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WEBB & KNAPP (CANADA) LIMITED

ANNUAL REPORT 1973


furniture fair


nt air

New Woodward's
Furniture Fair opened
in October, 1973

N. T. Air's "DeHavilland
Twin Otter" at Prince George
Airport

WEBB & KNAPP (CANADA) LIMITED

DIRECTORS

Edward R. Loftus
Charles B. Riley
L. John Westwood

OFFICERS

Edward R. Loftus, President
L. John Westwood, Vice-President
Margaret L. Munro, Secretary
Robert J. Dick, Treasurer

TRANSFER AGENT AND REGISTRAR

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

AUDITORS

Deloitte, Haskins & Sells
Chartered Accountants
Vancouver, B.C.

STOCK EXCHANGE LISTINGS

Vancouver and Montreal

HEAD OFFICE

400 Guinness Tower
1055 West Hastings Street
Vancouver 1, B.C.

REPORT TO SHAREHOLDERS

Your Directors are pleased to present herewith the Consolidated Financial Statements for the year ended December 31, 1973.

During the year your Company utilized the proceeds received from agreements for sale of land sold in previous years to retire debentures in the amount of $482,000.

The total assets of the Company were increased by $1.5 million and in particular revenue-producing assets increased by $2.25 million thereby reflecting the Company's previous decision to discontinue the sale of land and concentrate on the production of income producing properties. This also had the effect of reducing profits for the current year, however, it is anticipated, as the Company pursues this policy, that long-range profits will accrue at a steady rate. Consistent with this policy you will note that operating expenses are down by $80,000 and it is expected that these will remain relatively constant and allow the Company to continue its expansion.

Recent high prices paid for Canadian real estate companies are probably more indicative of the companies' true value than is the "book value" assigned by traditional accounting methods. In the opinion of your management, for example, the market value of your Company's assets exceeds their book value by some $9 million. This figure cannot be reflected in a conventional balance sheet and the large disparity occurs due to the fact that most of this land was acquired in the early fifties.

Your Company is completing negotiations for the development of a 215 room hotel to be operated by Romney International Hotels within the 30 acre Executive Park adjacent to Freeway 401. Romney International Hotels, a wholly-owned subsidiary of Western Financial Corporation of Phoenix, Arizona, own and/or operate over 50 motor hotels in some 19 states. Working drawings are under way with construction to start later this year.

Consistent with your Company's long-term objectives for diversification and for expansion of its real estate development activities in British Columbia, your Company has acquired, subject to Ministry of Transport approval, controlling interest in Northern Thunderbird Air Ltd., of Prince George. Your Company will own two-thirds of the outstanding preferred and common shares with the remaining one-third owned by well-known B.C. airline executive, Jack Stelfox, who will act as general manager of the airline.

N. T. Air currently owns and operates 14 single and twin-engined aircraft. Scheduled services into British Columbia's developing north and interior are offered as well as full charter service on wheels, floats and skis. In addition to the bases at Prince George, Mackenzie and Fort St. James, N. T. Air has significant land holdings. Your Company is currently undertaking studies relative to the excellent development potential of these lands.

Respectfully submitted,

E K Loftus

President

WEBB & KNAPP (CANADA) LIMITED
(Under the Canada Corporations Act)
AND SUBSIDIARY COMPANIES

CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Shareholders of
Webb & Knapp (Canada) Limited:

We have examined the consolidated balance sheet of Webb & Knapp (Canada) Limited and subsidiary companies as at December 31, 1973 and the consolidated statements of income, deficit, and source and use of cash for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to any adjustments which may be required as a result of income tax reassessments as explained in Note 10 to the consolidated financial statements, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and use of their cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year (after giving retroactive effect to the change in the method of providing for depreciation on revenue-producing properties as explained in Note 1 to the consolidated financial statements).

