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Webb & Knapp (Canada) Limited

17TH ANNUAL REPORT 1972

WEBB & KNAPP (CANADA) LIMITED

DIRECTORS

Edward R. Loftus
Charles B. Riley
Elmer W. Martin

OFFICERS

Edward R. Loftus, President
Charles B. Riley, Executive Vice President
L. John Westwood, P.Eng., Vice President
Elmer W. Martin, P.Eng., Vice President
Margaret L. Munro, Secretary
Robert J. Dick, C.G.A., Treasurer

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company - Vancouver,
Toronto, Montreal, Winnipeg

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, 1972.

During the year your Company realized a large portion of the amounts receivable from previous land sales, and these funds were used to retire outstanding liabilities.

Your Company has retained its policy of developing its land holdings and retaining them in an income-producing portfolio. With minor exceptions it has not sold any land during the year.

The market for real estate in the Greater Vancouver area remains strong, and your Company is continuing its active construction program of creating additional industrial space for general warehouse use in its prestigious Lake City Industrial Park.

In addition to this, it has commenced construction of a 160,000 square foot sales warehouse to be known as Woodwards Furniture Fair, for Woodwards Stores Ltd., of Vancouver. This facility which will be completed in the late summer of 1973, is located on the Lougheed Highway adjoining Lake City Industrial Park. Through its lease arrangements of this development, your Company anticipates substantial additional revenue.

Your Company has obtained approval of its plan on 30 acres of land adjacent to Freeway 401 to accommodate a hotel and office park complex, to be known as Executive Park. It is anticipated that the construction of the 215 room hotel and a portion of the office park will commence this year, and the development will continue for a projected 5-year period, creating an asset, on completion, in excess of $20 million.

Your Company has significantly reduced its operating expenses, the major portion of which will be reflected during the 1973 year. This policy reflects management's aim of creating an ever-increasing net income stream from a strong portfolio of revenue-producing properties.

Due to the continued success of your Company, the Directors were able to declare a dividend on the outstanding preference shares during 1972. These were the first dividends declared since 1961. Your Directors believe that the current and future strength of the Company will permit further payment of dividend arrears to the preferred shareholders.

The current value of the Company's holdings remain substantially in excess of that shown at cost on the Financial Statements due to the long term holding, and increasing land values.

Respectfully submitted,

E. L. Loftus

President

WEBB & KNAPP (CANADA) LIMITED

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, 1972 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 13 to the consolidated financial statements, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 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.

Deloitte, Haskins & Sells,
Chartered Accountants
Vancouver, British Columbia
March 20, 1973

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1972
(with 1971 figures for comparison)

		1972	1971
ASSETS:	Cash and term deposits (Note 2)	$ 277,548	$ 94,194
	Accounts receivable and other (Note 3)	92,337	106,599
	Receivables on land sales (Note 4)	569,220	1,824,199
	Inventory of land (Note 5)	1,198,747	1,314,206
	Revenue-producing properties and other fixed assets—at cost less accumulated depreciation and amortization (Note 6)	1,620,011	1,261,134
	Deferred income tax charges (Note 7)	184,868	211,250
		$3,942,731	$4,811,582
LIABILITIES:	Bank loans	$ —	$ 65,000
	Accounts payable and accrued charges	216,875	310,706
	Estimated income taxes payable (Notes 12 and 13)	431,103	211,744
	Notes and agreements payable on inventory of land (Note 8)	43,365	316,066
	Long-term debt on revenue-producing properties (Note 9)	818,245	1,002,303
	9% redeemable debentures payable (Notes 10 and 15)	482,000	610,000
	Deferred income (Note 11)	317,034	1,101,647
		2,308,622	3,617,466
SHAREHOLDERS' EQUITY:	Capital stock (Note 14):		
	Preferred shares	1,000,000	1,000,000
	Common shares	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	(2,151,791)	(2,591,784)
		1,634,109	1,194,116
		$3,942,731	$4,811,582

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, 1972
(with 1971 figures for comparison)

