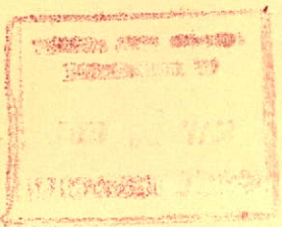


C

nu-west

1986



Financial Summary

	1986	1985
Assets (\$000)	346,001	503,104
Shareholders' equity (\$000)	53,874	43,518
Revenue (\$000)	157,935	169,341
Net loss (\$000)	26,998	44,886
Cash flow from operations (\$000)	30,882	31,376
Common shares outstanding (millions)	215	182
Net loss per common share (\$)	0.15	0.25

Accomplishments in 1986

Debt reduction of \$167 million.

Substantial reduction of losses.

Increase in shareholders' equity to \$54 million.



Varsity Park, Regina

MAY 26 1987
W-CAL UNIVERSITY

Letter to Shareholders In response to the challenging economic environment of 1986, Nu-West management adopted a conservative program for managing the Company's finances, operations and assets.

Pursuant to the program the Company disposed of over \$157 million of properties and investments in 1986, limited new real estate acquisition and development, and implemented a comprehensive equity refinancing which retired substantial bank and public debt and raised new capital. The successful execution of this three-pronged program has placed the Company in a position to realize optimum value on its remaining assets and return to profitability.

The equity refinancing enabled the Company to regain its financial strength. Cramer Rosenthal McGlynn, Inc., investment advisors, advised the Company in the transaction which included the retirement of \$107 million of corporate debt, the cancellation of 82 million Special Common Shares, Class A, and the private placement of 110 million Special Common Shares, Class B for \$22 million. The new investors are primarily U.S. residents who have a familiarity with complex investments, corporate reorganizations and real estate. Eleven members of Nu-West's senior management also made substantial personal investments in the Company.

Nu-West's conservative operating strategy included a realistic approach to writing down, where appropriate, the book cost of each asset to its estimated net realizable value based on current market conditions and the ability to sell the assets over the next few years. The net loss for 1986 amounted to \$27.0 million (including \$35.0 million due to asset writedowns) versus \$44.9 million for the year 1985 (\$38.7 million in writedowns). Also included in 1986 operating results were \$20.6 million in extraordinary gains relating to the equity refinancing transaction and other debt settlements. Extraordinary gains in 1985 were \$17.2 million.

Despite the 1986 net loss, shareholders' equity increased to \$53.9 million (or \$0.25 per share) from \$43.5 million (or \$0.24 per share) in 1985. The new equity as well as debt settlements under Nu-West's Plan of Arrangement were responsible for this enhancement to net equity.

During 1986 the Company's markets were impacted by a number of adverse economic developments. The decline in petroleum prices, for example, had a particularly negative impact on our real estate assets located in oil production centers such as Colorado and Alberta. The elimination of certain tax advantages of real estate ownership and development in the U.S. under the U.S. Tax Reform Act of 1986, and an unprecedented number of failures or difficulties at financial institutions have contributed to deterioration of real estate values in many regions.

As part of its plan to rationalize assets, Nu-West made a number of dispositions during 1986. Included was the sale of Nu-West, Inc.'s holding of Western Savings and Loan Association Series A Cumulative Preferred Shares for \$26 million (U.S.). In addition to the normal development and sale of finished lots to builders, Nu-West sold land holdings in Alberta, British Columbia, Ontario and California. Other asset dispositions in 1986 included four office buildings, four shopping centers and two hotels. The disposition of these properties generated substantial cash, reduced debt and improved operating efficiencies.

The 1984 Plan of Arrangement will end on December 31, 1987. This Plan has resulted in a successful restructuring under which all creditors' interests were represented and settled on a consistent and equitable basis. Creditors were also



Board of Directors left to right: Gerald Cramer, Stephen McConnell, Michael Maber, Ches McConnell, Brian Hodgson, Thomas Israel

afforded the opportunity to participate as shareholders in Nu-West's financial recovery.

Nu-West intends to pursue a flexible strategy given the expectation of a difficult real estate environment for the balance of the 1980's. The most important job at hand is the continued development and sale of the Company's existing real estate assets. Investments in Cairns Homes Limited, Nu-West Florida, Inc. and Carma Ltd. will continue to be closely monitored and appropriate strategies pursued as conditions warrant.

The Company intends to establish a substantial cash fund to finance one or more new acquisitions. The Board of Directors has approved the process and criteria for the pursuit of new opportunities. Given the seller's market for quality businesses with good operating results and strong management, Nu-West will attempt to be creative in its investigation of new opportunities but conservative and patient in its follow-through. Successful implementation of this strategy over time should produce future earnings which will enhance the value of the Company's stock.

On behalf of the Company and its Board of Directors, we wish to extend our gratitude to The Toronto-Dominion Bank and the Bank of Nova Scotia for their important role in the 1984 and 1986 restructurings. Their support during the past four

years has ensured the survival of the Company to the benefit of all creditors and shareholders. Special thanks are extended to retiring directors Gig Field, Earl Joudrie, Ronald McKinlay, David McLean, William Poole, Graham Walker and Lewis Wright. Mr. Field had served as Chairman of the Board since 1985 and Mr. Joudrie was President from 1981 through 1985. These gentlemen provided the necessary guidance to survive the dramatic change in business conditions. Due to the retirement of these directors, Gerald Cramer, Thomas Israel and Brian Hodgson joined the board on December 16, 1986. Recognition is also due to Mike Geddes, Bob Medearis and Lorne Pratt, retiring directors of Nu-West, Inc., for their time and effort in that company's success.

We welcome our new investors and wish to thank all other shareholders, creditors and employees for their continued patience and support.

Gerald B. Cramer
Chairman of the Board

Stephen A. McConnell
President & Chief Executive Officer

Nu-West's Commitment to the Future

Between 1982 and 1986, Nu-West was forced to learn to survive one of the most dramatic economic declines in recent memory.

We developed specific expertise in:

- selling real estate in a difficult environment (over \$700 million of properties were sold between 1982 and 1986)
- consolidating operations, reducing overhead and improving efficiencies
- restructuring the liabilities and equity of the parent company and various subsidiaries
- maintaining a conservative, financial approach to conducting daily business activities.

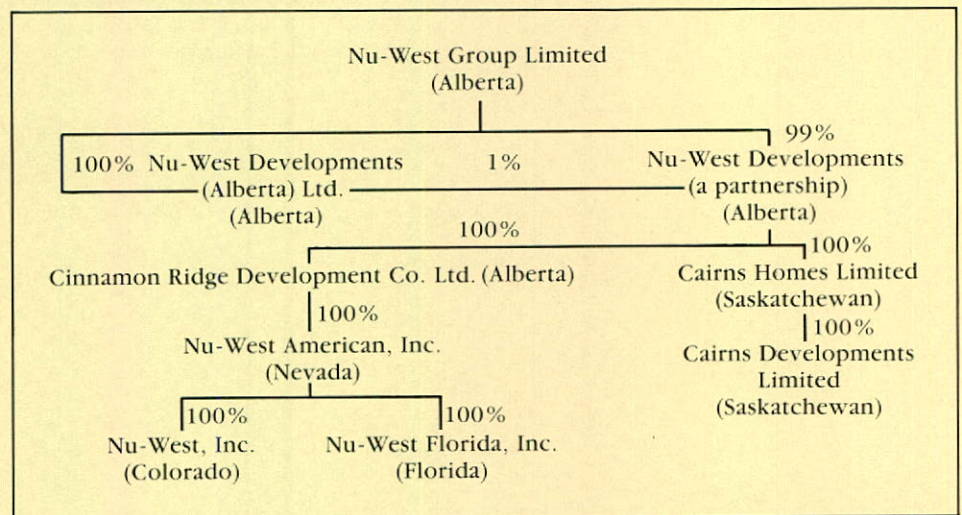
Nu-West intends to utilize the experience of its management in maximizing the value of its existing assets and in seeking new opportunities. Due to our concerns with respect to future real estate markets, the Company expects to develop out and sell a major portion of its existing real estate portfolio over the next 3 to 5 years.