Vancouver, B.C.
April 16, 1974

DELOITTE, HASKINS & SELLS
Chartered Accountants

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1973
(with 1972 figures for comparison)

	1973	1972
ASSETS:		
Cash	$ 15,824	$ 277,548
Deposit on purchase of shares (Note 16)	10,000	—
Accounts receivable and other (Note 2)	32,006	92,337
Receivables on land sales (Notes 1 and 3)	65,878	569,220
Inventory of land (Note 1)	1,215,369	1,198,747
Revenue-producing properties and other fixed assets—at cost less accumulated depreciation and amortization (Notes 1 and 4)	4,075,449	1,685,288
Deferred income tax charges (Note 1)	108,452	144,404
Total assets	$5,522,978	$3,967,544
LIABILITIES:		
Bank loan (Note 5)	$ 110,000	$ —
Accounts payable and accrued charges	97,545	216,875
Estimated income taxes payable (Notes 9 and 10)	464,365	431,103
Agreement payable on inventory of land (Note 6)	21,714	43,365
Long-term debt on revenue-producing properties (Note 7)	3,055,757	818,245
9% redeemable debentures payable	—	482,000
Deferred income (Notes 1 and 8)	80,494	317,034
Total liabilities	3,829,875	2,308,622
SHAREHOLDERS' EQUITY:		
Capital stock (Note 11):		
Preferred	1,000,000	1,000,000
Common	2,765,300	2,765,300
	3,765,300	3,765,300
Premium on issue of common shares	20,600	20,600
	3,785,900	3,785,900
Deficit	(2,092,797)	(2,126,978)
Net shareholders' equity	1,693,103	1,658,922
	$5,522,978	$3,967,544

Approved by the Board:

EDWARD R. LOFTUS, Director

CHARLES B. RILEY, Director

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1973
(with 1972 figures for comparison)

	1973	1972
BALANCE AT BEGINNING OF THE YEAR:		
As previously reported	$2,151,791	$2,591,784
Retroactive change in accounting practice (Note 1)	24,813	15,074
As restated	2,126,978	2,576,710
NET INCOME FOR THE YEAR (Note 1)	34,181	599,732
	2,092,797	1,976,978
DIVIDENDS—paid on preferred shares (Note 11)	—	150,000
BALANCE AT END OF THE YEAR	$2,092,797	$2,126,978

CONSOLIDATED STATEMENT OF SOURCE AND USE OF CASH

FOR THE YEAR ENDED DECEMBER 31, 1973
(with 1972 figures for comparison)

	1973	1972
SOURCE OF CASH:		
Collection of receivables on land sales	$ 503,342	$1,265,479
Short-term bank loans—net	110,000	—
Long-term debt on revenue-producing properties	2,250,000	—
Other—net	25,436	73,304
Total source of cash	2,888,778	1,338,783
USE OF CASH:		
For operations	77,376	20,927
Dividends paid on preferred shares	—	150,000
Additions to inventory of land, including property taxes	62,313	112,429
Additions to revenue-producing properties and other fixed assets	2,494,674	395,890
Repayment of notes and agreements payable on inventory of land	21,651	272,701
Repayment of long-term debt on revenue-producing properties	12,488	10,482
Repayment of 9% redeemable debentures	482,000	128,000
Repayment of short-term bank loans—net	—	65,000
Total use of cash	3,150,502	1,155,429
(DECREASE) INCREASE IN CASH FOR THE YEAR	(261,724)	183,354
CASH AT BEGINNING OF THE YEAR	277,548	94,194
CASH AT END OF THE YEAR	$ 15,824	$ 277,548

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1973
(with 1972 figures for comparison)

	1973	1972
REVENUE:		
Rental income	$ 487,640	$ 363,317
Sales of land (Note 1)	—	28,705
Income realized on prior years' land sales (Note 1)	235,782	788,786
Interest on agreements for sale and other	28,046	87,134
Gain on sale of revenue-producing property and sundry investment	—	301,825
	751,468	1,569,767
COSTS AND EXPENSES:		
Rental operations:		
Depreciation	57,381	38,489
Other	156,391	143,110
Cost of land sold	—	15,140
Operating expenses, salaries, general and administrative expenses	266,322	348,069
Interest on long-term debt	167,979	159,008
	648,073	703,816
INCOME BEFORE THE UNDERNOTED	103,395	865,951
INCOME DEFERRED:		
Being the gross profit on sales of land, related to the unpaid balance of receivables under agreements for sale and mortgages (Note 1)	—	4,932
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	103,395	861,019
PROVISION FOR INCOME TAXES (Notes 9 and 10):		
Current	45,762	240,459
Deferred	35,952	41,928
	81,714	282,387
INCOME BEFORE EXTRAORDINARY ITEM	21,681	578,632
EXTRAORDINARY ITEM:		
Realization of tax saving on application of loss carry-forwards (Note 9)	12,500	21,100
NET INCOME FOR THE YEAR	$ 34,181	$ 599,732
EARNINGS PER COMMON SHARE (Notes 1 and 12):		
Income before extraordinary item	$ —	$ 0.19
Net income for the year	$ —	$ 0.20

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1973

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of Consolidation:

The consolidated financial statements include the accounts of the company and all of its subsidiaries, all of which are wholly-owned.