	1972	1971
BALANCE AT BEGINNING OF THE YEAR	$2,591,784	$3,051,783
NET INCOME FOR THE YEAR	589,993	459,999
	2,001,791	2,591,784
DIVIDENDS—paid on preferred shares (Note 14)	150,000	—
BALANCE AT END OF THE YEAR	$2,151,791	$2,591,784

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

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1972
(with 1971 figures for comparison)

	1972	1971
REVENUE:		
Sales of land	$ 28,705	$1,661,849
Income realized on prior years' land sales (Note 11)	788,786	232,893
Rental income	363,317	285,967
Interest on agreements for sale and other	87,134	120,165
Amount received from 1966 land expropriation in excess of amounts previously recorded (including interest of $213,284)	—	562,060
Gain on sale of revenue-producing property (Note 17) and sundry investment	301,825	—
	1,569,767	2,862,934
COSTS AND EXPENSES:		
Cost of land sold	15,140	794,834
Rental Operations:		
Depreciation	63,774	52,527
Other	143,110	170,259
Operating expenses, salaries, general and administrative expenses	348,069	359,347
Interest on long-term debt	159,008	169,727
	729,101	1,546,694
	840,666	1,316,240
INCOME DEFERRED:		
Being the gross profit, on sales of land, related to the unpaid balance of receivables under agreements for sale and mortgages (Note 11)	4,932	708,153
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	835,734	608,087
PROVISION FOR INCOME TAXES (Notes 12 and 13):		
Current	240,459	309,038
Deferred	26,382	(63,250)
	266,841	245,788
INCOME BEFORE EXTRAORDINARY ITEM	568,893	362,299
EXTRAORDINARY ITEM:		
Realization of tax saving on application of loss carry-forwards (Note 12)	21,100	97,700
NET INCOME FOR THE YEAR	$ 589,993	$ 459,999
EARNINGS PER COMMON SHARE (Note 16):		
Income before extraordinary item	$ 0.19	$ 0.11
Net income for the year	$ 0.20	$ 0.15

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

CONSOLIDATED STATEMENT OF SOURCE AND USE OF CASH

FOR THE YEAR ENDED DECEMBER 31, 1972
(with 1971 figures for comparison)

	1972	1971
SOURCE OF CASH:		
From operations	$ —	$ 331,262
Collection of receivables on land sales	1,265,479	641,814
Short-term bank loans—net	—	22,000
Other—net	73,304	26,106
Total source of cash	1,338,783	1,021,182
USE OF CASH:		
For operations	20,927	—
Dividends paid on preferred shares	150,000	—
Additions to inventory of land, including property taxes	112,429	155,195
Additions to revenue-producing properties and other fixed assets	395,890	82,105
Repayment of notes and agreements payable on inventory of land	272,701	683,373
Repayment of long-term debt on revenue-producing properties	10,482	10,028
Repayment of 9% redeemable debentures	128,000	49,000
Repayment of short-term bank loans—net	65,000	—
Total use of cash	1,155,429	979,701
INCREASE IN CASH FOR THE YEAR	183,354	41,481
CASH AT BEGINNING OF THE YEAR	94,194	52,713
CASH AT END OF THE YEAR	$ 277,548	$ 94,194

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1972

1. 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 under the purchase method and all material inter-company balances and transactions have been eliminated.

2. CASH:

This amount includes $50,571 ($30,512 in 1971) from receipts on long-term leases and reimbursement for past railway construction costs held in trust for payment on the outstanding 9% redeemable debentures.

3. ACCOUNTS RECEIVABLE AND OTHER:

Accounts receivable:	1972	1971
Trade	$ 25,539	$ 79,189
Officers and directors	9,822	16,820
	35,361	96,009
Accrued interest on receivables under agreements for sale and mortgages	51,573	5,647
Prepaid expenses	5,403	4,943
TOTAL	$ 92,337	$106,599

4. RECEIVABLES ON LAND SALES:

		1972		1971
	Maturity Dates	Average Interest Rate	Amount	Amount
Accounts receivable	—	—	$ —	$ 919,864
Agreements for sale	1973 to 1977	9%	512,230	822,992
Mortgages	1974 to 1983	7¾%	56,990	81,343
TOTAL			$569,220	$1,824,199

The aggregate amount due in one year is $134,556 ($1,201,481 in 1971). There are provisions in the agreements which allow for repayments prior to the maturity dates.

