company is contingently liable as guarantor of borrowings by subsidiaries and joint ventures in the amount of $1,733,000.

The Company has commitments to complete the servicing requirements for land developments. This undertaking and certain other commitments have been guaranteed by way of irrevocable letters of credit. The balance outstanding as at December 31,1980 amounts to $923,000.

19. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions between the Company, its directors, officers and other related parties:

During the year an affiliate company in which a director is an officer, was paid $149,000 in real estate commissions on property sales of $2,375,000. The Company received $179,000 fom this affiliate representing franchise and management fees.

20. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The total remuneration of directors and officers for the year as defined in the Canada Business Corporations Act was $330,000 (1979 - $91,000).

21. COMPARATIVE FIGURES

Certain I979 comparative figures have been reclassified to conform with the current year's presentation.

AUDITORS' REPORT

The Shareholders,
Webb & Knapp (Canada) Limited.

We have examined the consolidated balance sheet of Webb & Knapp (Canada) Limited as at December 31, 1980 and the consolidated statements of income, deficit, 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, 1980 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, except for the change in accounting policies as referred to in Note 15 to the financial statements, have been applied on a basis consistent with that of the preceding year.

The comparative figures were reported on by another firm of chartered accountants.

Touche Ross & Co.

Chartered Accountants

New Westminster, B.C.
March 11, 1981

Back cover:

1. Proposed hotel, New Westminster waterfront.
2. New Industrial Building, Coquitlam
3. Lake City Plaza, Burnaby
4. Belmont Centre, Langley
5. Treatment Centre, New Westminster
6. Wolstencroft Centre, Surrey.

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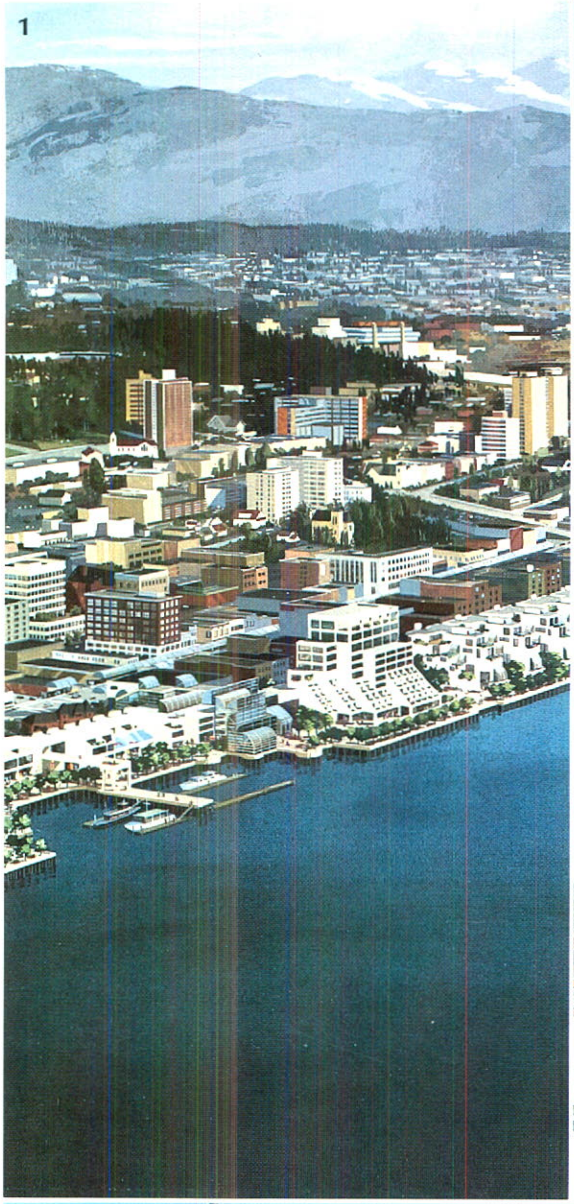

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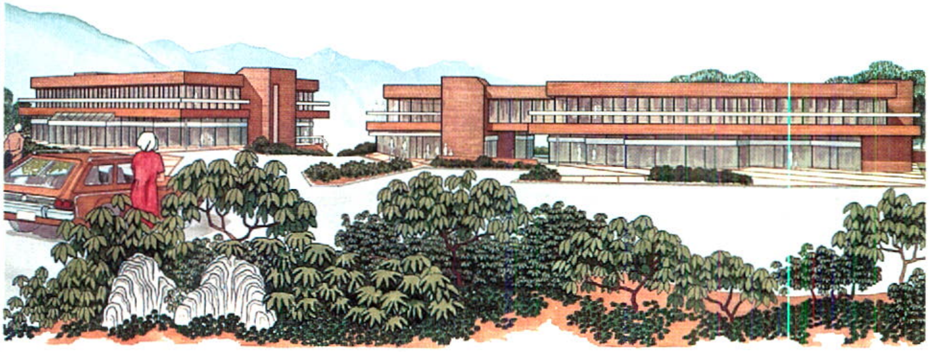

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