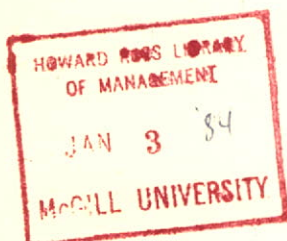


# Daon Development Corporation

## 1982 FINANCIAL STATEMENTS





**CONSOLIDATED STATEMENT OF OPERATIONS**

for the year ended October 31, 1982

	Note Reference	1982 (in thousands of dollars)	1981 (in thousands of dollars)
<b>REVENUE</b>			
Real estate sales .....		\$661,895	\$573,167
Rental .....		102,034	78,995
Other .....	18	56,904	43,964
Total revenue .....		<u>820,833</u>	<u>696,126</u>
<b>EXPENSES</b>			
Cost of real estate sales .....		714,662	491,517
Rental operating costs .....		54,341	41,864
Interest .....	19	140,988	111,984
General and administrative .....		13,599	21,314
Depreciation and amortization .....		7,399	6,360
Other .....		19,300	4,070
Total expenses .....		<u>950,289</u>	<u>677,109</u>
<b>INCOME (LOSS) BEFORE RECOVERY OF (PROVISION FOR) INCOME TAXES .....</b>			
		(129,456)	19,017
Recovery of (provision for) income taxes .....		43,997	(1,793)
<b>NET INCOME (LOSS) .....</b>		<u>\$ (85,459)</u>	<u>\$ 17,224</u>
<b>EARNINGS (LOSS) PER COMMON SHARE .....</b>		<u>\$ (2.49)</u>	<u>\$ 0.38</u>

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**

for the year ended October 31, 1982

	1982 (in thousands of dollars)	1981 (in thousands of dollars)
RETAINED EARNINGS, BEGINNING OF YEAR .....	\$130,472	\$123,002
Net income (loss) .....	<u>(85,459)</u>	<u>17,224</u>
	45,013	140,226
Dividends		
Common Shares .....	4,270	5,506
Preference Shares .....	2,422	3,353
75¢ Class A Shares .....	360	478
Share issue expenses .....	—	417
	<u>7,052</u>	<u>9,754</u>
<b>RETAINED EARNINGS, END OF YEAR .....</b>	<u>\$ 37,961</u>	<u>\$130,472</u>

**CONSOLIDATED BALANCE SHEET**

October 31, 1982

	Note Reference	1982 (in thousands of dollars)	1981 (in thousands of dollars)
<b>ASSETS</b>			
Properties:			
Commercial .....	3	\$ 596,335	\$ 650,399
Residential .....	4	295,260	458,257
Land .....	5	785,790	715,309
Cash and term deposits .....	6	112,555	96,483
Amounts receivable .....	7	360,941	393,395
Investments .....	8	4,149	18,424
Other assets .....	9	31,913	38,307
		<u>\$2,186,943</u>	<u>\$2,370,574</u>
<b>LIABILITIES</b>			
Debt on properties: .....	10		
Commercial .....		\$ 507,076	\$ 513,780
Residential .....		196,150	316,180
Land .....		572,670	554,611
Debentures payable .....	11	199,742	197,933
Other secured liabilities .....	12	227,032	230,366
Bank indebtedness .....		227,488	117,554
Accounts payable and accruals .....	13	104,937	155,749
Deferred income taxes .....	14	80,298	122,298
		<u>2,115,393</u>	<u>2,208,471</u>
CONTINGENT LIABILITIES AND COMMITMENTS ....	2,17		
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock .....	15	46,473	44,173
Retained earnings .....		37,961	130,472
		84,434	174,645
Shares held by subsidiary .....	16	12,884	12,542
		71,550	162,103
		<u>\$2,186,943</u>	<u>\$2,370,574</u>

Approved by the Directors:



G.R. Dawson, Director



J.W. Poole, Director



**CONSOLIDATED STATEMENT OF CASH FLOW (DEFICIT) FROM OPERATIONS**

for the year ended October 31, 1982

	1982 (in thousands of dollars)	1981
Net income (loss) .....	\$ (85,459)	\$ 17,224
Items not requiring a current outlay of cash:		
Deferred income taxes .....	(42,000)	(200)
Depreciation and amortization .....	7,399	6,360
Other .....	(406)	(309)
CASH FLOW (DEFICIT) FROM OPERATIONS .....	<u>\$(120,466)</u>	<u>\$ 23,075</u>
CASH FLOW (DEFICIT) PER COMMON SHARE .....	<u>\$ (3.46)</u>	<u>\$ 0.54</u>

