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REVENUE PROPERTIES COMPANY LIMITED

CONSOLIDATED
FINANCIAL
STATEMENTS

Year Ended

December 31, 1971

MARCH 1973

DIRECTORS

Richard A. Bain, Toronto
Watson W. Evans, Toronto
Maxwell Goldhar, Toronto
Paul W. Hellen, Toronto
Ken Kelman, Toronto
Gurston I. Rosenfeld, Toronto
C. Harris Tod, C.A., Toronto
Sara Tuberman, Toronto
Michael G. Wright, Montreal

OFFICERS

President: Maxwell Goldhar
Vice-President and Treasurer: C. Harris Tod, C.A.
Secretary: Richard A. Bain
Assistant Secretary: Sara Tuberman
Controller: Warren H. Bock, C.A.

AUDITORS

Thorne Gunn & Co.

PREFERENCE SHARES

Registrar & Transfer Agent
National Trust Company, Limited

COMMON SHARES

Registrar & Transfer Agent
National Trust Company, Limited

Co-Registrar & Co-Transfer Agent
Bankers Trust Company

SENIOR DEBENTURES

Trustee: The Royal Trust Company

SUBORDINATED DEBENTURES

Trustee: National Trust Company, Limited

HEAD OFFICE

12 Sheppard Street, Toronto, Canada, M5H 3A1

REVENUE PROPERTIES COMPANY LIMITED

TO THE SHAREHOLDERS:

On December 4, 1972, there was mailed to you an unaudited consolidated balance sheet as of September 30, 1972 together with unaudited consolidated statements of income, deficit and source and application of funds for the nine months ended September 30, 1972. In addition there was a summary of the areas of real estate development in which your Company is involved. The attached consolidated financial statements are for the year ended December 31, 1971 and have now been audited. In our December 4, 1972 report we explained that our unaudited figures for 1972 used as a starting point the unaudited consolidated financial statements for the year ended December 31, 1971. The attached audited results show an increase of approximately $225,000 in the deficit from the unaudited figures as of December 31, 1971.

In my report of December 4, 1972, I discussed at some length the reorganization of the Company's 7½% Sinking Fund Debentures and the issue of additional common shares, all of which are more fully described in notes 17 and 20 to the attached consolidated financial statements. In the same report, considerable space was given to a discussion of the Company's current operations and its outlook for the near future.

The transactions which at December 4, 1972, were expected to close by December 31, 1972, did in fact close, and resulted in a profit on operations for the last quarter of 1972 which would appear to be sufficient to offset the unaudited loss of $1,117,459 reported for the nine months ended September 30, 1972.

On January 30, 1973, the Government of Canada expropriated approximately 1,100 acres of land owned by Century City Developments Limited, a partially owned subsidiary of the Company. As outlined in note 8 to the attached consolidated financial statements, the Company expects to receive a written offer for compensation for the above acreage by April 30, 1973, and to receive payment in accordance with the offer soon thereafter. According to the law of expropriation, the Company will have a further period of one year after receiving payment in which to negotiate settlement of any further claim it may have or to commence proceedings in the Federal Court. The Company also received notice that the Government of Canada is prepared to purchase an additional 500 acres should Century City Developments Limited desire to sell that land at a negotiated price. Management is giving constant attention to the various alternatives which now present themselves for the development of this significant asset.

The demand for serviced land for both residential and industrial buildings continues to be very strong in the areas in which your Company is active. Certain management changes have been put into effect in order to provide the Company with more capacity and flexibility and management fully expects the Company to continue its forward progress currently indicated by the significant improvement in 1972 over 1971.

On behalf of the Board of Directors

MAXWELL GOLDHAR
President

March 21, 1973.

Auditors' Report

To the Shareholders of
Revenue Properties Company Limited

We have examined the consolidated balance sheet of Revenue Properties Company Limited and subsidiaries (hereinafter referred to as "the Company") as at December 31, 1971 and the consolidated statements of income, deficit and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances, and we have received all the information and explanations that we have required, except as follows:

(1) The routines followed by the Company in the past relating to signing, recording and filing of agreements have been inadequate. As a result, although our examination has been made (except as stated in (3) below) in accordance with generally accepted auditing standards, we have been unable to determine if there are significant agreements of which we are not aware, which:

(i) would require that income be deferred with a corresponding change in the loss for the year ended December 31, 1971 and/or in deficit, or

(ii) should be appropriately reflected in certain notes to the consolidated financial statements.

(2) Available records and supporting evidence were not sufficient to substantiate the costs of certain properties which were sold and leased back prior to March 31, 1970. Those costs entered into the determination of the gain on such sales recorded at March 31, 1970 of which the unamortized portion is included in deferred income in the consolidated balance sheet and the earned portion for the year ended December 31, 1971 is reflected in the consolidated statement of income.

(3) It was impracticable to complete an audit of subsequent events sufficient in scope to enable us to express an opinion as to the fairness or completeness of disclosure of subsequent events, as described in notes 10 and 26.

In addition, the realizable value of the Century City lands has not been determined, as explained in note 8. Consequently it is not possible to determine the outcome and to estimate the possible effect on the accompanying consolidated financial statements of this major uncertainty. Also, because of difficulties in determining market value, we are unable to be satisfied that the $1,250,000 provision for loss applied against cost of real estate during 1970, explained in note 10(a)(i), should have been recorded in that amount.

Because of the significance of the matters set out in the preceding paragraphs and the substantial amounts which may be involved, we are unable to express an opinion as to whether the consolidated financial statements, taken as a whole, present fairly the financial position of the Company as at December 31, 1971 and the results of operations and the source and application of funds for the year then ended in accordance with generally accepted accounting principles.

However, we report that

A in our opinion, the following individual items in the consolidated balance sheet are presented fairly as at December 31, 1971 in accordance with generally accepted accounting principles applied on a basis consistent with that at December 31, 1970:

Cash and short-term deposits
Cash in escrow
Accounts, rents and other receivables (note 4)
Due from directors and officers (note 24 (a))
Prepaid expenses
Mortgages receivable (note 5)
Balances receivable for land sold under agreements of purchase and sale (note 6)
Real estate held for development or sale — Properties other than Century City (note 7)
Revenue producing real estate, at cost less accumulated depreciation (note 9)
Investment in and advances to associated company (note 11)
Sundry investments and advances, at cost
Debenture financing costs less amortization
Bank indebtedness, secured
Accounts payable and accrued liabilities

Liability for settlement of United States civil actions (note 23 (a))
Due to directors and officers (note 24 (b))
Estimated completion costs for land sold
Loans payable secured by mortgages receivable (note 12)
Other secured loans payable (note 13)
Mortgages payable secured by land sold under agreements of purchase and sale (note 14)
Mortgages payable on real estate held for development or sale (note 15)
Mortgages payable on revenue producing real estate (note 16)
7½% Sinking fund debentures (note 17)
7½% Convertible subordinated sinking fund debentures Series A (note 18)
Capital stock (note 20)

B in our opinion, the following individual items in the consolidated statement of income are presented fairly for the year ended December 31, 1971 in accordance with generally accepted accounting principles applied on a basis consistent with that for the nine months ended December 31, 1970:

Revenue — Real estate sales — Held for development or sale
Revenue — Real estate sales — Revenue producing
Revenue — Real estate sales — Construction
Revenue — Rentals
Revenue — Interest
Expenses — Real estate cost of sales — Held for development or sale
Expenses — Real estate cost of sales — Revenue producing
Expenses — Real estate cost of sales — Construction
Expenses — Property operating
Expenses — Interest — Charges (note 25 (a))
Expenses — Administration and general
Expenses — Depreciation
Expenses — Equity in loss of associated company
Extraordinary items — Debenture financing costs less deferred income taxes (note 25 (b))
Extraordinary items — Discount on purchase of sinking fund debentures

C in our opinion, the following individual items in the consolidated statement of source and application of funds are presented fairly for the year ended December 31, 1971 in accordance with generally accepted accounting principles applied on a basis consistent with that for the nine months ended December 31, 1970:

Directors and officers
Mortgages received
Balances received for land sold under agreements of purchase and sale
Investments and advances
Loans and mortgages obtained less repayment of interim bank loan
Real estate — Additions less related loans and mortgages
Real estate — Charges to income less related loans and mortgages and purchasers' deposits
Note receivable purchased (note 24 (a) (iii))
Loans and mortgages paid
Sinking fund debentures paid
Other

D in our opinion, note 2, "Principles of consolidation" and note 3, "Accounting policies" describe fairly those practices followed by the Company in these consolidated financial statements and note 21, "Lease and similar obligations" and note 23, "Legal proceedings" present fairly the information therein.

