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Webb & Knapp (Canada) Limited

16 TH ANNUAL REPORT 1971

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
Elmer W. Martin, Vice-President
Silas B. Anderson, Vice-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, 1971.

Since its incorporation in 1955, your Company has undergone many changes and has had to cope with numerous problems. Due to circumstances which occurred prior to 1965, the Company was required to liquidate most of the projects which were either developed or under development at that time. Owing to the diligent efforts of the management, your Company has managed to retire most of its obligations and is presently in a relatively strong financial position. This position will allow the Company to develop the present remaining assets and future acquisitions to their full potential.

The current Directors and Officers have had a long history of association with the real estate development industry, both with your Company in the past, and also with previously associated companies. The present staff has operated the western assets of the Company through a management agreement with Western Pacific Projects Ltd., since 1965. Upon acquisition of the control of the Company by the principals of Western Pacific Projects Ltd., the Management Agreement was cancelled, effective June 24, 1971. Consequently, all profits will now accrue to the benefit of the shareholders, as explained in the information circular.

During the past six months, the Company has made several important changes in corporate policy, the most significant being that wherever possible the remaining and future assets are to be developed and retained in a revenue-producing portfolio to increase the recurring annual income of the Company in an effort to ultimately provide for payment of dividends. Your Company is also anticipating additional income through the development and management of properties for others, thereby fully utilizing the talent potential of its staff.

The Company's major asset, the prestigious Lake City Industrial Park, has enjoyed a very successful development to date and currently has a total assessed value of land and buildings approaching 29 million dollars and generates an annual real property tax income to the Corporation of the District of Burnaby of approximately $1,200,000, without any investment by the Municipal Government. It is anticipated that the optimum development of the remaining 70 acres of industrial land will generate a substantial annual increase in income to the Company. In addition to Lake City, your Company owns other strategically located parcels of land on which major developments are currently in the very active planning stages.

The general buoyancy of the real estate market in the Greater Vancouver area in these specific fields indicates continuing growing profits for your Company.

As will be noted from this report, your Company has changed the format of its Statements and also certain accounting procedures in order to conform more closely to those used by most real estate companies.

Needless to say, the current value of the Company's holdings is substantially in excess of the historical costs as shown in the audited financial statements.

The Board would like to take the opportunity at this time to express their gratitude to Messrs. J. A. Soden, W. Hay and L. Phillips for their past efforts as Directors and Officers.

Respectfully submitted,

E. K. Lofters

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, 1971 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 possible 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, 1971 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, after giving retroactive effect to the changes as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Deloitte, Haskins & Sells,
Chartered Accountants
Vancouver, B.C.
May 5, 1972

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1971
(with 1970 figures for comparison)

		1971	1970
ASSETS:	Cash (Note 3)	$ 94,194	$ 52,713
	Accounts receivable and other (Note 4)	106,599	260,350
	Receivables on land sales (Note 5)	1,824,199	1,540,467
	Inventory of land—at cost (Note 2)	1,314,206	1,898,934
	Revenue-producing properties and other fixed assets—at cost less accumulated depreciation and amortization (Note 6)	1,261,134	778,191
	Deferred income tax charges (Note 7)	211,250	148,000
		$4,811,582	$4,678,655
LIABILITIES:	Bank loans (Note 15)	$ 65,000	$ 43,000
	Accounts payable and accrued charges	310,706	924,944
	Estimated income taxes payable (Notes 12 and 13)	211,744	7,000
	Notes and agreements payable on inventory of land (Notes 8 and 15)	316,066	999,439
	Long-term debt on revenue-producing properties (Note 9)	1,002,303	592,331
	9% redeemable debentures payable (Notes 10 and 15)	610,000	659,000
	Deferred income (Note 11)	1,101,647	718,824
		3,617,466	3,944,538
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	2,591,784	3,051,783
		1,194,116	734,117
		$4,811,582	$4,678,655

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, 1971
(with 1970 figures for comparison)

	1971	1970
BALANCE AT BEGINNING OF THE YEAR:		
As previously reported	$2,805,071	$3,177,960
Retroactive changes in accounting practice (Note 2)	246,712	422,581
As restated	3,051,783	3,600,541
NET INCOME FOR THE YEAR (Note 2)	459,999	548,758
BALANCE AT END OF THE YEAR	$2,591,784	$3,051,783