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

for the year ended October 31, 1982

	1982 (in thousands of dollars)	1981
<b>OPERATIONAL ACTIVITIES</b>		
Cash flow (deficit) from operations .....	<u>\$(120,466)</u>	<u>\$ 23,075</u>
Cash recovered through sales of properties:		
recovery of real estate costs .....	714,662	491,517
less debt discharged on properties sold .....	<u>438,488</u>	<u>357,832</u>
	276,174	133,685
Gross cash flow from operations .....	<u>155,708</u>	<u>156,760</u>
Cash applied to properties:		
Commercial .....	235,807	475,833
Residential .....	144,117	226,638
Land .....	<u>192,365</u>	<u>417,615</u>
	572,289	1,120,086
less net proceeds from property debt .....	<u>329,813</u>	<u>812,790</u>
	242,476	307,296
NET CASH APPLIED TO OPERATIONAL ACTIVITIES .....	<u>(86,768)</u>	<u>(150,536)</u>
<b>OTHER ACTIVITIES</b>		
Net decrease in investments .....	14,275	5,288
Net decrease (increase) in other assets .....	2,729	(15,043)
Cash dividends paid .....	<u>(4,028)</u>	<u>(8,740)</u>
NET CASH PROVIDED FROM (APPLIED TO) OTHER ACTIVITIES ....	<u>12,976</u>	<u>(18,495)</u>
<b>CORPORATE FINANCING ACTIVITIES</b>		
Net proceeds from share issues .....	—	27
less — shares purchased by subsidiary .....	—	3,539
— shares purchased and redeemed .....	546	1,270
— share issue expenses .....	<u>—</u>	<u>417</u>
	(546)	(5,199)
Net decrease (increase) in amounts receivable .....	32,454	(146,747)
Net increase in debentures payable .....	2,168	40,915
Net (decrease) increase from other secured liabilities .....	(3,334)	63,417
Net increase in bank indebtedness .....	109,934	117,554
Net (decrease) increase in accounts payable and accruals .....	<u>(50,812)</u>	<u>15,471</u>
	90,410	90,610
NET CASH PROVIDED FROM CORPORATE FINANCING .....	<u>89,864</u>	<u>85,411</u>
INCREASE (DECREASE) IN CASH AND TERM DEPOSITS .....	<u>\$ 16,072</u>	<u>\$ (83,620)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1982

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. General

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. Consolidation

The consolidated financial statements of the Company include:

- (i) the accounts of Daon Development Corporation and its subsidiaries.
- (ii) the accounts of those incorporated and unincorporated joint ventures and partnerships, to the extent of the Company's interest in their respective assets, liabilities, revenues and expenses.

#### C. Income recognition

The Company recognizes income as follows:

- (i) Sales of land and income producing properties  
When the Company has fulfilled all material conditions and has received a down payment that is appropriate in the circumstances having regard to the financial resources of the purchaser.
- (ii) Sales of residential properties  
When the sale has been completed and the purchaser is entitled to occupancy.
- (iii) Rental  
Rental income from each income producing property is recognized in the consolidated statement of operations when breakeven cash flow after debt service is achieved. Prior to achieving this level of cash flow the Company capitalizes rental losses as a part of the normal development cost of an income property, subject to not capitalizing costs beyond fair market value of the property and subject to a reasonable maximum lease-up period.

#### D. Properties

- (i) Income producing properties are carried at cost less accumulated depreciation. Depreciation on buildings is provided on the sinking fund basis over a 50-year life for office buildings and shopping centres and a 40-year life for residential and industrial buildings. The sinking fund method provides for a depreciation charge of a fixed annual amount increasing at the rate of 5% per annum, which will result in the cost of the properties being fully depreciated over their estimated useful lives.
- (ii) Properties under development for retention as income producing properties are carried at cost. Each property under development for sale is carried at the lower of its cost and net realizable value.
- (iii) Each property held for future development is carried at the lower of its cost and net realizable value.
- (iv) The Company capitalizes all direct costs relating to properties under development and properties held for future development. In addition, certain indirect costs including specific interest, property taxes and interest on the portion of total costs financed by general corporate borrowings are capitalized. Where overhead costs, including salaries, can be clearly identified with the development of a property, the Company allocates these costs to that property.