The true challenge comes in reinvesting in new opportunities. As a

result of the dramatic decline in interest rates and the high valuations being afforded to most businesses, good value is presently difficult to find. Management will, however, be patient and thorough in the pursuit of attractive acquisitions and will not stray from a disciplined approach. The Company will consider a broad range of industries located in either Canada or the United States, particularly where a strong management team is in place and motivated to perform.

The equity refinancing completed in December, 1986 has brought to the Company more than just financial returns. Among the new investors are individuals and companies with extensive experience in investments, real estate, and corporate reorganizations. Their goal, and the goal of management, is to return Nu-West to profitability so that all shareholders will realize maximum value on their investments.

CORPORATE ORGANIZATION



Nu-West Developments owns and operates a variety of real estate projects in Alberta, Ontario and British Columbia.

During 1986, revenue of \$24 million was recorded by Nu-West Developments' operations, compared to \$37 million in 1985. Net operating results were improved as a result of increased efficiencies and overhead reductions.

Alberta land operations experienced a slow-down in 1986 due to problems plaguing the petroleum industry. New land servicing which had originally been planned for 1986 was deferred, although approvals on various properties were obtained which will benefit future development. The company successfully marketed more than 150 serviced lots and various residential and commercial sites in Calgary and Edmonton. In addition to its land development operations, the company owns or manages in excess of 1,000 residential rental units in Calgary.

During the past year, Nu-West completed the sale of the Landmark Inn hotel and Northwood Park Plaza shopping centre in Thunder Bay, Ontario, as well as miscellaneous land holdings in various areas of Northern Ontario. Certain planning steps were also initiated to improve the marketability of our remaining Thunder Bay assets.

Servicing was completed on 57 lots in the Green Timbers project in Surrey, British Columbia. The majority of these lots as well as certain other land holdings in the Vancouver region were sold during 1986.

Current plans are for the continued sale of real estate assets in Canada to maximize cash available for



Left to right: Doug Watson, Wayne Schellenberg, Brian Hodgson, Judy Madill, Fred Woodbeck

reinvestment. An orderly program of rationalizing and maximizing asset values, which may include further development of certain existing land holdings, will be followed over the next two to three years. So far this year, in excess of \$28 million of real estate has been exposed to the market and several major sales are expected to be completed shortly. Operations and overheads will continue to be reduced in line with business activity.



Roy Grozell, Tom Shepherd

Cairns Homes Limited recorded revenues of \$71 million in 1986, compared to \$51 million for the previous year. Profits for the year were enhanced due to increased business volume and reduction in debt service costs resulting from the refinancing completed in 1985 and early 1986.

Cairns' subsidiary, Cairns Developments Ltd., is the leading residential builder and developer in the province of Saskatchewan and continues to command a significant share of the market for new homes and residential lot sales in Regina and Saskatoon.

During 1986, Saskatchewan activities included:

- Sale of more than 350 new homes.
- Development and sale of 586 residential lots.
- Acquisition of additional ownership interest in the Wascana View subdivision in Regina. A unique conceptual plan for the area has been developed and the first phase of the subdivision has been successfully marketed. On-site development began in March, 1987.

Cairns Developments Ltd. is also active in the ownership and

management of commercial properties and the development and construction of small office buildings.

Winnipeg operations also made a positive contribution to 1986 results through the development and sale of more than 200 lots in the Whyte Ridge subdivision. Development of an additional 350 lots is planned for this subdivision in 1987.

Cairns Homes Limited's Alberta operations continue to produce losses due to lack of demand for the type of real estate holdings Cairns has remaining in this discontinued operation. Good progress was made during 1986 in reducing Cairns' overall exposure to Alberta, and this program will be continued in order that Cairns can concentrate on its profitable activities in the Saskatchewan and Manitoba residential markets.



Whyte Ridge, Winnipeg



Left to right: Gary Benedict, Sandra Strachota, Bill Bruggeman, Jim Bourg, Vickie Sixta

Nu-West, Inc., headquartered in Phoenix, Arizona, develops office buildings and planned business parks from its offices in Phoenix and Denver, Colorado. It also has acquired commercial, industrial and residential land parcels for improvement and future resale.

The company disposed of four office buildings, one each in Arizona and Southern California and two in Colorado, containing a total of 217,000 square feet of space.

Sales in 1986 also included:

- the four acre high-rise office site at Central Avenue and Palm Lane in central Phoenix, acquired in 1985
- 6.3 acres in Phase 2 of the 24th Street Industrial Park in Phoenix
- the Maui Lu Resort, a 175-room hotel on 28 acres in Kihei, Maui, Hawaii, that the company managed and sold on behalf of its parent (the sale closed in April, 1987)
- 135 acres of residential land in Riverside, California
- 6 acres of commercial land in the Gateway project in Colorado Springs

Additions to inventory included a 50% interest in a 266-acre land parcel in Glendale, Arizona, utilizing non-recourse financing. The property, planned for industrial and commercial development, is located adjacent to the recently completed Glendale Airport.

Planning and zoning were completed and initial development commenced on the 67-acre industrial/commercial park at 75th Avenue and Interstate 10 in Phoenix,

Arizona, as well as the 49-acre hotel/retail/commercial park at Greenfield Road and the Superstition Freeway in Mesa, Arizona.

The Company's 54,000 square foot office building in Scottsdale, Arizona's McCormick Ranch was completed in March of 1986. Although initial leasing activity was slow, recent activity has strengthened and leases are in place for three tenants occupying 12,000 square feet.

The majority of the Company's real estate assets are located in Arizona and Colorado. Both states enjoy strong population growth and highly positive long-term prospects.

Further real estate investments will be scrutinized closely to ensure success in a highly competitive market which recently has been adversely impacted by unfavorable tax law changes.

The Nu-West, Inc. business plan anticipates continued development and sale of existing properties over the next several years. The Company will also proceed with the sale of developed and mature properties in its portfolio. Nu-West, Inc. has an experienced and highly-skilled development team in place to accomplish those goals.



Airport Place, Colorado Springs



Lew Wright



Tim Kelly, Dave Graham

Nu-West Florida, Inc.'s principal activity has been the development and operation of medium-sized shopping centres and quality suburban office parks. Based in Fort Lauderdale, the Company has, since 1978, been involved with more than 30 properties and has developed approximately 2 million square feet of retail space and over 500,000 square feet of office and industrial space.

Nu-West Florida continues to hold its major real estate projects pending maturity to permit sales at maximum values. The second phase of the Headway Office Park located in Fort Lauderdale consists of three 3-storey buildings with total leaseable area of 128,000 square feet. Despite an overbuilt and extremely competitive office space market, the property is now 88% leased. Development of a planned third phase of the park has been deferred until some improvement in the market takes place.

Loehmann's Plaza, containing 165,000 square feet, in Clearwater, Florida is 55%-owned by Nu-West Florida and has achieved 88% lease-

up. Fishermen's Village, on the west coast at Punta Gorda, consists of 67,000 square feet of rental and office space, a marina and more than seven acres of land held for future development. The wholly-owned project performed strongly during 1986 and is now 97% leased. The 152,000 square foot California Club Mall in North Miami was sold during 1986.