Whereas we express an opinion in sub-paragraphs A, B, C and D above on individual items, as stated in the preceding paragraph we express no opinion on the consolidated financial statements taken as a whole. Our opinion on individual items listed in those sub-paragraphs also covers the notes (or portions thereof) specifically itemized therein, but does not include any other notes cross-referenced in those notes.

Toronto, Canada
February 20, 1973

THORNE GUNN & CO.
Chartered Accountants

REVENUE PROPERTIES COMPANY LIMITED

(Incorporated under the laws of Ontario)

and subsidiaries

CONSOLIDATED
DECEMBER

ASSETS

Cash and short-term deposits		$ 1,048,605
Cash in escrow		2,268,233
Accounts, rents and other receivables (note 4)		2,648,330
Due from directors and officers (note 24(a))		2,494,104
Prepaid expenses		462,758
Mortgages receivable (note 5)		13,065,626
Balances receivable for land sold under agreements of purchase and sale (note 6)		3,748,245
Real estate held for development or sale		
Properties other than Century City (note 7)	$10,835,441	
Century City (note 8)	13,190,653	24,026,094
Revenue producing real estate, at cost less accumulated depreciation of $5,610,659 (note 9)		33,271,070
Investment in and advances to joint ventures not consolidated (note 10)		2,303,699
Investment in and advances to associated company (note 11)		1,097,781
Sundry investments and advances, at cost		384,173
Debenture financing costs less amortization		50,974
		$86,869,692

Approved by the Board

MAXWELL GOLDHAR, Director

C. HARRIS TOD, Director

BALANCE SHEET

31, 1971

LIABILITIES

Bank indebtedness, secured		$ 347,043
Accounts payable and accrued liabilities		5,444,125
Liability for settlement of United States civil actions (note 23(a))		1,145,178
Due to directors and officers (note 24(b))		1,801,605
Estimated completion costs for land sold		802,608
Loans payable secured by mortgages receivable (note 12)		7,404,921
Other secured loans payable (note 13)		1,901,000
Mortgages payable secured by land sold under agreements of purchase and sale (note 14)		1,968,074
Mortgages payable on real estate held for development or sale (note 15)		
Properties other than Century City	$ 5,944,743	
Century City	5,201,383	11,146,126
Mortgages payable on revenue producing real estate (note 16)		23,115,801
7½% Sinking fund debentures (note 17)		12,814,097
7½% Convertible subordinated sinking fund debentures Series A (note 18)		986,000
		$68,876,578
Deferred income (note 19)		5,017,995
Deferred income taxes		1,425,000
		75,319,573

SHAREHOLDERS' EQUITY

Capital stock (note 20)	
Authorized	
314,065 6% Cumulative, non-voting second preference shares, par value $10, redeemable at par	
16,164,060 Common shares without par value	
Issued and outstanding	
10,962,070 Common shares	25,063,866
Appropriation for second preference shares reserved for issuance as stock dividends	225,020
Deficit	(13,738,767)
Capital stock less deficit	11,550,119
	$86,869,692

Lease and similar obligations, contingent liabilities, legal proceedings and subsequent events (notes 21, 22, 23 and 26)

REVENUE PROPERTIES COMPANY LIMITED

and subsidiaries

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1971

Revenue			
Real estate sales			
Held for development or sale		$14,497,416	
Revenue producing		3,158,460	
Construction		504,623	
Rentals		8,369,299	
Interest		1,697,651	$28,227,449
Expenses			
Real estate cost of sales			
Held for development or sale		12,326,075	
Provision for losses		913,107	
Revenue producing		2,430,691	
Construction		406,170	
Property operating		6,517,770	
Interest			
Charges (note 25(a))	$6,363,792		
Less amounts capitalized	2,278,908	4,084,884	
Administration and general		1,856,584	
Depreciation		895,124	
Equity in loss (net of incomes) of joint ventures not consolidated (note 10)		126,328	
Equity in loss of associated company		230,585	29,787,318
Loss before the undernoted items			1,559,869
Unearned income transferred to deferred income		163,285	
Less earned portion of the income deferred at beginning of year		136,465	26,820
			1,586,689
Income (net of losses) allocated to other participants of consolidated joint ventures			93,097
Loss before income taxes and extraordinary items			1,679,786
Income taxes			
Current (recovered)		(30,000)	
Deferred		542,414	512,414
Loss before extraordinary items			2,192,200
Extraordinary items			
Debenture financing costs less $40,000 deferred income taxes (note 25(b))		172,007	
Discount on purchase of sinking fund debentures		(81,885)	90,122
Loss for the year			$ 2,282,322
Loss per share (note 25(c))			
Before extraordinary items			20.0¢
After extraordinary items			20.8¢

REVENUE PROPERTIES COMPANY LIMITED

and subsidiaries

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1971

Deficit at beginning of year	$11,461,703
Loss for the year	2,282,322
	13,744,025
Transfer from appropriation for second preference shares (note 20(a)(ii))	5,258
Deficit at end of year	$13,738,767

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1971

Source of funds		
Operations		
Loss for the year		$ 2,282,322
Deduct items not involving funds		2,885,497
Funds from operations		603,175
Directors and officers		210,735
Mortgages received		3,705,196
Balances received for land sold under agreements of purchase and sale		11,010,347
Investments and advances		2,150,487
Loans and mortgages obtained less repayment of interim bank loan		6,236,620
		23,916,560
Application of funds		
Real estate		
Additions less related loans and mortgages of $2,510,581	$ 1,501,932	
Capitalized interest and carrying charges	3,225,025	
Charges to income less related loans and mortgages of $14,047,776 and purchasers' deposits of $800,114	346,267	
	5,073,224	
Note receivable purchased (note 24(a)(iii))	262,750	
Loans and mortgages paid	12,520,800	
Sinking fund debentures paid	2,073,902	
Other	135,936	20,066,612
Increase in funds		3,849,948
Deficiency of funds at beginning of year		4,821,126
Deficiency of funds at end of year		
Cash and short-term deposits	(1,048,605)	
Cash in escrow	(2,268,233)	
Accounts, rents and other receivables	(2,648,330)	
Bank indebtedness, secured	347,043	
Accounts payable and accrued liabilities	5,444,125	
Liability for settlement of United States civil actions	1,145,178	$ 971,178

REVENUE PROPERTIES COMPANY LIMITED

and subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1971

INDEX

Throughout these notes "the Company" refers to Revenue Properties Company Limited, its consolidated subsidiaries and its consolidated joint ventures, unless the context indicates otherwise. The 1972 corporate reorganization is detailed in notes 17, 18 and 20. All notes should be read in conjunction with note 26 which describes certain other events subsequent to 1971.

1. Legal requirements concerning financial statements

The consolidated financial statements included herewith do not meet certain of the requirements of The Business Corporations Act in that comparative statements for the year ended December 31, 1970, other than for the consolidated balance sheet which is not included herewith, are not available.