#### E. Investments

Each investment is carried at cost. Sales transactions are recorded on settlement dates.



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F. Depreciation and amortization of other assets

Equipment is depreciated using either the diminishing balance or straight-line method over the estimated useful lives of the assets concerned. Debenture financing costs are amortized over the term of the financing after giving effect to any sinking fund and purchase fund requirements.

G. Foreign exchange

Asset and liability accounts in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at the balance sheet dates. Revenue and expenses are translated at weighted average rates prevailing during the year. Gains or losses from exchange translations, other than on the Company's investments in foreign operations, are included in the consolidated statement of operations. The gains and losses from exchange translations on the Company's investment in foreign operations are deferred until repayment is imminent, at which time they would be included in the consolidated statement of operations.

## **2. LOAN MODIFICATION REQUIREMENTS**

At October 31, 1982, the Company had defaulted in payment of a majority of its debt including interest and principal payments on its Debentures. As a result of the default on its Debentures, Series C to K, National Trust Company, Limited, as Trustee for the holders of the Debentures, has declared the entire amount of principal and interest on the Debentures to be due and payable and has demanded payment of such amount. This demand has not been met by the Company, however, the Trustee has not been directed to, nor has the Trustee taken action to enforce its security. Since July, 1982 the Company has been meeting with the secured and unsecured lenders holding a majority of its debt to develop a debt restructuring plan (Plan). If the Plan or an alternative debt restructuring plan is not approved or the majority of secured lenders do not agree to their respective loan modification agreements, the Company will likely not have the cash resources to pay principal and interest on its outstanding indebtedness. The Company's continued existence as a going concern is dependent upon the ratification of a debt restructuring plan and the settlement of individual loan modification agreements with secured lenders.

On November 23, 1982, the principal terms of the Plan were circulated to the lenders holding the majority of the Company's debt not secured by specific property. The Plan has not yet been finalized. The Plan will become effective if and when approved by all parties thereto (including holders of the Company's Debentures) and ratified by the shareholders of the Company.

As presently proposed, the major implications and effects of the Plan upon the Company are to extend the dates of principal repayments of certain debts and to limit the amount of interest to be paid on these debts through 1986. In addition, the Plan restricts the Company from entering into new financial obligations, acquiring new properties, or making certain disbursements without prior approval from the lenders and prohibits the payment of dividends or redemption of shares.

The Company anticipates dealing with debts secured by specific property by separate agreements with the lender on each property. The Company anticipates that the majority of the secured debt will be serviced only by the specific property securing each debt. Any interest or principal on the debt remaining unpaid once the property has been disposed of, will be dealt with under the Plan.

The accompanying consolidated financial statements have been prepared on a basis of accounting principles applicable to a going concern which contemplate that the assets will be operated or disposed of in the normal course of business over a number of years. If the Company is forced to liquidate its real estate and other assets in other than the normal course of business, it may incur significant additional losses or may be required to make write-downs in the carrying amount of such assets in addition to those write-downs already recorded. The ultimate realization of these assets is dependent upon the success of future operations. Management is pursuing courses of action, including arrangements with its creditors which, if consummated, may result in recovery of amounts previously written down.

Upon ratification of a debt restructuring plan, the consolidated financial statements of the Company may be amended to reflect the reduction in the amount of interest expense for the period ending October 31, 1982.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

October 31, 1982

**3. COMMERCIAL**

	1982	1981
	(in thousands of dollars)	
Income producing properties.....	\$404,700	\$385,066
Accumulated depreciation.....	2,975	2,170
	401,725	382,896
Properties under development.....	143,191	148,089
Properties held for future development .....	51,419	119,414
	<u>\$596,335</u>	<u>\$650,399</u>

The Company's commercial properties consist of office buildings, shopping centres and industrial buildings, which are completed or under construction, and sites held for future development.