Nu-West Florida continues to operate under a 1985 debt restructuring through which the company gained an improved financial position enabling management to prepare for future expansion when Florida market conditions again allow careful and conservative growth.



Fishermen's Village, Punta Gorda

Residential Rental Properties

Property	Location	Number of Units	Company's Interest
Croydon Court	Calgary, Alberta	240	100%
Glenbrooke Court	Calgary, Alberta	167	100%
Penbrooke	Calgary, Alberta	100	100%
Canyon Glen	Calgary, Alberta	170	100%

Commercial Properties

Property	Location	Number of Square Feet	Company's Interest
Retail			
Canarama Shopping Centre	Saskatoon, Saskatchewan	54,000	50%
Sherwood Village Mall	Regina, Saskatchewan	181,000	100%
Keskus Mall	Thunder Bay, Ontario	166,000	50%
County Fair Plaza	Thunder Bay, Ontario	74,000	100%
Delray West Plaza	Delray Beach, Florida	76,000	37%
Fishermen's Village	Punta Gorda, Florida	67,000	100%
Loehmann's Plaza	Clearwater, Florida	165,000	55%
Office			
Rancho Solano	Phoenix, Arizona	78,000	89%
Hayden Corporate Center	Scottsdale, Arizona	54,000	88%
Airport Place	Colorado Springs, Colorado	43,000	50%
Headway Office Park II	Fort Lauderdale, Florida	128,000	100%

Land Holdings in Various Stages of Planning and Development

Property	Location	Intended Use (1)	Number of Acres	Company's Interest
Canyon Meadows	Calgary, Alberta	R	33	100%
Erin Woods	Calgary, Alberta	R, C, I	14	100%
Prominence Point	Calgary, Alberta	R	14	100%
Calgary Arboretum	Calgary, Alberta	C	4	100%
Eastgate Business Park	Edmonton, Alberta	C, I	6	100%
Eastgate Business Park	Edmonton, Alberta	C, I	7	50%
Wye Road	Edmonton, Alberta	C	10	100%
Beaumont	Beaumont, Alberta	R, C	15	100%
Okotoks	Okotoks, Alberta	R, C	15	50%
Lakewood	Regina, Saskatchewan	R	21	100%
Parkridge	Regina, Saskatchewan	R	207	100%
Huntington	Regina, Saskatchewan	R, C	10	58%
Dundonald	Saskatoon, Saskatchewan	R	20	100%
Lakeview & Lakeridge	Saskatoon, Saskatchewan	R	68	100%
West Global	Surrey, B.C.	R, C	12	100%
Coquitlam Business Park	Coquitlam, B.C.	C	26	100%
Harbours Gate	Nanaimo, B.C.	R	77	100%
Whyte Ridge	Winnipeg, Manitoba	R, C, I	106	80%
75th Avenue & I - 10	Phoenix, Arizona	C, I	67	100%
24th St. Industrial Park	Phoenix, Arizona	I	4	100%
Pecos & McQueen	Chandler, Arizona	C, I	59	100%
99th Avenue and Bethany Home Road	Glendale, Arizona	M	266	55%
Greenfield & Superstition	Mesa, Arizona	M	49	73%
Centennial Airport	Aurora, Colorado	C	119	100%
Union Square	Lakewood, Colorado	C	4	100%
Gateway Park	Colorado Springs, Colorado	M	117	50%
Thornton	Thornton, Colorado	R	145	50%
Professional Square	San Juan Capistrano, California	C	13	100%
Fishermen's Village	Punta Gorda, Florida	M	8	100%

(1) R = Residential
C = Commercial
I = Industrial
M = Mixed Use

Long Term Land Holdings

Property	Location	Intended Use (1)	Number of Acres	Company's Interest
Erin Woods	Calgary, Alberta	R, I	151	100%
Sandstone	Calgary, Alberta	R	236	33%
Scenic Acres	Calgary, Alberta	R	441	100%
Cold Lake	Cold Lake, Alberta	R	897	50%
Okotoks	Okotoks, Alberta	R	132	50%
Eastview	Red Deer, Alberta	R	80	50%
Wascana View East	Regina, Saskatchewan	R	364	75%
Westridge	Regina, Saskatchewan	R, I	275	55%
Lakeridge	Regina, Saskatchewan	R	514	100%
Murray	Regina, Saskatchewan	R	300	25%
Southridge	Saskatoon, Saskatchewan	R	132	100%
Westlands	Saskatoon, Saskatchewan	R, C	440	35%
Whyte Ridge	Winnipeg, Manitoba	R, C, I	379	80%
Riverside	Richmond, B.C.	I	44	100%
Pinetop Lakes	Pinetop, Arizona	R	245	100%
Las Vegas	Las Vegas, Nevada	C	28	100%

Properties Under Management

Property	Location	Type (1)	Number of Units	Number of Square Feet
Radisson Village	Calgary, Alberta	R	248	
Lynnridge Village	Calgary, Alberta	R	160	
Lynnwood Ridge	Regina, Saskatchewan	R	84	
Village Green	Regina, Saskatchewan	R	94	
Cavendish Estates	Regina, Saskatchewan	R	164	
Cedar Ridge Estates	Regina, Saskatchewan	R	72	
Cedar Ridge Estates	Saskatoon, Saskatchewan	R	102	
4 Warehouses	San Antonio, Texas	W		44,000

- (1) R = Residential
 C = Commercial
 I = Industrial
 W = Warehousing

1986 **Financial Review**

Nu-West reported a consolidated net loss of \$27 million in 1986 compared to a loss of \$45 million in 1985. Shareholders' equity at December 31st, 1986 was \$54 million (\$0.25 per share) compared to \$44 million (\$0.24 per share) at the end of 1985.

During 1986 the Company completed a refinancing in which:

- New equity of \$22 million was realized on the issue of 110 million Special Common Shares, Class B.
- Corporate debt, including bank operating loans and public debentures totalling \$107 million, was settled by cash payments of \$83 million.
- The operating lenders returned 82 million Special Common Shares, Class A for cancellation.
- \$62 million of cash was returned from U.S. operations to assist in settling the corporate debt.

As a consequence of the above transaction, the Company reported a gain on the refinancing, after costs, of \$20 million. This amount, as well as \$17 million of foreign exchange gains realized as a result of the transfer of cash from U.S. operations, is included in the Consolidated Statement of Loss for the year. Extraordinary gains of \$17 million, arising from the sale of oil and gas assets and debt settlements, were recorded in 1985.

Operating losses for 1986 were \$57 million, compared to \$61 million for 1985. The decrease in losses reflects the continued reduction in overheads and interest costs. Also, the Company continued its policy of a thorough review of asset values in the current environment, and consequently has recorded writedowns of \$35 million in 1986, compared to \$39 million in 1985.

Consolidated revenues of \$158 million were down slightly from the \$169 million for 1985. This reduction continues to reflect the discontinuance of non-productive operations and the overall reduced asset base. Cash provided by operating activities was \$31 million, unchanged from 1985. 1986 cash flow also included the realization of \$37 million (Cdn.) on the Western Savings and Loan Series A Preferred shares by Nu-West, Inc.

The improvement in shareholders' equity reflects the impact of the 1986 refinancing as well as

further debt settlements under the Plan of Arrangement implemented in late 1984. The effect of the net loss on equity was partially offset by the elimination of debt pursuant to the Plan of Arrangement, including the settlement of \$10 million in debt obligations through the issue of Special Common Shares, Class A. Also during 1986, projects with debt obligations of \$30 million were quit-claimed to the project lenders resulting in a credit to contributed surplus of \$21 million.