2. Principles of consolidation

(a) The consolidated financial statements include the accounts of all companies in which Revenue Properties Company Limited holds an interest of more than 50% of the voting equity.

Consolidated companies include the following principal active subsidiaries:

	Ownership %
Century City Developments Limited	71.25
One Thirty One Bloor West Limited	100
Revcon Developments Limited	100
Revenue Properties Central Developments Limited	100
Rusuth Investments Limited	100
Savarin Investments Limited	100
The Rubin Development Corporation (United States)	100

Subsequent to 1971 the Company acquired at no cost an additional 5% of the outstanding shares in Century City Developments Limited increasing its ownership to 76.25% (see also note 24(c) (iii)).

(b) The accounts of the subsidiary companies in the United States are translated into Canadian dollars as follows:

(i) mortgages receivable, revenue producing real estate and accumulated depreciation thereon, and mortgages payable on revenue producing real estate — at the exchange rate prevailing at the date the assets were acquired or the liabilities incurred.

(ii) all other assets and liabilities — at the exchange rate prevailing at December 31, 1971.

(iii) revenue and expenses — at the average exchange rate prevailing throughout 1971 except for depreciation which is at the exchange rate prevailing at the acquisition date of the related asset.

(c) The accounts of joint ventures holding real estate for development or sale are not normally consolidated. The Company's investment in such joint ventures is reflected in the consolidated balance sheet as "Investment in and advances to joint ventures not consolidated" using the equity method by which the investment is increased or decreased by the Company's share of the undistributed profits or losses of the joint ventures.

An exception to the principle outlined in the preceding paragraph occurs because certain joint venture agreements provide that the Company (i) is responsible for all financing required and (ii) has a 100% interest in real estate held for development or sale, subject only to the participation by others in net profits or losses. The Company's participation in these joint ventures varies from 63.75% to 90%. As a result 100% of the assets, liabilities, revenues and expenses of these joint ventures are included in the consolidated financial statements.

3. **Accounting policies**

(a) *Capitalization of costs*

(i) Land held for development or sale — Acquisition costs, realty taxes, other direct carrying costs and appropriate interest are capitalized.

(ii) Construction of buildings — Direct costs, and appropriate overhead and interest are capitalized.

For purposes of capitalizing interest, a composite interest rate applicable to all monies borrowed is established annually, which rate is then applied to the total costs incurred on certain development properties other than those owned by joint ventures and Century City Developments Limited.

For properties owned by joint ventures, interest specifically chargeable on debt owing by each joint venture, together with interest charged by the Company, where permitted, on its advances to the joint venture, is capitalized.

For the Century City lands, interest specifically chargeable on debt owing by Century City Developments Limited (other than to the Company) is capitalized.

All estimated costs of servicing land which has been sold are recorded. The unexpended portion of these estimates is included in "Estimated completion costs for land sold" in the consolidated balance sheet.

With respect to construction projects, the construction period is generally considered to have ended when a rental occupancy of approximately 70% has been achieved, providing that there have been no abnormal delays in construction or rental.

(b) *Recognition of income*

Income from the sale of real estate is recognized in accordance with the guidelines published by the Ontario Securities Commission in 1969.

Income from construction contracts is recorded on a percentage of completion basis.

(c) *Depreciation on revenue producing real estate*

Depreciation is provided using the straight-line method, based on the estimated useful lives of the various assets as follows:

Buildings	40-50 years
Furniture and equipment	10 years

(d) *Financing costs*

(i) Costs incurred on the issue of debentures are amortized on a straight-line basis over the terms of the debentures with the unamortized balance of costs applicable to debentures redeemed or refinanced being written off as redemption or refinancing occurs (see note 25(b)). The balance of the unamortized debenture financing costs is shown as "Debenture financing costs less amortization" in the consolidated balance sheet.

At the end of a fiscal period the currency adjustment (see note 17(a) and 17(g)) which is applicable to those sinking fund payments falling due within one year, based upon the rate of exchange prevailing at the end of that fiscal period, is charged against income.

(ii) Finders' fees and similar charges, which relate mainly to the obtaining of financing by way of mortgages and other loans payable of short-term durations, are written off as incurred except in joint ventures where they are capitalized as part of the cost of real estate held for development or sale.

(e) *Deferred income taxes*

Certain provisions of the Income Tax Act are used which have resulted in the deferral of income taxes otherwise currently payable. Such provisions relate mainly to (i) reserves deducted for tax purposes when real estate was sold and mortgages taken back as partial consideration, (ii) depreciation claimed for tax purposes in excess of depreciation recorded in the accounts and (iii) interest, overhead and other carrying charges deducted for tax purposes although capitalized in the accounts as a cost of real estate.

The effect of accumulated losses for tax purposes, which losses may be deductible in determining income taxes in the years up to 1976, is not recorded in the accounts.

4. Accounts, rents and other receivables

Subdivision deposits and construction contracts	$1,427,641
Notes and loans	342,686
Interest	319,517
Rents and miscellaneous	558,486
	$2,648,330

5. Mortgages receivable

Mortgages on properties sold, including $4,157,311 on certain properties leased back or managed (see note 21), maturing at various dates to 2019 (interest rates vary from 5¼% to 10%, weighted average 7.6%)

1972	$ 508,482
1973	1,773,980
1974	384,361
1975	252,565
1976	271,607
1977 and subsequent	8,905,422
	12,096,417
Second mortgages on sold housing units, maturing at various dates to 1995 (interest rates vary from 6¾% to 12%)	969,209
	$13,065,626

Substantially all mortgages receivable are pledged against loans payable (see note 12).

See note 26(a) for mortgages receivable sold and note 26(b) concerning principal received and mortgages receivable which have matured subsequent to 1971.

6. **Balances receivable for land sold under agreements of purchase and sale**

Balances maturing (interest rates vary from 6% to 8½%, weighted average 6.4%)

1972	$1,115,655
1973	2,113,590
1974	519,000
	$3,748,245

The agreements contain clauses providing for earlier principal payment in the event the purchaser requires title to the land.

Mortgages payable secured by the land sold under these agreements of purchase and sale remain an outstanding liability of the Company (see note 14).

See note 26(b) concerning principal received subsequent to 1971.

7. **Real estate held for development or sale — Properties other than Century City**

	Land		Construction including carrying charges	Total
	Acquisition costs	Capitalized carrying charges		
Land				
Unimproved	$2,829,049	$ 939,320		$ 3,768,369
Serviced	5,215,317	1,518,627		6,733,944
Housing units	12,178		$ 320,950	333,128
	$8,056,544	$2,457,947	$ 320,950	$10,835,441

All real estate held for development or sale is recorded at original acquisition cost except that a provision for losses has been recorded in respect of properties sold subsequent to 1971 at less than cost or for which a loss is anticipated on sale.

Real estate held at December 31, 1971 was increased by carrying charges of $830,513 during 1971. A commercial building costing $5,990,000, which was under construction at December 31, 1970, was transferred to "Revenue producing real estate" in 1971.

See note 26(c) concerning properties sold subsequent to 1971.

8. **Century City**

Unimproved land of approximately 6,600 acres in and adjacent to The Township of Uxbridge, Province of Ontario, owned by Century City Developments Limited, a partially-owned subsidiary known as "Century City", is included in "Real estate held for development or sale" at a cost of $13,190,653 which includes capitalized carrying charges of $2,442,742 of which $517,503 was capitalized during 1971.

In May 1970 the Province of Ontario published a study entitled "Design for Development: The Toronto-Centred Region" which created some uncertainties as to the future uses of the Century City lands.