**4. RESIDENTIAL**

	1982	1981
	(in thousands of dollars)	
Income producing properties.....	\$191,702	\$266,285
Accumulated depreciation.....	2,525	2,846
	189,177	263,439
Properties under development.....	100,821	188,236
Properties held for future development .....	5,262	6,582
	<u>\$295,260</u>	<u>\$458,257</u>

The Company's residential properties consist of 3,862 units (1981 — 8,180 units), of which 3,802 units (1981 — 7,348 units) have the necessary approvals for marketing as condominium or co-operative units. These properties consist of completed units, units under construction and units subject to option agreements.

**5. LAND**

	1982	1981
	(in thousands of dollars)	
Properties under development.....	\$149,714	\$152,741
Properties held for future development .....	636,076	562,568
	<u>\$785,790</u>	<u>\$715,309</u>

The Company's land properties consist of completed lots, land subdivisions for sale and large parcels of undeveloped land held for future development or subject to option agreements.

**6. CASH AND TERM DEPOSITS**

At October 31, 1982, \$46,531,000 (1981 — \$39,650,000) is lodged with a Canadian chartered bank in support of various liabilities of the Company to that bank. On November 5, 1982 the Company paid \$46,531,000 to that bank on account of these liabilities.



## 7. AMOUNTS RECEIVABLE

	1982	1981
	(in thousands of dollars)	
Mortgages and agreements for sale .....	\$330,795	\$325,872
Amounts due on real estate sales .....	2,993	1,317
Rents and other tenant charges .....	4,311	4,144
Secured advances due from joint venture partners .....	10,734	47,536
Amounts receivable from employees pursuant to stock purchase plans and house mortgage loans, including \$199,000 due from certain directors and officers (1981 — \$253,000) .....	357	448
Sundry .....	11,751	14,078
	<u>\$360,941</u>	<u>\$393,395</u>

The mortgages and agreements for sale yield a weighted average interest rate of 11.7% per annum (1981 — 14.5%).

The due dates of the amounts receivable are as follows:

	(in thousands of dollars)
Years ending October 31, 1983 .....	\$133,287
1984 .....	57,297
1985 .....	64,183
1986 .....	20,638
1987 .....	28,719
Subsequent to 1987 .....	56,817
	<u>\$360,941</u>

## 8. INVESTMENTS

	1982	1981
	(in thousands of dollars)	
Marketable securities acquired for long-term investment, having a quoted market value of \$2,052,000 (1981 — \$14,310,000) .....	<u>\$ 4,149</u>	<u>\$ 18,424</u>

## 9. OTHER ASSETS

	1982	1981
	(in thousands of dollars)	
Prepaid expenses .....	\$ 9,446	\$ 4,952
Equipment and sundry assets, at cost less accumulated depreciation of \$6,215,000 (1981 — \$5,537,000) .....	17,857	28,351
Debenture financing and issue expenses, net of accumulated amortization of \$1,852,000 (1981 — \$1,378,000) .....	4,610	5,004
	<u>\$ 31,913</u>	<u>\$ 38,307</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

October 31, 1982

**10. DEBT ON PROPERTIES**

	1982 (in thousands of dollars)			1981
	Term Debt	Other Financing	Total	Total
Commercial .....	\$173,056	\$334,020	\$ 507,076	\$ 513,780
Residential .....	34,865	161,285	196,150	316,180
Land .....	206,808	365,862	572,670	554,611
	<u>\$414,729</u>	<u>\$861,167</u>	<u>\$1,275,896</u>	<u>\$1,384,571</u>

Construction loans on commercial properties under development, which are supported by take-out commitments for long-term financing, are classified as term debt, using the interest rates and maturities of the related commitments.

The term debt is secured by individual properties. The major part of this debt is in good standing and the Company is currently renegotiating or curing any defaults on the balance. This debt bears interest at a weighted average rate of 10.1% per annum (1981 — 10.3%), with principal repayments due as follows:

	(in thousands of dollars)
Years ending October 31, 1983 .....	\$107,225
1984 .....	34,258
1985 .....	42,772
1986 .....	24,551
1987 .....	54,436
Subsequent to 1987 .....	<u>151,487</u>
	<u>\$414,729</u>

The other financing is secured by individual properties and is payable on demand with the interest rate fluctuating with the prime rate. As of October 31, 1982 the Company was in default on a major portion of this other financing (see Note 2).