All acquisitions have been accounted for by the purchase method and all material inter-company balances and transactions have been eliminated.

(b) Land Sales:

Revenues from the sale of land are recorded at the time of closing and the related cost of sale is determined at an average cost per acre (see Note 1(e) regarding deferred income).

(c) Capitalization of Costs:

(i) Land:
Land is recorded at its original cost plus property taxes ($66,756 and $59,812 in property taxes were capitalized in 1973 and 1972 respectively).

(ii) Revenue-producing Properties:
All interim financing charges and the cost of supervisors' salaries incurred up to the date of structural completion of a project are capitalized as part of the cost of buildings ($40,473 and $4,451 were capitalized in 1973 and 1972 respectively).

(d) Depreciation and Amortization:

(i) Revenue-producing Properties:
During the year, a subsidiary changed its method of providing for depreciation of buildings from the declining balance method to the straight line method commencing in the month that occupancy reaches the 50% level at the rate shown in Note 4. Retroactive effect has been given to the change in the accompanying consolidated financial statements as follows:

	Decrease in Provision for Depreciation	Increase in Deferred Income Taxes	Net Effect
Years prior to 1972	$39,992	$24,918	$15,074
1972	25,285	15,546	9,739
	$65,277	$40,464	$24,813

The subsidiary continues to provide for amortization of leasehold improvements under the straight line basis at the rate shown in Note 4.

(ii) Other Fixed Assets:
Depreciation of other fixed assets is provided under the declining balance method and amortization of leasehold improvements is provided under the straight line method at the rates shown in Note 4.

(e) Deferred Income:

(i) Land Sales:
The subsidiaries defer to future years that portion of the gross profit from the sale of land which relates to the unpaid balance of the sale price for each transaction, regardless of the terms of repayment. Consequently, deferred income is being credited to income on the cash received basis.

Commencing in 1974, the subsidiaries intend to change their policy with respect to the recognition of income from land sales. Henceforth, if and when any land is sold, income will be recognized when all material conditions of the sale have been fulfilled or provided for and at least 15% of the sales price has been received in cash. Had this change been made during 1973, there would have been no effect on consolidated net income for the year as there were no land sales during 1973.

(ii) Prepaid Land Lease:
Prepaid rentals are credited to income on a straight line basis over the term of the lease which is in effect until 2059.

(f) Income Taxes:
The companies follow the deferral method of income tax allocation. The deferred income tax charges result from:

	1973	1972
Eliminations on consolidation of taxable incomes of subsidiary companies which arose as a result of transactions with another subsidiary company	$176,400	$200,125
Excess of capital cost allowances claimed for income tax purposes over depreciation and amortization provided in the accounts (Note 1(d))	(67,948)	(55,721)
	$108,452	$144,404

2. ACCOUNTS RECEIVABLE AND OTHER:

	1973	1972
Accounts receivable:		
Trade	$ 21,838	$ 25,539
Officers and directors	9,326	9,822
	31,164	35,361
Accrued interest on receivables under agreements for sale and mortgages	—	51,573
Prepaid expenses	842	5,403
	$ 32,006	$ 92,337

3. RECEIVABLES ON LAND SALES:

	1973			1972
	Maturity Dates	Average Interest Rate	Amount	Amount
Agreements for sale	1976 to 1977	9%	$57,040	$512,230
Mortgages	1983	8%	8,838	56,990
			$65,878	$569,220

The aggregate amount due in one year is $6,130 ($134,556 in 1972). There are provisions in the agreements which allow for repayments prior to the maturity dates.

4. REVENUE-PRODUCING PROPERTIES AND OTHER FIXED ASSETS:

	Depreciation and Amortization Rates	1973	1972
Revenue-producing properties:			
Land	—	$ 334,420	$ 323,669
Buildings (including construction in progress - 1973 - nil; 1972 - $268,305)	2½%	3,717,985	1,332,945
Leasehold improvements	20%	8,130	8,130
		4,060,535	1,664,744
Other fixed assets:			
Railway spur tracks	6%	100,074	51,051
Furniture and fixtures	20%	33,425	32,381
Automobiles	30%	10,330	8,220
Leasehold improvements	20%	10,825	11,253
		154,654	102,905
Total cost		4,215,189	1,767,649
Less accumulated depreciation and amortization (Note 1)		139,740	82,361
		$4,075,449	$1,685,288

5. PLEDGED ASSETS:

(a) A subsidiary company has an established line of credit in the amount of $300,000 (as at December 31, 1973 the outstanding indebtedness under this line of credit was $110,000) for which the company and certain subsidiaries have lodged with the bank security in the form of a general assignment of book debts.