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

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1971
(with 1970 figures for comparison)

	1971	1970
REVENUE:		
Sales of land	$1,661,849	$ 309,913
Income realized on prior years' land sales (Note 11)	232,893	762,625
Amount received from 1966 land expropriation in excess of amounts previously recorded (including interest of $213,284)	562,060	—
Rental income	285,967	280,963
Interest on agreements for sale and other	120,165	146,018
	2,862,934	1,499,519
COSTS AND EXPENSES:		
Cost of land sold	794,834	39,349
Rental operations:		
Depreciation	52,527	29,774
Other	170,259	203,562
Operating expenses, salaries, general and administrative expenses	359,347	349,812
Interest on long-term debt	169,727	205,130
	1,546,694	827,627
	1,316,240	671,892
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)	708,153	89,234
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	608,087	582,658
PROVISION FOR INCOME TAXES (Notes 12 and 13):		
Current	309,038	246,650
Deferred	(63,250)	26,900
	245,788	273,550
INCOME BEFORE EXTRAORDINARY ITEM	362,299	309,108
EXTRAORDINARY ITEM:		
Realization of tax saving on application of loss carry-forwards (Note 12)	97,700	239,650
NET INCOME FOR THE YEAR (Note 2)	$ 459,999	$ 548,758
EARNINGS PER COMMON SHARE (Note 16):		
Income before extraordinary item	$ .11	$ .09
Net income for the year	$ .15	$ .18

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, 1971 (Note 20)

SOURCE OF CASH:		
From operations		$ 331,262
Collections on receivables under agreements for sale and mortgages		641,814
Short-term bank loans—net of repayments of $392,000		22,000
Other—net		26,106
Total source of cash		1,021,182
USE OF CASH:		
Additions to inventory of land including property taxes	$155,195	
Additions to revenue-producing properties and other fixed assets (net of proceeds from mortgage of $420,000)	82,105	
Repayment of notes and agreements payable on inventory of land	683,373	
Repayment of long-term debt on revenue-producing properties	10,028	
Repayment of 9% redeemable debentures	49,000	
Total use of cash		979,701
INCREASE IN CASH FOR THE YEAR		41,481
CASH AT BEGINNING OF THE YEAR		52,713
CASH AT END OF THE YEAR		$ 94,194

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1971

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 material inter-company transactions have been eliminated.

2. CHANGES IN ACCOUNTING PRACTICE AND RESTATEMENT OF PRIOR YEARS' FIGURES:

(a) The inventory of land is carried at cost which includes property taxes ($80,137 in property taxes were capitalized during the year). Previous to the current year, this inventory was carried at appraised values determined on April 30, 1969 with subsequent additions at cost excluding property taxes. This change in practice also affects the determination of deferred income tax charges, deferred income, cost of real estate sold, certain administrative expenses and the provision for income taxes.

(b) In prior years, for consolidation purposes only, the deferred income of certain subsidiary companies relating to the unpaid balance of an expropriation offer and to a prepaid land lease were included in income as being realized. During the current year, this realization was reversed so as to conform with those subsidiaries' accounting practice (See Note 11).

(c) An amount payable by certain subsidiaries to the former managing company of certain other subsidiaries with assets in Western Canada has been reversed against the deficit on the basis that this indebtedness will not be paid. In the records of the former managing company, the corresponding receivables from the subsidiary companies were written off in 1968.

The 1970 comparative figures have been restated to give retroactive effect to the foregoing changes as follows:

Net reduction in the inventory of land		$481,973
Net increase in deferred income		26,439
		508,412
Less: Decrease in accounts payable and accrued charges	$116,300	
Increase in deferred income tax charges	145,400	261,700
Increase in deficit as at December 31, 1970		246,712
Increase in net income for the year ended December 31, 1970 consisting of:		
Increase (decrease) in revenues:		
Income realized on prior years' sales of land	$113,116	
Income deferred on current year's sales of land	(13,105)	
	100,011	
Decrease (increase) in costs and expenses:		
Cost of land sold	83,398	
Administrative expenses	21,960	
Provision for income taxes	(29,500)	175,869
Increase in deficit as at December 31, 1969		$422,581

3. CASH:

This amount includes $30,512 ($5,723 in 1970) from receipts on long-term leases and reimbursement for past railway construction costs held in trust for payment on the outstanding 9% redeemable debentures.