## 11. DEBENTURES PAYABLE

	1982	1981
	(in thousands of dollars)	
<b>Daon Development Corporation</b>		
9-3/4% Sinking Fund Debentures, Series C .....	\$ 6,780	\$ 7,091
11-1/2% Sinking Fund Debentures, Series E .....	13,776	13,903
11-1/4% Sinking Fund Debentures, Series F .....	16,386	16,704
11% Sinking Fund Debentures, Series G .....	13,540	13,711
11-1/4% Sinking Fund Debentures, Series H .....	13,649	13,900
Floating Rate Debenture, Series I .....	8,875	9,375
Floating Rate Debenture, Series K .....	7,500	7,500
10-3/4% Convertible Subordinated Debentures maturing January 31, 2001, convertible to January 31, 1991 .....	50,000	50,000
<b>Daon Corporation</b> (a wholly-owned subsidiary)		
Floating Rate Subordinated Debenture (1982 — U.S. \$48,000,000; 1981 — U.S. \$50,000,000) .....	58,776	59,975
	189,282	192,159
Accrued Interest:		
Debentures, Series C to K .....	5,131	1,725
10-3/4% Convertible Subordinated Debentures .....	1,344	1,344
Floating Rate Subordinated Debenture .....	3,985	2,705
	<u>\$199,742</u>	<u>\$197,933</u>

The Debentures, Series C to K, of Daon Development Corporation are secured by a first floating charge, subject to the exceptions permitted by the instruments authorizing the issuance of each series, on the assets of Daon Development Corporation (but not the assets of any subsidiary company). The Series I and Series K Debentures bear interest at floating rates which at October 31, 1982 is 14% per annum.

The 10-3/4% Convertible Subordinated Debentures of Daon Development Corporation are unsecured obligations and are subordinated to all other indebtedness.

The Debenture of Daon Corporation is an unsecured obligation of Daon Corporation and carries a floating interest rate which at October 31, 1982 is 13.25% per annum. On November 5, 1982 the Company paid \$46,531,000 on account of its obligation to purchase this debenture.

As discussed in Note 2, the Company was in default of the terms of its Debentures, and the Trustee for the holders of Debentures, Series C to K, has demanded payment in full of the outstanding principal and interest.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

October 31, 1982

**12. OTHER SECURED LIABILITIES**

These interest bearing liabilities, due at various intervals to 2,001, are secured by the following non-property assets:

	1982 (in thousands of dollars)			1981
	Term Debt	Other Financing	Total	Total
Amounts receivable .....	\$44,338	\$172,237	\$216,575	\$215,880
Other assets .....	9,150	1,307	10,457	14,486
	<u>\$53,488</u>	<u>\$173,544</u>	<u>\$227,032</u>	<u>\$230,366</u>

The interest rate on the majority of this debt fluctuates with the prime rate.

The term debt is in good standing, however, the Company is in default of the terms of some of the other financing (See Note 2).

**13. ACCOUNTS PAYABLE AND ACCRUALS**

	1982 (in thousands of dollars)	1981
Accounts payable .....	\$ 20,270	\$ 41,055
Accrued liabilities .....	20,029	37,082
Deferred income and deposits .....	3,656	13,493
Costs to complete properties sold .....	48,144	54,341
Deferred foreign exchange gain .....	12,838	9,778
	<u>\$104,937</u>	<u>\$155,749</u>

**14. INCOME TAXES**

The Company follows the tax allocation method of accounting for income taxes under which full provision (recovery) for income taxes is made on the entire reported income (loss). Deferred income taxes arise primarily from:

- The capitalization of certain development and carrying costs for book purposes which are deducted currently for tax purposes;
- Income from partnerships recorded currently for book purposes which are taxable in later periods;
- Income recorded currently for book purposes which are reported for tax purposes as the sale proceeds are collected;
- The difference between depreciation rates employed for book purposes and those allowed for tax purposes.