On March 2, 1972 the Government of Canada and the Province of Ontario jointly announced that a new Toronto international airport would be located in the Township of Pickering. The Government of Canada then advised Century City of its intention to expropriate approximately 1,600 acres of land owned by Century City. On January 30, 1973 the Government of Canada confirmed its intention to expropriate property in Pickering and Uxbridge townships which, however, includes only approximately 1,100 acres of Century City land. On or before April 30, 1973 the Government of Canada must make a written offer of compensation to Century City for the 1,100 acres based on values as of January 30, 1973. The offer of compensation may be accepted by Century City without prejudice to its right to claim additional compensation in respect of the expropriated interest. After acceptance of the offer Century City would receive payment and would then have one year in which to negotiate a settlement of any further claim or to commence proceedings in the Federal Court. Also on January 30, 1973 Century City received an offer from the Government of Canada to purchase at a reasonable price the additional 500 acres originally subject to the notice of intention to expropriate. The offer remains available until January 30, 1974.

The permitted uses of Century City lands require clarification before the realizable value of this property can be reasonably determined.

Virtually no mortgage payments have been made on the Century City lands (see notes 15 and 26(g)) since May 1970. By January 15, 1973 all 1970 realty taxes on these lands were paid and some payments on account of 1971 and 1972 realty taxes were also made.

Certain mortgagees have commenced proceedings and issued writs of foreclosure to enforce their security. Century City is defending these actions.

9. **Revenue producing real estate**

Buildings and improvements, at cost	$35,102,788
Furniture and equipment, at cost	434,320
	35,537,108
Less accumulated depreciation	5,610,659
	29,926,449
Land, at cost	3,344,621
	$33,271,070

The cost of buildings constructed during 1971 was increased by carrying charges of $358,090.

See note 26(d) concerning properties sold subsequent to 1971.

10. **Investment in and advances to joint ventures not consolidated**

The Company's investment in joint ventures not consolidated consists of the following:

Mortgages receivable	$ 860,500
Other investments and advances, equity basis	1,657,276
	2,517,776
Less 50% of profit arising on transfer of property by the Company to a joint venture in which the Company has a 50% interest (subsequently earned in 1972 as a result of the sale of the Company's interest in the joint venture)	214,077
	$2,303,699

The Company's share of profits or losses in these joint ventures varies from 40% to 85%.

The Company is contingently responsible for all the liabilities of the joint ventures, but the Company has recourse to all of each joint venture's assets as well as the assets of the other participants to the extent it is required to pay liabilities in excess of its proportionate share.

A summary of the combined financial statements of these joint ventures follows:

JOINT VENTURES NOT CONSOLIDATED
Combined Balance Sheet
December 31, 1971

Assets		
Cash and short-term deposit		$ 51,254
Accounts receivable and sundry assets		222,064
Mortgages receivable		660,739
Real estate held for development or sale (see (a) below)		8,877,662
		$9,811,719
Liabilities		
Bank indebtedness, secured		$ 30,000
Accounts payable and accrued liabilities		785,098
Loans and mortgages on real estate held for development or sale		
Payable to the Company	$ 860,500	
Payable to others (see (b) below)	5,272,036	6,132,536
Deferred income (see (c) below)		153,039
		7,100,673
Participants' Equity		
The Company	1,657,276	
Others	1,053,770	2,711,046
		$9,811,719

JOINT VENTURES NOT CONSOLIDATED
Combined Statement of Income
Year ended December 31, 1971

Revenue		
Real estate construction	$ 31,468	
Rentals	1,509,708	
Interest	74,618	$1,615,794
Expenses		
Real estate cost of sales		
Construction	54,104	
Provision for loss	131,722	
Property operating	1,626,508	
Administration and general	21,617	1,833,951
Loss (net of incomes) for the year		$ 218,157

JOINT VENTURES NOT CONSOLIDATED

Combined Statement of Participants' Equity
Year ended December 31, 1971

	Participants' Equity		
	The Company	Others	Total
Balance at beginning of year	$2,186,408	$1,599,283	$3,785,691
Deduct			
Loss (net of incomes) for the year	126,328	91,829	218,157
Drawings (net of contributions)	402,804	453,684	856,488
	529,132	545,513	1,074,645
Balance at end of year	$1,657,276	$1,053,770	$2,711,046

(a) *Real estate held for development or sale*

	Land			
	Acquisition costs	Capitalized carrying charges	Buildings	Total
Land				
Unimproved	$4,635,496	$ 951,465		$5,586,961
Serviced	1,375,579	302,296		1,677,875
Industrial and commercial buildings	837,354		$ 775,472	1,612,826
	$6,848,429	$1,253,761	$ 775,472	$8,877,662

The real estate is shown at original acquisition cost except for the following:

(i) Two unimproved properties were written down in 1970 by approximately $1,250,000 to the amount of the mortgages and other liabilities payable on them in recognition of the fact that the Company might have been unable to meet the mortgage payments when required which would have resulted in the Company losing its equity in this joint venture. At January 15, 1973, it appeared that the Company would be able to meet the mortgage payments when required; however, the provision for loss of approximately $1,250,000 has not been readjusted although the Company intends to develop these lands. When these lands are sold the profit, if any, will be recognized at that time. Arrears of principal and interest on those mortgages were approximately $640,000 at January 15, 1973 and writs of foreclosure have been issued. The writs of foreclosure are being defended and the validity of the mortgages is being challenged by the Company.

(ii) A third property has been written down to the value at which it was sold in 1972.

During 1971 real estate was increased by carrying charges of $307,758.

Subsequent to 1971 properties having a book value of approximately $1,484,000 were sold at a profit.

(b) *Loans and mortgages on real estate held for development or sale — Payable to others*

Mortgages on which principal and interest are in arrears (see (a) (i) above), maturing in 1974 (interest rates vary from 6% to 6½%, weighted average 6.2%)		$1,626,360
Other mortgages, maturing at various dates to 1979 (interest rates vary from 6% to 10½%, weighted average 8.1%)		
1972	$ 609,488	
1973	538,734	
1974	517,323	
1975	1,132,889	
1976	92,216	
1977 and subsequent	755,026	3,645,676
		$5,272,036

Subsequent to 1971 all principal on loans and mortgages payable outstanding at December 31, 1971, which has become due as summarized above, has been paid (except as set out in (a) (i) above) or arrangements have been made for extension, renewal, or refinancing at the same or lower rates of interest.

(c) *Deferred income*

Deferred income represents the gains on two sale and leaseback transactions. The amount of $153,039 will remain deferred until certain vendor conditions contained in the sale and leaseback agreements are met and/or the leases are terminated (see (d) below).

(d) *Lease obligations*

Two apartment projects were originally sold and leased back by two of the joint ventures. Both leases have been renewed for terms expiring in 1973; however, one of the joint ventures has given notice of intention to terminate its lease in 1973. Annual rents under these leases are $750,000.

The sale agreements contained clauses providing for reductions in the original selling prices in the event that specified levels of gross annual income, as defined, and specified occupancy levels are not achieved by the time of expiry of the leases including renewal periods. These levels have not yet been reached. Based on levels existing at the 1972 lease expiry dates, the original selling prices would have been reduced by an amount in excess of the recorded deferred income (see (c) above). The leases are renewable annually at the present rental rates by the lessors, if the vendor conditions in the sale and leaseback agreements have not been met, or by the joint ventures. Since the determination and realization of any such reductions in selling prices may be deferred indefinitely, they are not provided for in these accounts.

(e) *Interest on long-term debt*

The joint ventures incurred interest on long-term debt during 1971 which is reflected as follows:

Charged to property operating	$ 138,284
Capitalized	364,442
	$ 502,726

11. Investment in and advances to associated company

Canadian Century Homes Limited	
Shares, at cost	$ 695
Advances and mortgages receivable	1,326,171
	1,326,866
Equity in deficit	229,085
	$1,097,781

The Company owns 50% of the outstanding voting common shares and 100% of the outstanding non-voting participating Class A shares of Canadian Century Homes Limited, representing a 63.75% equity interest therein (see also notes 22(c) and 24(c)(iii)).