(b) A subsidiary company has lodged with the bank a certificate of title to a revenue-producing property with a carrying value at December 31, 1973 of $403,029 as collateral for the bank's guarantee of payment of income taxes in dispute (see Note 10). That subsidiary has also furnished the bank with a letter of undertaking to raise mortgage funds on the property should the bank be required to honour its guarantee.

6. AGREEMENT PAYABLE ON INVENTORY OF LAND:

	1973	1972
7% agreement payable - repayable at $2,000 per month including interest, with the balance due in December 1974	$ 21,714	$ 43,365

7. LONG-TERM DEBT ON REVENUE-PRODUCING PROPERTIES:

	1973	1972
9% mortgage payable at $2,223 per month including interest, until June 1993	$ 247,916	$ —
9½% mortgage payable at $3,617 per month including interest, until February 1995	399,251	405,136
9½% mortgage payable at $17,240 per month commencing July 1, 1974, including interest, until June 1999. (A further $150,000 is to be received on this mortgage in 1974. The terms of the mortgage will change to payments of $18,513 per month commencing July 1, 1974, including interest, until June 1999)	2,000,000	—
10½% mortgage payable at $3,899 per month including interest, until March 1999	408,590	413,109
	$3,055,757	$ 818,245

Certain subsidiaries have agreed to assign certain leases on certain revenue-producing properties if requested to do so by the mortgagees.

In connection with one of the 9½% mortgages and the 10½% mortgage, a subsidiary is required to pay certain percentages of gross annual income from the respective properties with minimum aggregate payments of $2,120 ($3,652 and $3,880 were payable for 1973 and 1972 respectively).

The aggregate principal payments due in the next five fiscal years under the terms of the mortgages approximate:

1974 -	$27,000
1975 -	40,500
1976 -	44,500
1977 -	49,000
1978 -	53,700

8. DEFERRED INCOME:

	1973	1972
On land sales	$ 15,785	$ 251,567
On prepaid land lease, unamortized portion	64,709	65,467
	$ 80,494	$ 317,034

9. INCOME TAXES:

For financial statement purposes, the provision for income taxes and the elimination of income taxes otherwise payable by application of prior years' losses carried forward for the 1973 and 1972 years have been calculated on the tax filing basis followed by the companies in years prior to 1971, which basis does not give effect to the matters discussed in Note 10. The current liability of $464,365 at December 31, 1973 represents the provisions for estimated current income taxes payable of a subsidiary for the years 1971 to 1973 inclusive. No payments have been made on account of this liability because of the matters discussed in Note 10.

As at December 31, 1973, the aggregate loss carry-forwards of the company and its active subsidiaries, as computed on the tax filing basis discussed above, approximate $556,400 ($526,400 if the Department is successful in the reassessments discussed in Note 10). A portion of these loss carry-forwards is not expected to be utilized for tax purposes. Certain inactive subsidiaries also have loss carry-forwards which are not expected to be utilized for tax purposes. The potential reduction in future income taxes attributable to all loss carry-forwards has not been recorded in the accounts.

10. INCOME TAX REASSESSMENTS:

In 1972, certain active subsidiary companies received notices of reassessment from the Department of National Revenue (the Department) relating to the taxation years 1965 to 1970 inclusive whereby their reported taxable incomes were increased as follows:

Disallowance of a portion of the administrative costs billed by the former managing company in 1968	$100,633
Disallowance of certain portions of reported costs of land sold and related deferred income	269,408
Disallowance of a loss on the sale of improved land	80,714
	$450,755

These adjustments could result in a possible liability for the 1969 and 1971 taxation years of approximately $203,000 (including interest of approximately $37,000) and $25,000 (not including interest) respectively. Management disagrees with the reassessments, and, has, after consultation with its legal and accounting advisors, filed notices of objection for all taxation years in question, together with a bank guarantee for payment of the $203,000. The notices of objection are being reviewed by the Department and, accordingly, no provision has been made in the accounts for these possible liabilities.