Nu-West's Canadian operations recorded sales of \$24 million, down from the \$37 million for 1985. This is primarily due to the reduced asset base in these operations. Losses were down from 1985 levels, reflecting reductions in interest and overhead expenses.

Cairns Homes Limited recorded revenues of \$71 million for 1986, up from the \$51 million in 1985, reflecting increased sales in Saskatchewan and Winnipeg. Cairns' overall net income, however, continues to be negatively impacted by the poor performance and high debt service costs related to Cairns' Alberta assets.

Nu-West, Inc. recorded a net loss of \$6 million (U.S.) in 1986 compared to a net income of \$3 million (U.S.) for 1985. The 1986 loss was primarily caused by asset writedowns of \$7 million (U.S.) Total revenue was reduced to \$23 million (U.S.) in 1986 from \$50 million (U.S.) in 1985, due mainly to reduced land sales. During 1986 Nu-West, Inc. repatriated \$45 million (U.S.) to the parent company in order to assist in its refinancing.

Nu-West Florida, Inc. incurred a loss of \$12 million (U.S.) during 1986 compared to a loss of \$4 million (U.S.) for 1985. A portion of this loss relates to writedowns taken on certain assets in the amount of \$7 million (U.S.). Operating revenue was \$14 million (U.S.) in 1986 compared to \$5 million (U.S.) in 1985. 1986 results included the sale of a major commercial property.

Auditors' Report

To the Shareholders of
Nu-West Group Limited:

We have examined the consolidated balance sheet of Nu-West Group Limited as at December 31, 1986 and the consolidated statements of loss, deficit and cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1986 and the results of its operations and the changes in its financial position 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

Calgary, Alberta
March 27, 1987

Chartered Accountants



Headway Office Park II, Fort Lauderdale

Significant Accounting Policies

December 31, 1986

(A) The Company's accounting policies are in accordance with the recommendations of the Canadian Institute of Chartered Accountants which are substantially in accordance with recommendations of the Canadian Institute of Public Real Estate Companies and the standards of the International Accounting Standards Committee.

(B) Consolidation and accounting presentation

The consolidated financial statements include:

- (i) the accounts of all the Company's subsidiaries using the purchase accounting method,
- (ii) the proportionate share of the accounts of the Company's interest in incorporated and unincorporated joint ventures and partnerships, and
- (iii) the proportionate share of the net income or loss of affiliated companies in which the Company has a substantial interest. The value of these investments has been adjusted to reflect the Company's equity in the book value of the net assets of these companies.

(C) Revenue

Housing sales (including land sold with housing) and sales of commercial and residential rental properties are recorded when construction is substantially complete, the purchaser has accepted the building, an appropriate down payment has been received and all other conditions of the sales agreement have been satisfied. Land sales (other than land sold with housing) are recorded when the agreement of sale is unconditional and an appropriate down payment has been received. Rental revenue is recorded as it is earned.

(D) Costing

Homes completed and under construction, land developed and under development, and land held for development are stated at the lower of cost and net realizable value determined on a unit by unit basis. Direct carrying costs are capitalized to the extent of net realizable value during holding, development and construction. Land is recorded as land held for development during the planning and zoning process. Land is generally transferred to land under development when physical site work commences with costs allocated on a saleable front footage or metre basis in Canada and on a relative sales value basis in the United States. Land is transferred into homes under construction when the foundation is poured and, after completion, all carrying costs are expensed as incurred.

Commercial and residential rental properties are stated at cost, which is net of reductions to net realizable value, less accumulated depreciation. During construction and lease up periods, rental revenue and direct carrying costs are capitalized. For accounting purposes, the lease up period cannot extend beyond nine months after substantial completion. After this time, rent is recorded as revenue and all costs are expensed. Reductions to net realizable value are taken on rental properties if, in the opinion of management, a permanent impairment in their value has occurred.

For operations in Canada, direct carrying costs include interest related to the property and property taxes. For operations in the United States, direct carrying costs also include an allocation of general interest costs based on the Company's equity in the property, in order to conform with the Statement of Financial Accounting Standards No. 34 issued by the Financial Accounting Standards Board in the United States.

(E) Depreciation

The Company follows the sinking fund method of accounting for depreciation of rental properties whereby building costs are charged to operations over the estimated useful life of the properties, of 40 to 50 years, in annual amounts increasing at the rate of 5% compounded annually. Fixed assets are depreciated on the diminishing balance basis at rates from 5% to 30%.

(F) Foreign operations

The accounts of foreign operations are translated into Canadian dollars using current exchange rates. Unrealized gains and losses arising on the translation of foreign currencies under this method are deferred and included as a separate component of shareholders' equity.

(G) Accounting for the Plan of Arrangement (the Plan)

Share capital has been credited for the full amount of indebtedness settled by the issuance of shares.

Contributed surplus arising on the settlement of debt by quit claim is recognized on the effective date of settlement.

The full amount of interest settled in shares is charged to interest expense and credited to share capital. The full amount of interest accrued and deferred on project loans is charged to interest expense and included in debt secured by real estate and other secured debt.

Gains on settlement of debt not included in the Plan are included in income.

C Consolidated Balance Sheet


December 31, 1986

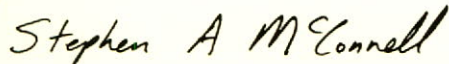
Note
Reference

(In Thousands of Dollars)
1986 1985

			(Restated – See Note 11)
ASSETS			
Cash		16,892	23,041
Cash with restricted usage		12,008	17,961
Receivables	2	43,886	63,369
Investments	3	22,899	66,301
Real Estate			
Homes completed and under construction		13,175	13,733
Land developed and under development		51,261	57,153
Land held for development	4	87,911	108,666
Commercial properties			
Under construction		567	6,230
Income producing	5	78,598	121,655
Residential rental properties			
Income producing	5	13,781	17,993
Fixed assets	5	2,472	2,911
Other assets		2,551	4,091
		346,001	503,104
LIABILITIES			
Bank operating loans	1,6	32,268	110,110
Payables and accruals		40,201	32,271
Debt secured by real estate	7	171,639	220,273
Public debentures	1	—	37,304
Other secured debt	8	6,983	15,473
Unsecured debt	9	3,004	3,534
Deferred income		73	2,695
		254,168	421,660
Term preferred shares of subsidiary companies	10	37,959	37,926
Contingencies	16		
SHAREHOLDERS' EQUITY			
Share capital	1,12	345,905	519,431
Deficit		(604,953)	(577,955)
Contributed surplus	13	301,797	75,478
Cumulative translation adjustment	19	11,125	26,564
		53,874	43,518
		346,001	503,104

Approved by the Board:

 Director

 Director

Consolidated Statement of Loss

Year Ended December 31, 1986

	Note Reference	(In Thousands of Dollars)	
		1986	1985
Real estate revenue			
Housing sales		36,803	30,305
Commercial and residential rental property sales		32,223	8,594
Land sales		46,781	80,407
Rental revenue		22,743	24,230
Dividend revenue		5,243	9,630
Other revenue		14,142	16,175
		157,935	169,341
Cost of sales		119,887	119,939
Operating expense		19,748	24,002
Interest not subject to the Plan	14	20,886	26,181
Dividends on term preferred shares of subsidiary companies	10	2,857	536
Items subject to the Plan			
Interest	14	14,625	17,965
Other costs		626	1,708
Reduction to net realizable value		34,972	38,709
Depreciation and amortization		1,691	1,599
		215,292	230,639
Loss from operations		(57,357)	(61,298)
Equity in net loss after income taxes of affiliates and oil and gas operations		(299)	(831)
Provision for settlement of contingent claims	16	(6,500)	—
Realization of foreign exchange gains	19	16,589	—
Net loss before extraordinary items		(47,567)	(62,129)
Extraordinary items	17	20,569	17,243
Net loss	15	(26,998)	(44,886)