The advances and mortgages receivable are reduced by $137,539, being the Company's 63.75% share of the profit recorded on the transfer of certain properties in 1970 to Canadian Century Homes Limited.

In 1972 the Company's 63.75% equity interest increased to 75% as the result of its eventual ownership of all the additional non-voting participating Class A shares issued during 1972 by Canadian Century Homes Limited.

12. **Loans payable secured by mortgages receivable**

Loans maturing (interest rates vary from 9½% to 17%, weighted average 11.8%)

1972	$3,516,057
1973	1,234,655
1974	1,606,289
1975	197,920
1976	850,000
	$7,404,921

See note 26(f) concerning principal paid and loans payable which have matured subsequent to 1971.

13. **Other secured loans payable**

Loans maturing (interest rates vary from 7% to 13%, weighted average 9.3%)

1972	$1,451,500
1973	439,500
1974	10,000
	$1,901,000

The loans are secured as to $1,271,000 by lands sold and a mortgage receivable related thereto as described in note 24(a)(i) and as to $630,000 by the Company's investment in certain joint ventures not consolidated.

See note 26(f) concerning principal paid and loans payable which have matured subsequent to 1971.

14. **Mortgages payable secured by land sold under agreements of purchase and sale**

Mortgages maturing (interest rates vary from 6% to 16%, weighted average 10.5%)

1972	$1,169,783
1973	798,291
	$1,968,074

These mortgages payable are secured by land sold in respect of which balances are receivable and will generally be discharged in amounts proportionate to payments received on the balances receivable (see note 6).

See note 26(f) concerning principal paid and mortgages payable which have matured subsequent to 1971.

15. **Mortgages payable on real estate held for development or sale**

Properties other than Century City	
Mortgages maturing at various dates to 1994 (interest rates vary from 5% to 16%, weighted average 9.7%)	
1972	$ 2,678,735
1973	1,709,426
1974	628,740
1975	33,625
1976	300,923
1977 and subsequent	593,294
	5,944,743
Century City	
Mortgages on which principal and interest are in arrears (see note 8), maturing at various dates to 1990 (interest rates vary from 7% to 9%, weighted average 8%)	5,201,383
	$11,146,126

See note 26(f) concerning events subsequent to 1971 relating to principal paid and mortgages payable which have matured and note 26(g) for arrears of principal and interest.

16. Mortgages payable on revenue producing real estate

Mortgages maturing at various dates to 1995 (interest rates vary from 5¼% to 12%, weighted average 8.7%)

1972	$ 1,278,762
1973	893,329
1974	5,952,461
1975	930,539
1976	1,780,950
1977 and subsequent	12,279,760
	$23,115,801

See note 26(f) concerning principal paid and mortgages payable which have matured subsequent to 1971.

17. 7½% Sinking fund debentures

Effective June 30, 1972 the 7½% Sinking fund debentures became 9% Convertible sinking fund debentures as a result of the corporate reorganization approved during 1972 by the shareholders, regulatory bodies and other interested parties (see also note 20 — "Capital stock").

The comparative status of the debentures is set out below:

	December 31, 1971	After reorganization — June 30, 1972
(a) *Principal*		
Series A	$ 1,960,000	$ 1,904,000
Series B	1,374,000	1,374,000
Series C	5,250,000	5,250,000
Series D	4,200,000	4,200,000
Series E	nil	cancelled
	12,784,000	12,728,000
Add currency adjustment	30,097	30,097
	$12,814,097	$12,758,097
(b) *Interest rate*	7½%	9%
(c) *Maturity date*		
Series A	1973	May 15, 1976
Series B	1977	June 1, 1981
Series C	1976	Feb. 15, 1981
Series D	1976	June 15, 1981

	December 31, 1971	After reorganization — June 30, 1972
(d) *Sinking fund requirements*		
		Payable November 15 annually
Series A	$ 50,000 annually to 1972	$50,000, 1972 to 1975 inclusive
Series B	$ 40,000 annually to 1976	Consolidated and shared by the Series B, C and D Debentures rateably in proportion to the principal amount of each series outstanding on the October 5 immediately preceding the sinking fund payment date.
Series C	$750,000 annually to 1975	
Series D	$600,000 annually to 1975	Payments are $250,000 in 1972 and 1973, $500,000 in 1974 and 1975, and $1,550,000 in 1976 to 1980 inclusive.

The Company is required to pay by each sinking fund payment date an amount sufficient to pay interest accrued to that date in respect of debentures to be redeemed out of the sinking fund, and in the case of the Series C and D debentures to be redeemed the Company is also required to pay the exchange rate adjustment referred to in (g) below. The revised terms of the debentures after the reorganization provide that all debentures which are redeemed out of sinking fund payments are to be redeemed, firstly, out of the outstanding sub-series I debentures of each series until no sub-series I debentures of the particular series remain outstanding, next out of the sub-series II debentures, then out of the sub-series III debentures, and, lastly, out of the sub-series IV debentures of such series.

At December 31, 1971 the Company has purchased for cancellation $40,000 principal amount of Series A debentures. By June 30, 1972 the Company had also purchased an additional $56,000 principal amount of Series A debentures at a cost of $42,000, bringing the total principal amount then available as a sinking fund credit to $96,000. On November 15, 1972, $50,000 of such principal amount was applied as a sinking fund credit leaving a balance of $46,000 available.

At December 31, 1971 the Company has purchased for cancellation $386,000 principal amount of Series B debentures, which principal amount was available as a sinking fund credit. By June 30, 1972 the Company had applied $40,000 of such credit in respect of the June 1, 1972 $40,000 Series B sinking fund payment. Under the terms of the reorganization (see (f) below) the balance of $346,000 is no longer available as a sinking fund credit.

Subsequent to June 30, 1972 the Company purchased $301,000 Series D debentures at par. As outlined in (f) below, these debentures cannot be used to meet sinking fund requirements but their purchase may be reimbursed from cash held by the trustee, subject to certain restrictions.

All 1972 sinking funds payments have been met as follows:

(i) June 1 – No Series B payment required because of the sinking fund credit referred to above.

(ii) November 15 – No Series A payment required because of the sinking fund credit referred to above.

(iii) November 15 – The consolidated Series B, C and D payment of $250,000 was paid in cash (by application of funds on hand with the trustee, of which $25,147 was on hand at December 31, 1971).

	December 31, 1971	After reorganization — June 30, 1972
(e) *Acceleration of sinking fund payments*		
Series C and D	Accelerated in certain circumstances.	No acceleration provision.

	December 31, 1971	After reorganization — June 30, 1972
(f) *Sinking fund credit*	Series A, B or D debentures may be purchased or redeemed at prices not in excess of the applicable redemption price and the principal amount may then be applied as a credit against respective sinking fund requirements.	Although all series of debentures may be purchased or redeemed at prices not in excess of their redemption prices, Series A debentures are the only series which qualify for sinking fund credit. The Company may be reimbursed for its purchase of any series of debentures, from cash held by the trustee, up to a maximum of 80% of the redemption price of the purchased debentures, provided, however, that the aggregate reimbursements for Series B, C and D debentures in any one fiscal year is limited to 50% of that fiscal year's consolidated sinking fund payment.
(g) *Adjustment dependent upon Canadian and Federal Republic of Germany currencies* Series C and D principal and interest payments.	15% maximum (increase or decrease) dependent upon the exchange rates officially recognized by the International Monetary Fund.	25% maximum (increase or decrease) dependent upon the market exchange rates.
(h) *Convertible features*	None	Each series is sub-divided into four equal separate sub-series. The principal amount of such sub-series (Series C and D sub-series being adjusted for above currency relationship) may be converted into common shares at any time prior to maturity as shown below.