Income tax expense reflects the consolidation of the individual tax expenses of the parent Company and its Canadian and foreign subsidiaries. Tax rates in certain foreign jurisdictions are lower than those which would be computed by applying the appropriate Canadian federal and provincial rates. A reconciliation of income tax rates is contained in the following table:

	1982	1981
Expected Canadian income tax (recovery) rate .....	(50.5)%	51.0%
less adjustment to the expected income tax rate due to inclusion in pre-tax income of income taxed at reduced rates —		
(a) Jurisdictional rate differential		
on inter-company interest income .....	(5.8)	(25.9)
(b) Capital gains .....	(3.9)	(12.4)
(c) Dividend income .....	(.2)	(4.5)
(d) Tax loss benefits carryforward not recognized .....	26.4	—
(e) Other .....	—	1.2
Actual income tax (recovery) rate .....	<u>(34.0)%</u>	<u>9.4%</u>

The earnings of foreign subsidiaries may be subject to withholding taxes when they are distributed. These taxes have not been provided for as the subsidiaries have no intention of declaring a dividend at this time.

## 15. CAPITAL STOCK

Authorized —

80,000,000 Common Shares without par value

10,000,000 Preference Shares with a par value of \$10 each issuable in series, of which 2,500,000 are designated as 8-5/8% Cumulative Redeemable Preference Shares, Senior Series A and 1,500,000 are designated as 9-1/2% Cumulative Redeemable Preference Shares, Senior Series B. These shares are non-voting.

2,000,000 75¢ Class A Shares, non-voting, without par value

	1982	1981
	(in thousands of dollars)	
Issued and Outstanding —		
40,846,988 Common Shares (1981 — 39,666,370) .....	\$ 9,755	\$ 6,389
2,202,800 8-5/8% Cumulative Redeemable Preference Shares, Senior Series A (1981 — 2,269,700) .....	22,028	22,697
1,364,600 9-1/2% Cumulative Redeemable Preference Shares, Senior Series B (1981 — 1,404,300) .....	13,646	14,043
641,076 75¢ Class A Shares (redeemable at \$6.00 per share at any time) (1981 — 641,076) .....	1,044	1,044
	<u>\$46,473</u>	<u>\$44,173</u>

During the year ended October 31, 1982, 1,180,618 Common Shares were issued in lieu of cash dividends of \$3,366,000 on Common Shares and Preference Shares, Series B.

The Company has the option to purchase in the open market for cancellation all, or any number of 75¢ Class A Shares at any price and at any time. Each 75¢ Class A Share is redeemable at the shareholder's option on October 31, 1985 at \$6.00.

Under the special rights or restrictions attaching to the Preference Shares, Series A and B and, under the terms of the Trust Indenture providing for the issuance of the Daon Development Corporation debentures, the Company may not pay dividends unless certain prescribed requirements are met.

Under the special rights or restrictions attaching to the Preference Shares, Series A and B, the Company is required during each quarter, subject to certain conditions, to purchase for cancellation in the market, 1% of the Preference Shares, Series A outstanding at March 31, 1979, and 1% of the Preference Shares, Series B outstanding at March 31, 1980. During the year ended October 31, 1982 the Company purchased in the open market, 66,900 Preference Shares, Series A for \$330,000 (1981 — 101,900 Preference Shares, Series A for \$762,000) and 39,700 Preference Shares, Series B for \$215,000 (1981 — 61,600 Preference Shares, Series B for \$509,000) pursuant to this requirement. These purchases took place prior to July 31, 1982.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

October 31, 1982

**15. CAPITAL STOCK** (continued)

As of July 31, 1982 the Company suspended the payment of all dividends and ceased making the required purchases of Preference Shares, Series A and B.

The company has cumulative dividends in arrears on its Preference Shares, Series A and B of \$799,000 (1981 — nil) and on its 75¢ Class A shares of \$120,000 (1981 — nil).