Consolidated Statement of Deficit

Year Ended December 31, 1986

	Note Reference	(In Thousands of Dollars)	
		1986	1985
Deficit, January 1			(Restated)
As previously reported		579,837	534,951
Adjustment of prior year's income taxes	11	(1,882)	(1,882)
As restated		577,955	533,069
Net loss		26,998	44,886
Deficit, December 31		604,953	577,955

C Consolidated Statement of Cash Flow

Year Ended December 31, 1986

	Note Reference	(In Thousands of Dollars)	
		1986	1985
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES:			
Loss from operations		(57,357)	(61,298)
Items not requiring cash from operations:			
Reduction to net realizable value		34,972	38,709
Depreciation and amortization		1,691	1,599
Items subject to the Plan:			
Interest		14,625	17,965
Other costs		626	1,708
Changes in the following operational balances after adjusting for the impact of the Plan:			
Cash with restricted usage		5,953	3,040
Other assets		820	889
Payables and accruals		2,067	(5,474)
Deferred income		(2,622)	2,301
Receivables less specific debt		6,029	14,062
Real estate less specific debt		24,078	17,875
Cash from operating activities		30,882	31,376
INVESTING ACTIVITIES:			
Investments		37,792	(1,228)
Sale of oil and gas properties		--	9,075
Cumulative translation adjustment		1,150	4,042
Fixed assets		20	(179)
Cash from investing activities		38,962	11,710
FINANCING ACTIVITIES:			
Bank operating loans		(61,257)	(37,949)
Debt secured by real estate		--	(17,508)
Public debentures		(31,767)	(12,696)
Unsecured debt		(530)	(1,010)
Term preferred shares of subsidiary companies		(500)	29,926
Debt obligations settled by the issue of Special Common Shares, Class A	I	(9,978)	(22,270)
Issue of Special Common Shares, Class A under the Plan	I	9,978	22,270
Issue of Special Common Shares, Class B for cash	I	22,071	--
Issue of Common Shares for cash		--	116
Costs related to the Refinancing		(4,010)	--
Cash used in financing activities		(75,993)	(39,121)
(Decrease) increase in cash		(6,149)	3,965
Cash, January 1		23,041	19,076
Cash, December 31		16,892	23,041

Notes to Consolidated Financial Statements

December 31, 1986

1. FINANCIAL RESTRUCTURINGS

Over the past three years, Nu-West Group Limited (Nu-West) has implemented two financial restructuring arrangements:

(a) Plan of Arrangement (the Plan)

(i) Implementation and Duration

After approval by Nu-West's creditors and shareholders, the Plan was sanctioned by a court order on July 30, 1984 and formally implemented on November 1, 1984. The Plan, subject to certain conditions, will be in effect until December 31, 1987 (the Plan period). During the Plan period, pre-March 21, 1984 creditor claims, with certain exceptions, are subject to a stay of proceedings.

(ii) Debt Reduction

The Plan provides for the reduction of debt claims by project lenders to the value of their underlying security. Payments to the project lenders during the Plan period will be limited to the net cash flow realized from the operation and sale of their respective security. The unsecured balance of this debt, including interest, was, or will be, settled by the issuance of shares during the Plan period.

Project lenders and certain unsecured creditors have also been given the option to defer, to December 31, 1987, the settlement of unsecured claims including any unpaid interest.

In addition, a portion of the debt claims of bank operating lenders, debentureholders and certain other unsecured creditors have been settled by the issuance of shares.

Debt, including interest, has been converted to equity as follows:

Debt classification	Note	(In Thousands of Dollars)			November 1, 1984 to December 31, 1985	
		Principal	Interest	Total	1985	Total
Bank operating loans		—	6,621	6,621	184,974	191,595
Public debentures		—	2,108	2,108	62,931	65,039
Debt secured by real estate	7	83	436	519	24,596	25,115
Unsecured debt		—	—	—	19,996	19,996
Contingent claims	16	730	—	730	9,037	9,767
		813	9,165	9,978	301,534	311,512

Also, real estate has been quit-claimed under the provisions of the Plan resulting in a credit to contributed surplus. The accounting is summarized as follows:

	(In Thousands of Dollars)		
	Settlement of Debt Secured by Real Estate		
	1986	November 1, 1984 to December 31, 1985	Total
Debt settled	30,392	159,363	189,755
Carrying value of real estate	9,648	83,885	93,533
Credit to contributed surplus	20,744	75,478	96,222

1. FINANCIAL RESTRUCTURINGS Continued

The reduction to net realizable value includes \$7,762,000 (1985 - \$4,312,000) recorded on properties quit-claimed to project lenders under the Plan.

Project lenders, representing project debt of \$20,439,000 (1985 - \$48,872,000) and related real estate and receivables with a carrying value of \$7,624,000 (1985 - \$24,455,000), have elected to defer settlement of unsecured claims. It is not possible to accurately predict at this time the amount or method in which the unsecured portion of this debt will be settled under the Plan.

(iii) Plan Exclusions

The Plan does not apply to trade creditors, customers, tenants, employees, the Crown and new credit received after March 21, 1984 (other than credit provided for in the Plan). The Plan has no direct effect on the Company's operating subsidiaries. Certain of these subsidiaries are operating under their own debt restructuring arrangements which include funding from their principal lenders. Management is sufficiently confident that these subsidiaries will be able to successfully achieve their obligations under these arrangements to warrant the consolidation of the accounts of these subsidiaries on a going concern basis.

At December 31, assets of \$133,645,000 (1985 - \$152,430,000) and liabilities of \$151,969,000 (1985 - \$160,480,000) relating to the accounts of these subsidiaries are included in the consolidated balance sheet. Nu-West is contingently liable as guarantor of certain indebtedness of these subsidiaries, but as these guarantees were issued prior to March 21, 1984, they are subject to settlement as contingent claims under the Plan. Included in the loss from operations is \$14,552,000 (1985 - \$5,393,000) related to the accounts of these subsidiaries.

(iv) Accounting Treatment

The objective of the Plan is the creation and preservation of shareholders' equity. Generally, increases in equity arise on the reduction of debt claims by lenders to the current value of their underlying security and are recognized on the settlement of debt obligations by the issue of shares or the quit-claim of real estate. Accordingly, settlements of such debts under the Plan have been treated as capital transactions whereby increases in equity arise from credits to share capital or contributed surplus, in accordance with the circumstances.

(b) Equity Refinancing

On December 16, 1986, after approval by the shareholders and debentureholders, Nu-West completed an equity refinancing (the Refinancing) which included the following:

(i) Issue of Special Common Shares, Class B

Nu-West issued 110,354,628 Special Common Shares, Class B to a number of new investors for cash consideration of \$22,071,000. The new investors included certain members of senior management of Nu-West and Nu-West, Inc. who were issued 14,382,054 Special Common Shares, Class B for cash consideration of \$2,876,000.

(ii) Bank Operating Loans

Bank operating loans of \$69,907,000 were settled by cash payments totalling \$53,778,000 and all related security was released.

The bank operating lenders returned to Nu-West the 81,819,937 Special Common Shares, Class A issued to them under the Plan, for cancellation for no consideration.

The bank operating lenders also waived interest accrued since October 31, 1986 and waived their right to any future shares otherwise to be issued in settlement of their project loans and unsecured debts under the Plan.