Sub-series	Conversion price for one common share
I	$2.00
II	$3.00
III	$4.00
IV	$5.00

The above conversion prices are subject to anti-dilution provisions.

Under the terms of the Deed of Trust and Mortgage the Company has agreed to file a preliminary prospectus with the Ontario Securities Commission by June 30, 1973 in respect of those common shares that may be issued as a result of the conversion of debentures subsequent to that date.

	December 31, 1971	After reorganization — June 30, 1972
		The Ontario Securities Commission has ruled that the common shares resulting from a conversion of the sub-series II, III, and IV debentures may not be resold until the Commission has accepted a prospectus of the Company relating to these shares.
(i) *Redemption*		
Series A and B	On or before maturity at approximately par plus accrued interest.	On or before maturity, in order of sub-series I to IV, at par plus accrued interest.
Series C and D	On or before maturity at par plus accrued interest.	

At December 31, 1971 these debentures, Series A to D inclusive, rank equally and are secured by fixed and specific charges on certain mortgages receivable and certain revenue producing real estate; by a first floating charge on the assets and undertaking of Revenue Properties Company Limited; and to the extent of $6,600,000 on the lands known as "Century City" (see note 8). Substantially all of these mortgages receivable, real estate and lands also secure various indebtedness which ranks in priority to this charge.

By the June 30, 1972 amendments to the Deed of Trust and Mortgage the Company agreed to charge additional mortgages receivable, revenue producing real estate and lands held for development or sale, and also agreed to remove the $6,600,000 limit on the existing charge of the Century City lands. The aggregate net fair market value of all specifically charged property at any time must not be less than 100% of the principal amount of the debentures then outstanding (adjusted for the currency relationship referred to in (g) above). Also the aggregate net fair market value of those parts of the specifically charged property which are cash and real property upon which there are erected buildings or dwellings of a permanent nature held for investment or sale must not be less than 80% of the aggregate net fair market value of the specifically charged property. Property may be released from the charge in stated priorities as long as the aggregate net fair market value of the remaining charged property exceeds 120% of the principal amount of debentures then outstanding (adjusted for the currency relationship referred to in (g) above). The June 30, 1972 amendments substantially changed the provisions of the Deed of Trust and Mortgage governing the power of the Company to sell and encumber the property pledged thereunder and the use which may be made of funds on hand with the trustee. The bulk of these amendments are not summarized herein.

The Deed of Trust and Mortgage securing the debentures contains among other things provisions concerning audit of accounts, statutory obligations of the Company and similar matters. The deed also contains covenants of the Company relating among other things to the payment of prior indebtedness and taxes on property pledged as security. In the opinion of the Company's counsel, to their knowledge no events have occurred which do, or with the appropriate notice would, constitute an event of default under the Deed of Trust and Mortgage, except that certain realty taxes are in arrears. Company's counsel is of the opinion that an event of default may not be declared if payment of these realty tax arrears is made within 30 days of receipt of a written demand from the trustee; in the opinion of the Company, it would be able to make such payment.

At December 31, 1971 Series E debentures of $5,000,000 principal amount are held by a nominee of the Company awaiting cancellation. The terms of the 1972 reorganization prohibit the issue of any additional debentures (including the Series E debentures) and as a result the Series E debentures were cancelled in 1972.

18. 7½% Convertible subordinated sinking fund debentures Series A

The Series A convertible debentures in the amount of $986,000 are due June 30, 1988 and are convertible into common shares of the Company up to the earlier of June 30, 1988 or 3 business days prior to the date specified for their redemption as set out below. No debentures were converted during 1971 or subsequent thereto.

The conversion prices are subject to downward adjustment in the event that the Company issues any additional common shares, as defined, for a consideration per share different from the conversion price in effect immediately prior to the issuance of such shares.

As a result of the foregoing provision and the corporate reorganization during 1972 (see notes 17 and 20) the actual or possible conversion prices are as follows:

			On or before June 30		
			1978	1983	1988
December 31, 1971	(actual)	(a)	$ 9.00	$ 10.67	$ 12.67
October 31, 1972	(actual)	(b)	7.53	8.91	10.57
November 15, 1972	(possible)	(c)	6.34	7.34	8.54

(a) Before giving effect to the corporate reorganization.

(b) After giving effect to the issue of 2,100,827 common shares during 1972 (see note 20(b)).

(c) After giving effect to (b) above, together with the possible issue of 4,672,000 common shares which would result from the conversion of all 9% Convertible sinking fund debentures (see note 17(h)) outstanding immediately after the November 15, 1972 sinking fund payments.

Under the terms of the Trust Indenture, a sinking fund is required to be established for the retirement of $700,000 aggregate principal amount of the debentures on June 30 in each of the years 1979 to 1988 inclusive. Since debentures converted into common shares and thus cancelled, amounting to $6,014,000 to December 31, 1971, can be applied against such sinking fund requirements, no sinking fund payments will be required until at least 1987.

These debentures are redeemable at par (i) to meet sinking fund requirements and (ii) at any other time if throughout the 180 days prior to the date on which notice of redemption is given the market price of the common shares has not been less than 125% of the conversion price then in effect.

These debentures are subordinated to the prior payment in full of the sinking fund debentures referred to in note 17 and of certain other prior indebtedness. There are restrictions concerning payment of dividends under the terms of the Trust Indenture.

The Trust Indenture contains among other things provisions concerning audit of accounts and covenants of the Company. In the opinion of the Company's counsel, to their knowledge no events of default have occurred nor have any events occurred which would allow the trustee to declare an event of default after giving appropriate notice.

19. Deferred income

Deferred income includes gains on certain transactions as follows:

(a) Gain on sales of development property	$1,694,563
(b) Unamortized gain on sale and leaseback transactions	2,135,933
(c) Unamortized gain on sale of nine properties now managed by the Company	842,960
(d) Unamortized gain on sale of the Company's 75% interest in a long-term lease of commercial space	344,539
	$5,017,995

The above deferred income will be recognized as earned when all requirements of the Ontario Securities Commission guidelines have been met. With respect to (b) to (d), the recognition of income as earned will also be in accordance with the terms of the relevant agreements in amounts of $135,000 annually over the next five years and thereafter in varying annual amounts until 1999.

20. Capital stock

No common or second preference shares were issued during 1971.

The authorized and outstanding capital stock at December 31, 1971 was increased during 1972 in connection with the corporate reorganization approved by the shareholders, regulatory bodies and other interested parties (see also note 17 — "7½% Sinking fund debentures").

By articles of amendment dated August 9, 1972 the number of authorized common shares was increased from 16,164,060 to 20,000,000.

(a) At December 31, 1971, 1,756,000 common shares and 22,502 second preference shares are reserved for possible issue as follows:

(i) Common shares

(1) *7½% Convertible subordinated sinking fund debentures Series A — $986,000*

The conversion of these debentures at $9.00 per share would result in the issue of 109,000 common shares (see also (c) below).

(2) *Series A 1961 and Series B 1965 warrants*

Warrants to purchase 1,585,000 common shares are outstanding. The warrants were issued in connection with the sale of the Series A and Series B sinking fund debentures. Each $1,000 of principal for both the Series A and Series B debentures were originally issued carrying warrants to purchase what now amounts, after stock splits, to 600 and 300 common shares respectively.