5. INVENTORY OF LAND:

The company and its subsidiaries follow the practice of carrying the inventory of land at its original cost plus property taxes.

During the year, property taxes of $59,812 ($80,137 in 1971) were added to the cost of land.

6. REVENUE-PRODUCING PROPERTIES AND OTHER FIXED ASSETS:

Revenue-producing properties:	Rates	1972	1971
Land		$ 323,669	$ 157,251
Buildings (including construction in progress, 1972 - $268,305; 1971 - $242,384)	5%	1,332,945	1,096,281
Leasehold improvements	20%	8,130	23,554
		1,664,744	1,277,086
Other fixed assets:			
Railway spur track	6%	51,051	51,051
Furniture and fixtures	20%	32,381	32,207
Automobiles	30%	8,220	4,020
Leasehold improvements	20%	11,253	10,924
		102,905	98,202
Total cost		1,767,649	1,375,288
Accumulated depreciation and amortization		147,638	114,154
TOTAL		$1,620,011	$1,261,134

Buildings, railway spur track, furniture and fixtures and automobiles are being depreciated under the declining-balance method, and leasehold improvements are being amortized under the straight-line method, at the rates shown above.

In connection with $119,908 of the construction in progress at December 31, 1972, a subsidiary company arranged a 9½% mortgage of $2,000,000, which was executed on February 21, 1973, to finance this project, with drawings to be made as required. The loan is to be repaid over twenty-five years in monthly instalments of $17,240, including interest.

The building is expected to be completed by August 1973 and will be leased for twenty years from completion at a minimum annual rent of approximately $265,000 with an option to renew for ten years at a rent to be negotiated. The lease will be assigned to the mortgagee.

At December 31, 1972, certain subsidiary companies were contingently liable for open letters of credit aggregating $170,742 in connection with this project, of which $150,742 relates to the cost of certain local improvements and the balance to a commitment fee for the mortgage referred to above. The commitment fee is to be cancelled once the first draw is made on the mortgage. To March 20, 1973, the date of the auditors' report, no drawings had been made.

7. DEFERRED INCOME TAX CHARGES:

	1972	1971
Arising on consolidation from eliminations of certain taxable incomes of subsidiary companies which arose as a result of transactions with another subsidiary company	$200,125	$208,650
Arising as a result of timing differences between accounting income and taxable income of a subsidiary company	(15,257)	2,600
TOTAL	$184,868	$211,250

8. NOTES AND AGREEMENTS PAYABLE ON INVENTORY OF LAND:

	1972	1971
7% agreement payable, repayable at $2,000 per month including interest, with the balance due in December 1974	$ 43,365	$ 63,555
5% notes payable, repayable on demand	—	252,511
TOTAL	$ 43,365	$316,066

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

	1972	1971
9½% mortgage payable at $3,617 per month, including interest, until February 1995	$405,136	$ 410,506
9% mortgage payable at $1,490 per month including interest (see Note 17)	$ —	174,598
10½% mortgage payable at $3,899 per month including interest, until March 1996	413,109	417,199
TOTAL	$818,245	$1,002,303

In connection with the 9½% and 10½% mortgages, a subsidiary is required to pay certain percentages of gross annual income from the respective properties with minimum aggregate payments of $2,120.

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

1973	—	$10,422
1974	—	$11,483
1975	—	$12,653
1976	—	$13,942
1977	—	$15,363

10. 9% REDEEMABLE DEBENTURES PAYABLE:

These debentures are due January 1, 1977. They are not subject to any mandatory sinking fund requirements or other periodic repayment terms and are being redeemed, as and when funds are available.

11. DEFERRED INCOME:

	1972	1971
On agreements for sale and mortgages The policy is to defer to future years that portion of the gross profit from sale of land under agreement for sale and mortgages which relate to the unpaid balance. The "unpaid balance" includes any unpaid amount relating to a sale of land regardless of the terms of repayment. Consequently deferred income from land sales is being credited to income on the cash received basis.	$251,567	$1,035,422
On prepaid land lease, unamortized portion Prepaid rentals are being amortized over the term of the lease which is in effect until 2059.	65,467	66,225
TOTAL	$317,034	$1,101,647

12. INCOME TAXES:

Income taxes otherwise payable on the net income for the 1972 and 1971 years by the company and certain active subsidiaries have been eliminated by the application of prior years' losses carried forward. These eliminations have been reflected as an extraordinary item in the consolidated statement of income.