Common shares were reserved at October 31, 1982 as follows:

	<u>Number of Shares</u>
For conversion of the 10-3/4% Convertible Subordinated Debentures on a conversion basis of 66-2/3 common shares for each \$1,000 principal amount of 10-3/4% Debentures adjusted for stock dividends declared. . . .	3,428,736
Under a stock option plan, options are outstanding to directors, officers and employees to purchase 415,000 common shares (1981 — 730,000 common shares) at a price of \$7.77 per common share and 30,000 common shares (1981 — 30,000 common shares) at a price of \$9.45 per common share. 400,000 common shares are reserved but unallocated (1981 — 85,000 common shares) . . . . .	845,000
	<u>4,273,736</u>

**16. SHARES HELD BY SUBSIDIARY**

During the year ended October 31, 1982 a subsidiary received, as stock dividends, 121,379 Common Shares valued at \$342,000. In 1981, the subsidiary purchased 301,000 Common Shares in the open market for \$3,539,000. The subsidiary now holds 4,362,379 Common Shares of the Company at a cost of \$12,884,000 (1981 — 4,241,000 Common Shares at a cost of \$12,542,000). These Common Shares are lodged with a Canadian chartered bank in support of various liabilities of the Company to that bank.

**17. CONTINGENT LIABILITIES AND COMMITMENTS**

- (a) The Company is contingently liable for obligations of certain joint ventures and partnerships amounting to \$214,055,000 (1981 — \$324,637,000). However, in management's opinion, the assets of each joint venture or partnership are available and adequate to satisfy the individual obligations of the joint venture or partnership.
- (b) The Company has entered into lease agreements for terms of up to 99 years (1981 — 99 years). The maximum annual rental payments required are \$5,645,000 (1981 — \$7,340,000). The Company has also guaranteed annual payments to a maximum of \$16,314,000 (1981 — \$16,457,000) in connection with the sale of certain assets; in most instances, the Company has been successful in obtaining leases or subleases that will largely offset the cost of these guarantees.
- (c) The Company has contracted costs to complete commercial properties under development amounting to \$129,698,000 (1981 — \$245,648,000). The Company has finance commitments for \$129,456,000 (1981 — \$211,503,000) of these costs.
- (d) The estimated cost to complete residential properties under development and land under development amounts to \$72,679,000 (1981 — \$153,525,000). The major part of these costs is interest on debt secured by these properties. Under the terms of the proposed agreements with secured lenders covering the majority of the secured debt, this interest will only be paid out of proceeds from the sale of these properties.
- (e) The Company has been named as a defendant in numerous lawsuits alleging actual and punitive damages, the total of which are substantial. However, after reviewing the merits of these lawsuits with counsel, it is management's opinion that the ultimate costs of settlement will not materially affect the Company's financial position.
- (f) The Company has no unfunded pension liabilities.



## 18. OTHER REVENUE

	1982	1981
	(in thousands of dollars)	
Interest and other income .....	\$ 55,661	\$ 41,137
Management fee income .....	768	198
Investment income .....	475	2,629
	<u>\$ 56,904</u>	<u>\$ 43,964</u>

## 19. INTEREST

	1982	1981
	(in thousands of dollars)	
Interest charges were incurred from:		
Debt on properties .....	\$214,424	\$206,167
Debentures .....	26,236	26,215
Bank indebtedness and other secured debt .....	73,325	44,547
	<u>313,985</u>	<u>276,929</u>
less — Interest directly capitalized or allocated to properties under development and held for future development .....	<u>172,997</u>	<u>164,945</u>
Interest expense	<u>\$140,988</u>	<u>\$111,984</u>

## 20. CAPITALIZED COSTS

During the year the company capitalized the following indirect costs:

	1982	1981
	(in thousands of dollars)	
Interest .....	\$172,997	\$164,945
Property taxes .....	7,731	6,344
Other indirect costs .....	15,883	21,489
	<u>\$196,611</u>	<u>\$192,778</u>

These costs were capitalized to properties as follows:

Commercial .....	\$ 44,908	\$ 45,864
Residential .....	25,432	53,373
Land .....	126,271	93,541
	<u>\$196,611</u>	<u>\$192,778</u>

## 21. JOINT VENTURES AND PARTNERSHIPS

The following amounts included within the consolidated financial statements represent the Company's proportionate share of its interest in joint venture and partnership developments:

	1982	1981
	(in thousands of dollars)	
Assets .....	\$362,018	\$542,742
Liabilities .....	204,685	334,326
Revenue .....	134,528	91,589
Expenses .....	155,727	98,831