The outstanding warrants are exercisable as follows:

	Series A 1961 warrants (see (a)(ii) below)	Series B 1965 warrants
Exercisable on or before	November 15, 1973	June 1, 1975
Price per share	$1.0834 on or before November 15, 1972 and thereafter at $1.1251	$1.83 on or before June 1, 1972 and thereafter at $2.17
Number of shares	1,080,000	505,000

(3) *Stock options*

Options to purchase 62,000 common shares are held by three directors and officers as follows:

Number of shares	Price	Terms
12,000	$1.95	3,000 shares in each of the 4 five-year periods ending October 9, 1974 to 1977 inclusive.
25,000	$0.50	5,000 shares in each of the 5 five-year periods ending September 30, 1975 to 1979 inclusive.
25,000	$0.63	5,000 shares in each of the 5 five-year periods ending September 19, 1977 to 1981 inclusive.

(ii) Second preference shares

The holders of the Series A 1961 warrants are entitled to receive, in addition to the common shares outlined in (a)(i)(2) above, all stock dividends that would have been paid from November 15, 1961 as if the warrants had been exercised and common shares issued on that date. From November 15, 1961 to December 31, 1971 stock dividends in the form of second preference shares were paid to the holders of common shares. Upon the exercise of all Series A 1961 warrants, 22,502 second preference shares will be required to be issued without further consideration and accordingly $225,020 is appropriated for such purpose.

The appropriation reserve has decreased by $5,258 in 1971 as the result of the cancellation of share options held by former directors and officers in 1971.

(b) The subsequent issue of 2,100,827 common shares during 1972 resulted from the following:

(i) In August 1972, First Canada Financial Corporation Limited, Danarah Holdings Limited and Two Kiss Holdings Limited subscribed for 500,000, 300,000 and 200,000 common shares respectively at a subscription price of 50¢ per share, resulting in a total of 1,000,000 common shares being issued for $500,000 cash. The beneficial shareholders of First Canada Financial Corporation are Mr. Maxwell Goldhar and Mr. Ken Kelman, each to the extent of 50%. Mr. Goldhar was engaged as a consultant to the Company in January 1971 and became a director and the President during June 1972. Mr. Kelman became a director of the Company during June 1972. The beneficial shareholders of Danarah Holdings Limited are the children of Mr. Goldhar and the daughters and sons-in-law of Mr. Kelman. The beneficial shareholders of Two Kiss Holdings Limited are First Canada Financial Corporation Limited (as to 75%) and Mr. Charles Harris Tod, a director and officer of the Company (as to 25%).

The subscription agreements were subject to various conditions, all of which have been satisfied, including the following:

(1) By October 30, 1972 the repayment and other terms of the outstanding 7½% Sinking fund debentures were extended and modified in a manner satisfactory to First Canada Financial Corporation Limited.

(2) By October 30, 1972 Mr. Alex J. Rubin, Mr. Harry Rubin and all other persons, firms, trusts and corporations (whom First Canada Financial Corporation Limited, in its sole and absolute discretion, was of the opinion were associated or affiliated with either of Mr. Alex J. Rubin and Mr. Harry Rubin or did not deal at arm's length with either of them) executed a voting trust agreement satisfactory to First Canada Financial Corporation Limited, whereby Mr. Goldhar was given the right to vote, at all meetings of the shareholders of the Company, all shares in the capital of the Company owned by such persons, firms, trusts and corporations.

In addition to the right to vote the shares outlined in (2) above, Mr. Goldhar also was given the right to vote the 1,000,000 common shares so long as such shares are owned by the subscribers.

(ii) Rights were issued to all shareholders in August 1972 whereby such shareholders were entitled to subscribe for 1 common share at a price of 50¢ in respect of each 10 common shares of which they were the holders of record. Such rights were not issued in respect of the 1,000,000 common shares subscribed for and issued as outlined in (b) (i) above. The rights offering resulted in the issue of 990,974 common shares. First Canada Financial Corporation Limited subscribed for those common shares which were not purchased under the rights offering and was issued an additional 105,653 common shares.

(iii) 4,200 common shares were issued during 1972 as the result of Series A 1961 warrants being exercised (see (a)(i)(2)) above.

(c) The comparative status of those elements of the common shares which have been changed is set out below:

	December 31, 1971	After reorganization and November 15, 1972 sinking fund payment
Authorized	16,164,060	20,000,000
Issued	10,962,070	13,062,897
	$25,063,866	$26,116,729
Reserved for convertible debentures		
9% Convertible sinking fund debentures	Not applicable	4,672,000 See note 17(h) for conversion details.
7½% Convertible subordinated sinking fund debentures Series A	109,000 See (a) (i) (1) above and also note 18 for conversion details.	130,000 at a reduced conversion price of $7.53 per share. Additional common shares would also be reserved if the conversion price were to decline further toward $6.34 per share.

21. Lease and similar obligations

Payments	Sale and leasebacks (a) Leases in effect	If leases terminated or forfeited	Long-term land leases (b)	Management agreement (c)
1972	$ 1,833,000	$ 326,000	$ 358,000	$ 716,000
1973	1,833,000	326,000	358,000	716,000
1974	1,833,000	326,000	358,000	716,000
1975	1,833,000	326,000	358,000	716,000
1976	1,830,000	322,000	358,000	716,000
1977 and subsequent	21,700,000	1,982,000	28,098,000	14,416,000

(a) Revenue producing properties were sold and leased back prior to March 31, 1970. Under certain of the lease agreements the lessor is to be paid a percentage of rentals in excess of a specified amount.

Certain of the lease agreements contain clauses relating to the termination or forfeiture of the lease by the Company and cessation of all liability thereunder upon payment of a specific amount pertaining to each such lease, the total amount of such payments being $1,745,000.

The rents included above for leases, whose latest year of expiry is 1999, are exclusive of participating rents, realty taxes, insurance, maintenance and repairs, and similar expenses.

(b) The rents included above for long-term land leases, whose latest year of expiry is 2067, are exclusive of realty taxes.

(c) Prior to 1971 the Company sold nine properties and entered into an agreement with the purchaser concerning operation and management by the Company of the properties until 1999. Under the agreement the Company is required to (i) pay annually to the purchaser a return of 8.25% to 9% before income taxes on the purchaser's invested equity, and (ii) make payments on the mortgages on the properties or, following discharge of any or all of the mortgages, pay annually 50% of the amounts previously payable thereon, to the purchaser. The aggregate of (i) and (ii) so payable are included above. In addition, the purchaser is entitled to participate in net revenue, as defined, in excess of a stated amount for each of the nine properties.

The Company may terminate the contract and its liability thereunder by forfeiting a mortgage of $350,000 taken back by the Company on the sale of the properties. That mortgage is included in "Mortgages receivable" in the consolidated balance sheet.

22. Contingent liabilities

(a) The Company may be required to repurchase on May 15, 1974 a group of 153 residential first mortgages, bearing interest at approximately 9%, maturing in 1994 and having an aggregate outstanding principal balance of $2,430,000 at December 31, 1971, at a price of $98.25 per $100 principal then outstanding.

(b) In 1969 Victoria Wood Development Corporation Inc., a partially owned subsidiary of the Company at that time, issued $5,000,000 8% Sinking fund debentures Series A. Subsequent to 1971 the principal outstanding on these sinking fund debentures was reduced to $316,000. The Century City lands (see note 8) are pledged by the Company as security for these debentures.

(c) Subsequent to 1971 the Company guaranteed a loan of $800,000 from a third party to Canadian Century Homes Limited (see note 11). At the same time the Company pledged certain real estate held for development or sale as security for the loan.

(d) There are other miscellaneous contingent liabilities of the Company totalling $675,000.

(e) See also notes 8, 10, 23 and 24 (a) (ii).