Prior to completion of the Refinancing the bank operating lenders, as a result of their shareholdings and loan agreements, had the ability to influence the operating and financial decisions of Nu-West and, accordingly, were defined as related parties. As a result of the Refinancing, the bank operating lenders are no longer related parties. During the period for which they were related parties in 1986, in addition to the transactions described above, the Company incurred interest expense of \$13,161,000 (1985 - \$15,188,000) payable to the bank operating lenders and issued 2,664,005 (1985 - 3,997,692) Special Common Shares, Class A to them in settlement of debt obligations.

1. FINANCIAL RESTRUCTURINGS Continued

(b) Equity Refinancing

(iii) Public Debentures

Indebtedness secured by public debentures of \$37,082,000 was settled by net cash payments totalling \$29,622,000 and all related security was released. Interest accrued from June 30, 1986 was waived and is included in the gain on debt settlement under the Refinancing.

The stated value of shares returned for cancellation has been charged to share capital and credited to contributed surplus on the basis of the average issue price of the shares in the class.

As a consequence of these transactions Nu-West realized an extraordinary gain of \$19,579,000 net of costs related to the Refinancing.

2. RECEIVABLES

	(In Thousands of Dollars)	
	1986	1985
		(Restated – see Note 11)
Secured receivables	34,284	49,814
Unsecured receivables		
Trade	3,914	4,396
Other	5,688	9,159
	43,886	63,369

Collections over the next five years are scheduled to be: 1987 – \$20,538,000; 1988 – \$4,179,000; 1989 – \$8,446,000; 1990 – \$839,000; 1991 – \$401,000; 1992 and subsequent – \$9,483,000.

3. INVESTMENTS

	(In Thousands of Dollars)	
	1986	1985
Investments (marketable) carried at cost:		
Carma Ltd. (22,864,853 shares)	1	1
Investments (non-marketable) carried at cost:		
Western Savings and Loan Association (WSL)		
290,000 Series A Cumulative Preferred shares	—	36,667
150,000 Series C Cumulative Preferred shares	15,802	15,944
United Financial Corporation	5,929	8,266
Other	392	3,212
Investments (non-marketable) recorded on equity basis:		
Oil and gas assets	775	2,016
Other	—	195
	22,899	66,301

The Company carries its investment in Carma Ltd. (Carma) at a nominal attributed value of \$1,000. Upon implementation of the Carma financial restructuring plan the dilution of the Company's investment resulted in a change from the equity to the cost method of accounting.

The market value of the Carma shares at March 27, 1987, amounting to \$3,315,000, reflects the last bid price at that date, and is not necessarily representative of the amount that would be received by the Company in the event of a sale.

During 1986, the Company sold the 290,000 Series A Cumulative Preferred shares of WSL for a cash consideration of \$36,667,000. On September 5, 1986, the Company granted an option to WSL to repurchase the 150,000 Series C Cumulative Preferred shares for \$12,500,000 (U.S.) which has been extended to March 31, 1987.

4. LAND HELD FOR DEVELOPMENT

(In Thousands of Dollars)

	1986	1985
Land acquisition costs	83,236	101,178
Development costs	9,858	11,018
Interest, property taxes and other costs	6,790	11,206
Option deposits	68	30
	99,952	123,432
Current reduction to net realizable value	(12,041)	(14,766)
	87,911	108,666

Additional expenditures required to acquire land under option amounts to \$1,365,000 (1985 – \$1,788,000).

5. SUMMARY OF DEPRECIABLE ASSETS

(In Thousands of Dollars)

	1986		1985	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Income producing real estate properties				
Commercial	83,066	4,468	78,598	121,655
Residential	15,483	1,702	13,781	17,993
Fixed assets	5,404	2,932	2,472	2,911

6. BANK OPERATING LOANS

The bank operating loans relate to certain subsidiaries which are operating under their own debt restructuring arrangements. These bank operating loans are payable on demand and are secured by the assets of the subsidiaries including assignments of receivables and certain cash accounts, charges on certain properties and floating charge debentures.

7. DEBT SECURED BY REAL ESTATE

(In Thousands of Dollars)

	1986	1985
Homes completed and under construction	6,182	5,566
Mortgages and interim financing, including accrued interest of \$29,000 (1985 – \$28,000), bear interest on principal at rates varying from 9.0% to 11.3% – weighted average of 10.2% (1985 – from 10.0% to 12.8% – weighted average of 10.5%)		
Land developed and under development	22,187	22,623
Mortgages, agreements for sale and development loans, including accrued interest of \$2,062,000 (1985 – \$3,525,000), bear interest on principal at rates varying from 10.3% to 11.3% – weighted average of 10.7% (1985 from 10.3% to 12.0% – weighted average of 10.7%)		
Land held for development	60,781	80,774
Mortgages and agreements for sale, including accrued interest of \$5,654,000 (1985 – \$8,726,000), bear interest on principal at rates varying from 0% to 12.1% – weighted average of 9.8% (1985 from 0% to 14.0% – weighted average of 10.6%)		
Commercial properties	69,112	94,581
Mortgages, agreements for sale and interim financing, including accrued interest of \$2,207,000 (1985 – \$2,455,000), bear interest on principal at rates varying from 8.8% to 14.5% – weighted average of 10.7% (1985 from 9.3% to 14.5% – weighted average of 11.8%)		
Residential rental properties	13,377	16,729
Mortgages, agreements for sale and interim financing, including accrued interest of \$Nil (1985 – \$97,000), bear interest on principal at rates varying from 0% to 19.0% – weighted average of 11.1% (1985 from 0% to 19.0% – weighted average of 11.4%)		
	171,639	220,273

7. DEBT SECURED BY REAL ESTATE Continued

Debt secured by real estate under construction and development is generally repayable when the related real estate is sold. Debt secured by longer term assets, such as land held for development and income producing properties, is repayable at varying dates.

Under the terms of the Plan, the stated repayment terms of pre-March 21, 1984 project loans of Nu-West of \$31,267,000 (1985 - \$55,260,000) are modified as follows:

- the term of the loan is the later of the stated due date or December 31, 1987.
- Nu-West has elected to keep current certain project loans. Payments on all other project loans will be limited to the net cash flow realized from the operation or sale of the related security.
- claims of project lenders are limited to the value of the underlying security. Deficiencies on loans, including any unpaid interest, are settled by the issuance of Special Common Shares, Class A, on the basis of one share for each \$2.50 to \$6.00 of debt depending on the date that the deficiency is determined. Deficiencies are determined either on the basis of actual sales, or valuation of the related security. The project lender is afforded various options as to when, during the Plan period, to receive shares in settlement of loan deficiencies and unpaid interest. Also, under certain circumstances, project lenders have the option to take title to the property in settlement of the related debt. In any case, any outstanding project loan balances at December 31, 1987 will not exceed the value of the underlying security at that time. After December 31, 1987, the project lender has the option to extend the loan on similar terms to those existing during the Plan period, or to take title to the property in settlement of the related debt, subject to Nu-West's rights to arrange alternate financing.

Scheduled repayments are: 1987 - \$70,969,000; 1988 - \$35,647,000; 1989 - \$19,697,000; 1990 - \$7,112,000; 1991 - \$22,535,000; 1992 and subsequent - \$15,679,000.

8. OTHER SECURED DEBT

Other secured debt includes accrued interest of \$201,000 (1985 - \$775,000) and bears interest on principal at rates varying from 3.6% to 18.0% - weighted average of 10.3% (1985 from 0% to 18.0% - weighted average of 10.5%). Other secured debt of \$5,395,000 (1985 - \$12,942,000) is secured by receivables.