4. ACCOUNTS RECEIVABLE AND OTHER:

	1971	1970
Accounts receivable:		
Trade	$ 79,189	$101,830
Officers and directors	16,820	5,293
	96,009	107,123
Accrued interest on receivables under agreements for sale and mortgages	5,647	146,205
Prepaid expenses	4,943	7,022
	$106,599	$260,350

5. RECEIVABLES ON LAND SALES:

	1971			1970
	Maturity Dates	Average Interest Rate	Amount	Amount
Accounts receivable	1972	—	$ 919,864	$ 201,471
Agreements for sale	1972 to 1995	9%	822,992	1,243,756
Mortgages	1974 to 1979	8¾%	81,343	95,240
			$1,824,199	$1,540,467

The aggregate amount due in one year is $1,201,481 ($704,763 in 1970). There are provisions in the agreements which allow for repayments prior to the maturity dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd.)

6. REVENUE-PRODUCING PROPERTIES AND OTHER FIXED ASSETS:

	Rates	1971	1970
Revenue Producing Properties:			
Land		$ 157,251	$ 97,724
Buildings (including construction in progress, 1971 - $242,384; 1970 - $130,247)	5%	1,096,281	667,906
Leasehold improvements	20% to 33⅓%	23,554	16,535
		1,277,086	782,165
Other Fixed Assets:			
Railway spur track	6%	51,051	51,051
Furniture and fixtures	20%	32,207	9,817
Automobile	30%	4,020	—
Leasehold improvements	20%	10,924	—
		98,202	60,868
Total cost		1,375,288	843,033
Accumulated depreciation and amortization		114,154	64,842
		$1,261,134	$778,191

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

7. DEFERRED INCOME TAX CHARGES:

	1971	1970
Arising on consolidation from eliminations of certain taxable incomes of subsidiary companies which arose as a result of transactions with another subsidiary company	$208,650	$145,400
Arising as a result of timing differences between accounting income and taxable income of a subsidiary company	2,600	2,600
	$211,250	$148,000

8. NOTES AND AGREEMENTS PAYABLE ON INVENTORY OF LAND:

	1971	1970
7% agreement to purchase repayable at $2,000 per month, including interest, with balance due in December, 1974	$ 63,555	$ 82,385
5% notes payable to shareholders, repayable on demand (repaid in 1972)	252,511	632,634
9% mortgage on agreement for sale, repayable at varying annual amounts up to $100,000 plus interest, until December, 1972	—	284,420
	$316,066	$999,439

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

	1971	1970
9½% mortgage payable at $3,617 per month, including interest, until February, 1995	$ 410,506	$415,397
9% mortgage payable at $1,490 per month, including interest, until January, 1995	174,598	176,934
10½% mortgage payable at $3,899 per month, including interest, until March, 1996	417,199	—
	$1,002,303	$592,331

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:

1972	—	$12,357
1973	—	13,071
1974	—	14,706
1975	—	16,175
1976	—	17,790

10. 9% REDEEMABLE DEBENTURES PAYABLE:

These debentures are due January 1, 1977. As a result of a management agreement entered into by the company and its subsidiaries in 1965 (this agreement was cancelled during the year) the mandatory sinking fund payments were eliminated. These debentures are now being redeemed if, as and when funds are available for such purpose.

11. DEFERRED INCOME:

	1971	1970
On agreements for sale and mortgages	$1,035,422	$599,985
The policy is to defer to future years that portion of the gross profit from sale of land under agreements 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.		
On expropriated land	—	51,857
This amount represents the gross profit related to the unpaid balance of an expropriation offer.		
On prepaid land lease, unamortized portion	$ 66,225	$ 66,982
Prepaid rentals are being amortized over the term of the lease which is in effect until 2059.		
	$1,101,647	$718,824

12. INCOME TAXES:

Income taxes otherwise payable on the net income for the year of certain subsidiaries have been eliminated by the application of prior years' losses carried forward. This elimination has been reflected as an extraordinary item in the consolidated statement of income.

The company and its active subsidiaries have loss carry-forwards on a tax filing basis aggregating $1,921,200 to be applied against future taxable income. 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.