These same active subsidiaries have filed revised income tax returns for the taxation years 1967 to 1970 inclusive whereby gains on the sale of land were excluded from the computation of income for tax purposes. These subsidiaries also filed their 1971 and 1972 income tax returns, and intend to file their 1973 income tax returns, on this revised basis. This tax filing basis results in loss carry-forwards of the company and the active subsidiaries aggregating approximately $1,883,400 at December 31, 1973.

In 1973, an inactive subsidiary, which had no assets according to its December 31, 1971 audited financial statements, received notices of reassessment from the Department for the taxation years 1963 to 1969 inclusive whereby its reported taxable incomes were increased by $225,983 because of the disallowance of certain losses on the sale of improved land. Management also disagrees with these reassessments and has filed notices of objection for all taxation years in question. Accordingly, no provision has been made in the accounts for a possible liability of approximately $117,000 (including interest of approximately $11,500) for that company's 1969 taxation year.

(cont'd.)

11. CAPITAL STOCK:

The authorized and outstanding capital stock of the company is as follows:

	1973	1972
Authorized:		
2,000,000 redeemable preferred shares of a par value of $5 each, issuable in one or more series		
10,000,000 common shares of a par value of $1 each		
Issued and fully paid:		
200,000 5% cumulative voting preferred shares, Series "A", redeemable at 105% of the par value	$1,000,000	$1,000,000
2,765,300 common shares	2,765,300	2,765,300
	$3,765,300	$3,765,300

As at December 31, 1973, the arrears of dividends on the outstanding preferred shares amounted to $450,000 (1972 - $400,000).

12. EARNINGS PER COMMON SHARE:

Earnings per common share on income before extraordinary item and on net income for the year have been calculated in accordance with the dividend priorities attached to each class of share. Accordingly, the income figures reported in the accompanying consolidated statement of income have been reduced by $50,000 being the amount of dividends accrued but not declared on the outstanding preferred shares during each of the current and preceding years.

13. LEASE COMMITMENTS:

Commitments under long-term leases require the following approximate minimum annual payments:

(i) Leases on revenue-producing properties:

1974 to 1977	-	$130,000
1978	-	85,000
1979 to 1981	-	25,000
1982 to 1989	-	10,000
1990	-	2,000

(ii) Lease on office premises:

1974	-	16,000
1975	-	9,000

Certain of the lease agreements contain renewal provisions for additional three to five year periods at rentals to be negotiated. One of the leases on revenue-producing properties also provides for the payment of 50% of the annual rentals (as defined) received in excess of $63,510 annually ($5,485 and $2,996 were payable for 1973 and 1972 respectively).

14. REMUNERATION OF DIRECTORS AND OFFICERS:

The total remuneration of directors and officers, as defined in the Canada Corporations Act, for the year was as follows:

(a) The company's three directors received no remuneration as directors of the company or its subsidiary companies.

(b) The company's five officers received no remuneration as officers of the company.

(c) The company's five officers received $91,250 as officers of a subsidiary company.

Three of the company's officers are also directors.

15. OTHER CONTINGENT LIABILITIES:

(a) The company has guaranteed or is contingently liable for the performance of various obligations of another corporation of which the company was formerly a major shareholder. Consequent upon the sale in 1964 of the company's investment in the other corporation, that corporation and certain of its other major shareholders have agreed to indemnify the company against any such liability.

(b) Subsequent to December 31, 1973, the company agreed to guarantee the bank indebtedness of Northern Thunderbird Air Ltd. (see Note 16) up to a maximum of $100,000.

16. SUBSEQUENT EVENT:

Subsequent to December 31, 1973, the company entered into an agreement to acquire, subject to approval of the Air Transport Committee (ATC), 66.67% of the outstanding common and preference shares of Northern Thunderbird Air Ltd. (N.T. Air) for $119,000, of which $10,000 had been put on deposit previously. The balance was deposited on February 18, 1974.

The agreement also provides that the company will acquire the loans of certain shareholders and affiliated companies to N.T. Air aggregating $174,810, payable $143,210 during 1974 and $31,600 during 1975, with interest at rates ranging from 8% to the prime rate charged by a bank designated in the agreement plus 1%.

All payments required under this agreement are being placed in trust pending the approval of the ATC. Should this approval not be obtained by December 15, 1974 or a later date that may be agreed upon, the purchase will not take effect and all monies paid will be returned to the company with interest.

LITHO'D IN CANADA O'BRIEN PRESS