Under the terms of the Plan, the stated repayment terms of other secured debt of Nu-West of \$136,000 (1985 - \$6,544,000) are modified on a basis similar to that for the project lenders as explained in Note 7.

Scheduled repayments are: 1987 - \$1,240,000; 1988 - \$380,000; 1989 - \$569,000; 1990 - \$166,000; 1991 - \$181,000; 1992 and subsequent - \$4,447,000.

9. UNSECURED DEBT

Unsecured debt includes accrued interest of \$55,000 (1985 - \$106,000) and bears interest on principal at 5.8% (1985 - 5.8%). Scheduled repayments are: 1987 - \$55,000; 1988 - \$Nil; 1989 - \$31,000; 1990 - \$240,000; 1991 - \$247,000; 1992 and subsequent - \$2,431,000.

10. TERM PREFERRED SHARES OF SUBSIDIARY COMPANIES

Cairns Homes Limited (Cairns)

During 1985, Cairns, a wholly owned subsidiary of the Company, refinanced its operating loans by the issuance of \$25,000,000 of Redeemable, Non-Voting First Preferred Shares of its wholly owned subsidiary. During 1986, \$500,000 of these shares were redeemed. The balance of these shares are to be redeemed over a four year period with minimum redemptions as follows: 1987 - \$1,000,000; 1988 - \$2,000,000; 1989 - \$3,000,000; and 1990 - \$18,500,000. Cairns has guaranteed the redemption of these shares by its wholly owned subsidiary. Cumulative dividends are payable quarterly at a rate of one half of bank prime plus 1-7/8 percent per annum. Dividends on these shares in the amount of \$1,795,000 for the year ended December 31, 1986 (1985 - \$Nil) have been included in the statement of loss.

10. TERM PREFERRED SHARES OF SUBSIDIARY COMPANIES Continued

The Company has also given an option to Cairns' major creditor to acquire up to 30% of the outstanding shares of Cairns in 1989 or 1990. This option expires if the First Preferred Shares and operating loans to this creditor are redeemed and repaid prior to December 31, 1988.

During 1984, another wholly owned subsidiary of Cairns issued \$8,000,000 in Redeemable Non-Voting Preferred Shares to refinance project debt related to real estate which was simultaneously sold. These shares are to be redeemed when the cash proceeds from the sale due in 1989 are collected. Cumulative dividends are payable at 6.7% per year. Dividends on these shares in the amount of \$536,000 for the year ended December 31, 1986 (1985 - \$536,000) have been included in the statement of loss.

Nu-West Florida, Inc. (Florida)

During 1985, Florida, a wholly owned subsidiary of the Company, refinanced its operating loans by the issuance of \$4,926,000 (\$3,500,000 U.S.) of Convertible, Redeemable, Non-Voting Preferred Shares. Cumulative dividends are payable at 10% per year for the years 1986 through 1988 and at bank prime plus 3/4% thereafter. All unpaid dividends are to be paid by December 31, 1990. These shares are redeemable at par at the option of the holder any time after December 31, 1990. Dividends on these shares in the amount of \$526,000 for the year ended December 31, 1986 (1985 - \$Nil) are unpaid and have been included in the statement of loss.

The Company has also given an option to Florida's operating lender to acquire 10% of the outstanding common shares of Florida at any time after January 1, 1989 and up to December 31, 1995 subject to earlier rights if certain loan repayments are not met. This option agreement also gives the operating lender the right to have Florida repurchase these common shares at any time after December 31, 1995.

11. INCOME TAXES

Nu-West and several Canadian and United States subsidiaries have tax loss carryforwards available. The ability of Nu-West and its subsidiaries to claim these tax loss carryforwards is dependent upon the timing, location and amount of future earnings.

Year of Expiry	(In Thousands of Dollars)		
	Canadian Operations	U.S. Operations	Total
1987	5,246	—	5,246
1990	8,751	15,537	24,288
1991	2,763	7,212	9,975
1992	8,339	18,438	26,777
1993	27,090	4,961	32,051
1994	38,338	9,568	47,906
1995	—	28,847	28,847
1996	—	39,737	39,737
1997	—	49,758	49,758
1998	—	48,245	48,245
2000	—	12,118	12,118
2001	—	21,973	21,973
	90,527	256,394	346,921

By Notices of Reassessment, Revenue Canada, Taxation reassessed two subsidiaries in respect of several taxation years. The reassessed amounts relate to taxation years before 1985 and resulted in a recovery of \$1,882,000 which has been recorded as a prior period adjustment.

12. SHARE CAPITAL

(a) Authorized

400,000,000 Special Common Shares, Class A

400,000,000 Special Common Shares, Class B

400,000,000 Common Shares

Priorities to December 31, 1987,

- (i) The Special Common Shares, Class A rank in priority with respect to payment of dividends and in the distribution of assets in the event of liquidation, dissolution or wind-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs, as to \$2.50, over the Common Shares and Special Common Shares, Class B of the Company.
- (ii) The Special Common Shares, Class B rank in priority with respect to payment of dividends and in the distribution of assets in the event of liquidation, dissolution or wind-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up, as to \$0.75, over the Common Shares of the Company, but subject always to the rights of the holders of Special Common Shares, Class A.

If, on January 1, 1988, the Company has met all of the terms of the Plan, then the rights and priorities on the Special Common Shares, Classes A and B cease, and they will have the same rights as the ordinary Common Shares.

The Company has reserved 4,000,000 Common Shares under the provisions of a stock option plan for senior executives and key employees of the Company and its subsidiaries. As at December 31, 1986, options have been granted for 2,250,000 of these shares at 25¢ to 42¢ each to 1989. During 1985, 297,500 Common Shares were issued under the stock option plan for cash proceeds of \$116,000.

(b) Share Capital at December 31:

Issued and outstanding:	(In Thousands of Dollars)			
	Number of Shares		Amount	
	1986	1985	1986	1985
Special Common Shares, Class A	42,011,428	119,947,934	105,937	301,534
Special Common Shares, Class B	125,958,356	15,603,728	121,099	99,028
Common Shares	46,780,587	46,780,587	118,869	118,869
Total issued and outstanding	214,750,371	182,332,249	345,905	519,431

13. CONTRIBUTED SURPLUS

Contributed surplus arose from the following:

	Note Reference	(In Thousands of Dollars)	
		1986	1985
Return of Special Common Shares, Class A for cancellation	1	205,575	—
Settlement of debt secured by real estate	1	96,222	75,478
		301,797	75,478

14. INTEREST

	(In Thousands of Dollars)	
	1986	1985
Interest incurred	37,982	46,498
Less		
Interest applicable to land held for development	(2,471)	(674)
Interest applicable to commercial properties under construction	—	(1,678)
Interest subject to the Plan	(14,625)	(17,965)
	<u>20,886</u>	<u>26,181</u>

Interest expense in 1986 would be greater by \$232,000 (1985 – \$1,737,000), and cost of sales would be lower by \$674,000 (1985 – \$6,068,000) if the Company's United States operations followed Canadian accounting policies and did not capitalize interest on the Company's equity in property.

Interest expense subject to the Plan includes interest paid in shares, or accrued and deferred on project loans which may be settled in shares at a future date.

15. LOSS PER SHARE

	1986	1985
Loss per share before extraordinary items	\$ 0.26	\$ 0.35
Loss per share	\$ 0.15	\$ 0.25

16. CONTINGENCIES AND COMMITMENTS

The Plan provides for the determination and settlement of contingent liabilities of Nu-West outstanding at March 21, 1984. Contingent Creditors could have elected under the Plan to have their contingent claim settled by the issuance of Special Common Shares, Class A on the basis of one such share for each \$2.50 of claim.