Reference is made to Note 13 regarding proposed income tax reassessments.

13. PROPOSED INCOME TAX REASSESSMENTS:

The Department of National Revenue has informed certain subsidiaries that it proposes, on reassessment, to increase their reported taxable income for the taxation years ended December 31, 1967 to 1970 inclusive by an aggregate of $699,400 as follows:

Disallow a portion of the administrative costs billed by the former managing company in 1968	$106,400
Disallow certain portions of reported costs of land sold and related deferred income	280,300
Disallow the losses on certain sales of improved land	312,700
	$699,400

Management, after consultation with its legal and accounting advisors, disagrees with the Department's proposals and accordingly, no provision has been made in the accounts for the income tax liability which may result from such proposals.

As a consequence to the Department's proposal to disallow the losses on certain sales of improved land, these subsidiaries, subsequent to December 31, 1971, filed revised income tax returns for the taxation years ended December 31, 1967 to 1970 inclusive whereby gains on the sale of land were excluded from the computation of income for tax purposes. This has resulted in an increase in the loss carry-forward position of those companies on a tax filing basis at December 31, 1970 of an aggregate of $1,687,000.

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 current year, and the loss carry-forwards of the company and its active subsidiaries at December 31, 1971 (see Note 12), have been computed on the basis followed by those companies in prior years.

14. CAPITAL STOCK:

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

Authorized:	1971	1970
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, 1971 the arrears of dividends on the outstanding preferred shares amounted to $500,000.

15. PLEDGED ASSETS:

(a) Security for the 9% redeemable debentures and 5% notes payable consists, among other things, of:

(i) the pledge of shares and debentures in certain subsidiary companies.

(ii) a mortgage on a major portion of the companies' inventory of land.

(iii) the assignment of certain receivables under agreement for sale.

(iv) the assignment of certain rentals under long-term leases amounting to approximately $11,000 annually.

(v) the assignment of certain funds received as reimbursement for railway construction amounting to approximately $10,000 annually.

(b) The bank indebtedness is secured by a general assignment of book debts of certain subsidiaries.

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 the cumulative dividends not declared on the outstanding preferred shares during each of the current and preceding years.

17. LEASE COMMITMENTS:

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

(i) Land Leases Arising From Leaseback Transactions:
1972 to 2029 (with a review of payments in 1993 and 2008) — $13,324

(ii) Leases On Revenue-Producing Properties:
1972 to 1973 — $128,160
1974 to 1977 — 105,000
1978 — 60,000

(iii) Lease On Office Premises:
1972 to 1975 — $23,292

In respect of one land lease agreement there are provisions whereby the lease may be cancelled or extended or the lessor may require a subsidiary to re-purchase the land.

The remaining land lease agreement requires a subsidiary to pay an additional amount equal to 3½% of gross rentals received.

In respect of a lease on revenue-producing property, a subsidiary is to share equally, after deducting costs of tenant improvements, the rentals received in excess of $63,510 annually.

Subsequent to December 31, 1971, a subsidiary entered into an agreement to acquire an existing lease on a building which will require annual payments of $24,443 to 1981.

(b) Another subsidiary is presently committed to lease certain premises in 1980 for a term of ten years at an annual rental of $9,920. The agreement provides that the subsidiary may sublet the premises and retain any rentals received in excess of the required rental payments.

18. CONTINGENT LIABILITIES:

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.

A subsidiary company is contingently liable for long-term receivables which were assigned during 1970 to reduce secured loans. At December 31, 1971, the balance of such receivables approximated $372,000.

19. REMUNERATION OF DIRECTORS AND OFFICERS:

The 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 $152,875 as officers of a subsidiary company.

Three of the company's officers are also directors.

20. COMPARATIVE FIGURES:

The figures for the year ended December 31, 1970 are presented for the purpose of comparison. These figures were covered by the report of other chartered accountants except that certain significant restatements of the previously reported figures were required to conform to the changes in accounting practice and the retroactive application of such changes as explained in Note 2. In addition, certain significant restatements of the previously reported figures were made to conform with the classifications used in the current year. The 1970 comparative figures are not covered by the accompanying opinion of Deloitte, Haskins & Sells.

In respect of the accompanying consolidated statement of source and use of cash, it was not practicable to provide comparative figures because of the matters explained in the preceding paragraph.

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