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

October 31, 1982

**22. SEGMENTED INFORMATION**

	1982	1981
	(in thousands of dollars)	
SEGMENTED REVENUE BY DIVISION:		
Commercial		
Real estate sales.....	\$335,967	\$231,196
Rental.....	<u>75,032</u>	<u>52,519</u>
	<u>410,999</u>	<u>283,715</u>
Residential		
Real estate sales.....	256,082	184,241
Rental.....	<u>27,002</u>	<u>26,476</u>
	<u>283,084</u>	<u>210,717</u>
Land		
Real estate sales.....	<u>69,846</u>	<u>157,730</u>
Total real estate sales and rental revenue.....	<u>\$763,929</u>	<u>\$652,162</u>
SEGMENTED OPERATING INCOME (LOSS) BY DIVISION:		
Commercial		
Real estate sales.....	\$ 40,589	\$ 80,232
Rental.....	<u>36,819</u>	<u>26,031</u>
	<u>77,408</u>	<u>106,263</u>
Residential		
Real estate sales.....	(48,747)	(46,240)
Rental.....	<u>10,874</u>	<u>11,100</u>
	<u>(37,873)</u>	<u>(35,140)</u>
Land		
Real estate sales.....	<u>(44,609)</u>	<u>47,658</u>
Operating income (loss).....	(5,074)	118,781
Unallocated corporate items (net).....	<u>(80,385)</u>	<u>(101,557)</u>
Net income (loss).....	<u>\$ (85,459)</u>	<u>\$ 17,224</u>
REVENUE BY GEOGRAPHIC SEGMENTS:		
Canada		
Real estate sales.....	\$132,298	\$281,586
Rental revenue.....	<u>41,455</u>	<u>36,093</u>
	<u>173,753</u>	<u>317,679</u>
United States		
Real estate sales.....	529,597	291,581
Rental revenue.....	<u>60,579</u>	<u>42,902</u>
	<u>590,176</u>	<u>334,483</u>
Total real estate sales and rental revenue.....	<u>\$763,929</u>	<u>\$652,162</u>

	1982	1981
	(in thousands of dollars)	
OPERATING INCOME (LOSS) BY GEOGRAPHIC SEGMENTS:		
Canada		
Real estate sales.....	\$ 6,404	\$ 117,758
Rental revenue.....	23,870	20,534
	<u>30,274</u>	<u>138,292</u>
United States		
Real estate sales.....	(59,171)	(36,108)
Rental revenue.....	23,823	16,597
	<u>(35,348)</u>	<u>(19,511)</u>
Operating income (loss) .....	(5,074)	118,781
Unallocated corporate items (net).....	(80,385)	(101,557)
Net income (loss)	<u>\$ (85,459)</u>	<u>\$ 17,224</u>
ASSETS BY GEOGRAPHIC SEGMENTS:		
Real estate assets		
Canada .....	\$ 549,579	\$ 556,317
United States .....	1,127,806	1,267,648
	1,677,385	1,823,965
Corporate assets.....	509,558	546,609
Total assets .....	<u>\$2,186,943</u>	<u>\$2,370,574</u>

## 23. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration for the year paid or payable by the Company and its subsidiaries to the directors and senior officers of the Company amounted to \$1,567,000 (1981 — \$2,002,000).

## 24. RELATED PARTY TRANSACTIONS

In 1981, directors, officers and employees of the Company purchased 186 units at the issue price of \$125,000 per unit in Daon Shopping Centres, Alberta, a limited partnership. The Company is the General Partner of the Partnership and retains a 47% interest in the Partnership.

## 25. COMPARATIVE FIGURES

Certain 1981 comparative figures have been reclassified to conform with the 1982 presentation.



## AUDITORS' REPORT

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To the Shareholders,  
Daon Development Corporation:

We have examined the consolidated balance sheet of DAON DEVELOPMENT CORPORATION (a British Columbia company) and subsidiaries as of October 31, 1982 and 1981, and the related consolidated statements of operations, retained earnings, cash flow (deficit) from operations and changes in financial position for the years 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, the accompanying consolidated financial statements present fairly the financial position of Daon Development Corporation and subsidiaries as of October 31, 1982 and 1981, and the results of their operations and changes in their financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Vancouver, B.C.  
February 18, 1983.



Arthur Andersen & Co.  
Chartered Accountants