Contingent Creditors who did not elect to take shares on November 1, 1984 may settle their claims only if and when they become legally enforceable liabilities. Such claims will be settled on the basis of one Special Common Share, Class A for each \$3.00 to \$6.00 of claims, depending upon the date that the claim is validated.

Contingent Creditors will be deemed to have waived the right to any future payment whatsoever for their claims in the event that these claims do not become legally enforceable liabilities on or before December 31, 1987.

Certain of the contingencies, some of which are subject to the Plan are:

- The Company is contingently liable with respect to guarantees of bank loans of affiliates and joint venture participants totalling \$9,984,000 (1985 – \$10,066,000), letters of credit totalling \$5,030,000 (1985 – \$10,856,000), and surety bonds totalling \$6,649,000 (1985 – \$12,518,000).
- The Company is contingently liable for mortgages granted on projects sold to syndicates of investors in Canada totalling \$88,565,000 (1985 – \$93,677,000). The Company may have claims on the related assets of the syndicate projects in the case of default by investors.
- The Company is contingently liable with respect to guarantees of cash flows and/or a stated return on equity of projects sold in the United States in the amount of \$6,028,000 (1985 – \$6,189,000).
- In the course of its normal business, the Company may be contingently liable for mortgages assumed by customers and other third parties who have purchased real estate from the Company.

16. CONTINGENCIES AND COMMITMENTS Continued

e) The Company is involved in various litigation and claims associated with normal operations. Management believes that any resulting settlements would not materially affect the consolidated financial position of the Company.

Nu-West has recorded a provision of \$6,500,000 for certain of the contingencies which are expected to be settled in shares at the end of the Plan period. The ultimate gains or losses, if any, related to the remaining contingencies, unless otherwise noted, cannot be determined at this time. The future settlement of these contingencies will be accounted for as a charge or credit to income in the period in which the settlement occurs.

The Company is committed to spend an estimated additional \$4,698,000 (1985 - \$6,782,000) to complete land under development in accordance with development agreements entered into with various municipal governments and to complete various projects under construction.

17. EXTRAORDINARY ITEMS

(In Thousands of Dollars)

	Note Reference	1986	1985
Gain on debt settlement under the Refinancing, net of related costs	1	19,579	—
Gain on other debt settlements, net of income taxes of \$202,000 (1985 - \$1,840,000)		788	8,427
Realization of tax loss carryforwards		202	1,840
Gain on sale of oil and gas operations		—	6,976
		20,569	17,243

18. JOINT VENTURES AND PARTNERSHIPS

The Company's proportionate share of joint venture and partnership balances included in the financial statements is summarized below:

(In Thousands of Dollars)

	1986	1985
Assets	63,659	53,798
Liabilities	46,634	39,121
Revenue	23,051	16,889
Expenses	21,771	25,127

19. CUMULATIVE TRANSLATION ADJUSTMENT

The cumulative translation adjustment included in shareholders' equity relates to foreign operations and is reflected as follows:

(In Thousands of Dollars)

	1986	1985
Balance, January 1	26,564	22,522
Translation adjustment for the year	1,150	4,042
Realization of foreign exchange gains	(16,589)	—
Balance, December 31	11,125	26,564

20. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

21. SEGMENTED INFORMATION

	(In Thousands of Dollars)					
	CANADA		UNITED STATES		CONSOLIDATED	
	1986	1985	1986	1985	1986	1985
SEGMENT REVENUE						
Housing	36,265	24,340	538	5,965	36,803	30,305
Land	35,664	33,707	11,117	46,700	46,781	80,407
Income property development, operation and sales	15,538	18,681	39,428	14,143	54,966	32,824
Other	7,664	11,201	11,721	14,604	19,385	25,805
	95,131	87,929	62,804	81,412	157,935	169,341
SEGMENT OPERATING (LOSS) PROFIT						
Housing	1,269	(2,441)	(139)	(901)	1,130	(3,342)
Land	(12,338)	(22,615)	(10,049)	384	(22,387)	(22,231)
Income property development, operation and sales	(724)	(8,195)	(19,737)	(15,043)	(20,461)	(23,238)
Other	1,126	3,229	5,656	10,732	6,782	13,961
	(10,667)	(30,022)	(24,269)	(4,828)	(34,936)	(34,850)
General corporate expense					(3,548)	(4,577)
Interest on corporate borrowings					(16,016)	(21,335)
Dividends on term preferred shares of subsidiary companies					(2,857)	(536)
Loss from operations					(57,357)	(61,298)
Equity loss of affiliates and oil and gas operations					(299)	(831)
Provision for settlement of contingent claims ..					(6,500)	—
Realization of foreign exchange gains					16,589	—
Extraordinary items					20,569	17,243
Net loss					(26,998)	(44,886)
IDENTIFIABLE ASSETS						
Housing	15,233	16,664	1,927	3,368	17,160	20,032
Land	75,539	99,479	88,213	101,572	163,752	201,051
Residential rental properties	13,622	19,028	279	792	13,901	19,820
Commercial properties	21,349	30,508	65,858	106,376	87,207	136,884
Investments in affiliates and other companies ..	780	2,874	22,598	62,178	23,378	65,052
General corporate assets	22,975	24,139	17,628	36,126	40,603	60,265
Total Assets	149,498	192,692	196,503	310,412	346,001	503,104

In the above analysis, interest on project loans has been charged to the applicable segment.

C Corporate Information

Board of Directors

Gerald B. Cramer
Chairman
Cramer Rosenthal McGlynn, Inc.
White Plains, New York

R. Brian Hodgson
Executive Vice President
Nu-West Group Limited
Calgary, Alberta

Thomas C. Israel
Vice President
A.C. Israel Enterprises, Inc.
White Plains, New York

P. Michael Maher
Dean, Faculty of Management
University of Calgary
Calgary, Alberta

Chesley J. McConnell
President
McConnell Homes Ltd.
Edmonton, Alberta

Stephen A McConnell
President and Chief Executive Officer
Nu-West Group Limited
Phoenix, Arizona

Officers

Gerald B. Cramer
Chairman of the Board

Stephen A McConnell
President and Chief Executive Officer

R. Brian Hodgson
Executive Vice President

Douglas B. Watson
Senior Vice President,
Secretary and General Counsel

Judith L.J. Madill
Vice President and Treasurer

Wayne N. Schellenberg
Vice President and Corporate Controller

A. Frederick Woodbeck
Associate Corporate Secretary

Operating Subsidiaries

Cairns Homes Limited
Regina, Saskatchewan

C. Leroy (Roy) Grozell
President
Thomas A. Shepherd
Vice President

Nu-West, Inc.
Phoenix, Arizona

Lewis J. Wright
Chairman of the Board
William R. Bruggeman
President and Chief Executive Officer

Nu-West Florida, Inc.
Fort Lauderdale, Florida

David T. Graham
President
Timothy C. Kelly
Executive Vice President

Corporate Offices

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S4R 8H7
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(602) 957-9511
Office in Denver

Nu-West Florida, Inc.
Building H
4620 N. State Road 7, Ste. 301
Fort Lauderdale, Florida
33319
(305) 486-4070

Registrars and transfer agents

Common Shares and Special Common Shares, Class B:
Guaranty Trust Company of Canada
Offices in Halifax, Montreal, Toronto,
Winnipeg, Regina, Calgary, and
Vancouver

Special Common Shares, Class A:
The Canada Trust Company
Offices in Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

Stock Listing

Toronto Stock Exchange
Symbol: NUW
NUW.A
NUW.B

Auditors

Deloitte Haskins + Sells
2300, 255 - 5th Avenue S.W.
Calgary, Alberta
T2P 3G6

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