As at December 31, 1972, the aggregate loss carry-forwards of the company and its active subsidiaries, as computed on the tax filing basis followed by the companies in prior years, which basis does not give effect to the matters discussed in Note 13, approximate $1,775,000. A portion of these loss carry-forwards are 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. (See Note 13 regarding income tax reassessments).

13. INCOME TAX REASSESSMENTS:

During the year, 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
TOTAL	$450,755

These adjustments could result in a possible liability for the 1969 and 1971 taxation years of approximately $193,000 (including interest of approximately $27,000) and $25,000 (not including interest) respectively. Management disagrees with the reassessments, and, has, after consultation with its legal and accounting advisors, in February 1973, filed notice of objection for all taxation years in question, together with a bank guarantee for payment of the $193,000. Accordingly, no provision has been made in the accounts for these possible liabilities.

During the year, these same active subsidiaries 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 income tax returns, and intend to file their 1972 income tax returns, on this revised basis. As at December 31, 1972, the aggregate loss carry-forwards of the company and its active subsidiaries on this tax filing basis approximates $3,516,000.

In February 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 intends to file 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.

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 1972 and 1971 years (see Note 12) have been computed on the basis followed by those companies in prior years, which basis does not give effect to the matters discussed above.

14. CAPITAL STOCK:

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

	1972	1971
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
TOTAL	$3,765,300	$3,765,300

As at December 31, 1972, the arrears of dividends on the outstanding preferred shares amounted to $400,000 (1971—$500,000).

15. PLEDGED ASSETS:

A. Security for the 9% redeemable debentures consists, among other things, of:
   - (i) A mortgage on a major portion of the companies' inventory of land.
   - (ii) The assignment of certain receivables under agreements for sale amounting to approximately $440,000 at December 31, 1972 ($565,000 in 1971).
   - (iii) The assignment of certain rentals under long-term leases amounting to approximately $12,000 annually.
   - (iv) The assignment of certain funds received as reimbursement for railway construction amounting to approximately $25,000 annually.

B. A subsidiary company has an established line of credit in the amount of $300,000 (no indebtedness was outstanding at December 31, 1972) for which the company and certain subsidiaries have lodged with the bank security in the form of a general assignment of book debts.

16. 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.

17. LEASE COMMITMENTS AND RELATED TRANSACTIONS:

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

(i) Leases on revenue-producing properties:

1973 to 1977	—	$130,000
1978	—	$ 85,000
1979 to 1981	—	$ 25,000
1982 to 1989	—	$ 10,000

(ii) Lease on office premises:

1973 to 1975	—	$ 23,292

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 rentals (as defined) received in excess of $63,510 annually.

During the year a subsidiary company sold a revenue-producing building it had constructed on a parcel of land leased under a sale and leaseback agreement. At the same time, a parcel of land leased under a second sale and leaseback agreement was re-acquired. These transactions resulted in a gain of $66,159, computed as follows:

Proceeds of sale:	
Value attributable to land repurchased, being the equivalent to its recorded cost to the subsidiary at the date of the sale and leaseback transaction	$ 74,670
Conveyance of principal balance of 9% mortgage on building	173,576
	248,246
Less net book value of building sold	182,087
TOTAL	$ 66,159

As a result of the foregoing, both leaseback agreements were terminated.

18. OTHER CONTINGENT LIABILITIES:

(i) 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.

(ii) A subsidiary company is contingently liable for long-term receivables which were assigned during 1970 to reduce secured loans. At December 31, 1972, the balance of such receivables approximated $139,290.

19. 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 seven officers received no remuneration as officers of the company.

C. The company's seven officers received $137,400 ($152,875 in 1971) as officers of a subsidiary company.

Three of the company's officers are also directors.

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