23. Legal proceedings

Legal proceedings in which the Company is a defendant are outlined below:

(a) Since July 1969 a total of 25 private civil actions naming the Company as a defendant were commenced in various United States District Courts by certain individuals, partnerships and corporations. They purported to bring those actions either on their own behalf ('individual' actions) or on behalf of the Company, or on behalf of all other persons ('representative' actions) who purchased common shares of the Company during certain periods, and who sold such shares at a loss or hold such shares at a loss. Named as defendants in one or more of the actions, in addition to the Company and others, were the then directors and officers of the Company, the Alex J. Rubin Family Trust and the Harry Rubin Family Trust and their then trustees, the underwriters of the public offering of common shares in the United States and Touche, Ross & Co. (previously known as Touche, Ross, Bailey & Smart) the Company's former auditors. The complaints alleged, inter alia, that the United States registration statement of the Company, effective November 12, 1968, the prospectus included therein, and "periodic reports" filed and circulated by the Company disclosing the results of its operations for 1968 and previous years, were false and misleading and that material facts were omitted and that improper and inconsistent accounting principles were utilized; and that certain defendants violated the United States Securities laws by making undisclosed sales of common shares of the Company. All 25 actions were transferred to the United States District Court for the District of Massachusetts (hereinafter referred to as "the Massachusetts Court") for consolidated pre-trial proceedings.

On November 16, 1971 a Settlement Order which included 24 of the above actions was signed and entered by the Massachusetts Court which provided for a total payment from the defendants to the plaintiffs of $8,750,000. The Company agreed with all other defendants to contribute $1,050,000 on behalf of itself and Mr. Alex J. Rubin, Mr. Harry Rubin, The Alex J. Rubin Family Trust and The Harry Rubin Family Trust as the Company's share of the total settlement. Final judgments were entered by the Massachusetts Court on January 12, 1972 ('representative' actions) and on February 12, 1972 ('individual' actions). The final judgment in the 'representative' actions and the final judgment in the 'individual' actions became non-reviewable and non-appealable on February 11, 1972 and March 13, 1972, respectively.

The settlement contribution and related legal costs amounting to $1,262,035 were provided for in the accounts prior to 1971. Included in "Cash in escrow" in the consolidated balance sheet is $1,050,000 which was applied against "Liability for settlement of United States civil actions" subsequent to 1971.

One other civil action in which the Company is named as a defendant and which claims damages of $1,250,000 is still unsettled. Little pre-trial discovery has been conducted in the action. However, it is the view of counsel, based upon the information presently known to it, that the claims against the Company in the one remaining action present no substantial adverse financial risk except for legal fees and other costs related thereto.

On or about August 2, 1972, the United States Securities and Exchange Commission instituted an action in the United States District Court for the Southern District of New York against the Company and its President, asserting, among other things, that the defendants violated Section 14(a) of the Securities Exchange Act of 1934 and the applicable rules thereunder, in respect of the solicitation of proxies for use at a general meeting held on August 4, 1972, and that the Company violated Section 13 of the Securities Exchange Act of 1934 and various regulations promulgated thereunder, by failing to file various reports required to be filed. On August 2, 1972, the Court temporarily restrained the defendants from, among other things, soliciting, voting or otherwise using any such proxy or consent or authorization obtained from persons whose addresses indicated that they were citizens or residents of the United States. The Company complied with the temporary restraining order and did not vote any such proxy at the meetings held on August 4, 1972.

On August 23, 1972, judgments of permanent injunction were entered by order of the United States District Court for the Southern District of New York, pursuant to the consents of the defendants without their admitting or denying the allegations in the complaint. The Company and Mr. Maxwell Goldhar have been enjoined from violations of the proxy provisions of the Securities Act of 1934 in the solicitation of proxies in respect of the securities of the Company by failing to furnish to Company shareholders current audited financial statements of the Company in connection with such solicitation. In addition, the Company has been enjoined from violations of the requirements that it file periodic financial reports with the Securities and Exchange Commission and with the American Stock Exchange. The Company was ordered to file with the Commission and disseminate to its shareholders, not later than December 4, 1972, unaudited financial statements for the first nine months of 1972 and a description of the assets and current operations of the Company, which order it complied with. The judgment against the Company also provides a schedule for the filing of audited financial information on the Company as required by the periodic reporting requirements of the Securities Exchange Act of 1934.

(b) An action is pending in the Supreme Court of Ontario against the Company, Mr. Alex J. Rubin and Mr. Harry Rubin as defendants. The plaintiff alleges that in 1968 the defendants verbally agreed to pay the plaintiff 10% of the dollar value of any offering of stock or convertible debentures of the Company made through a New York underwriter to be introduced to the defendants by the plaintiff. The plaintiff seeks to recover $1,280,000 with respect to a public offering of common shares in the United States on November 12, 1968; $2,675,000 with respect to a proposed offering of convertible debentures, which offering has been indefinitely postponed; and a declaration that he is entitled to 10% of the dollar value of any such further offering by the Company. The Company, Mr. Alex J. Rubin and Mr. Harry Rubin deny both the alleged agreement and the alleged introduction. In the opinion of counsel, there is an excellent prospect of successfully defending the action.

Because of their contingent nature no provisions are made in the consolidated financial statements with respect to the unsettled civil action and the other unsettled action referred to above.

24. **Transactions with directors and officers**

(a) The amount of $2,494,104 included in the consolidated balance sheet as "Due from directors and officers" represents amounts due from persons who are directors and officers of the Company and/or members of their families and/or family trusts and/or companies controlled by one or more of them.

(i) Included therein is a 7% mortgage receivable amounting to $2,232,290 which matures on June 28, 1973 together with accrued interest thereon of $79,629.

In 1967 the Company purchased a parcel of unimproved land and entered into a joint venture with respect thereto with a limited partnership controlled by Mr. Herbert M. Green (a director of the Company and an officer of its principal subsidiary until April 21, 1972) and/or members of his family and/or family trusts and/or companies controlled by one or more of them (hereinafter referred to throughout note 24 as "Mr. Green"). In 1968 the Company sold its interest in the land to the limited partnership and took back the above mortgage receivable. This transaction resulted in a profit and $841,000, being the Company's share thereof, is included in "Deferred income" in the consolidated balance sheet.

Mortgages payable on this land amounting to $1,051,000 at December 31, 1971 were not assumed by the purchaser but remain a liability of the Company and are included in "Other secured loans payable" in the consolidated balance sheet.

(ii) Included therein is an amount of $43,000 being counsel and litigation expenses paid on behalf of certain present and former directors of the Company who were named as defendants in the United States civil actions referred to in note 23(a). Additional fees and expenses of $44,000 were also incurred in 1971 but these have not been paid by the Company as a result of the Settlement Order entered by the United States District Court for the District of Massachusetts (see note 23(a)). A motion is before the District Court which (i) may provide for the recovery from said directors of the $43,000 already paid by the Company or (ii) may require that the Company pay the additional fees and expenses which would result in a charge to deficit of $87,000.

(iii) Included therein is a promissory note due from Mr. Green in the amount of $50,000, payable on demand with interest at the rate of 16% per annum.

In May 1970 a consolidated joint venture (in which the participants were the Company and Mr. Green, see (c) (ii) below) cancelled an agreement of purchase and sale with a third party by mutual consent and also at the same time sold all interest in the applicable real estate. A 7% note receivable of $1,550,000, collaterally secured by a second mortgage, maturing on June 28, 1973 was taken back from the purchaser. Mr. Green was assigned an undivided 19.1% interest in the note amounting to $296,002 which represented his share of the profit thereon.

In May 1971 the Company loaned $100,000 to Mr. Green in consideration for a promissory note payable on demand with interest at the rate of 16% per annum. The promissory note was secured by the assignment to the Company of the undivided 19.1% interest in the note held by Mr. Green.

In November 1971 the Company purchased from Mr. Green his undivided 19.1% interest at a cost of $262,750. In settlement thereof the Company was repaid $50,000 of the $100,000 loan and by agreement the remaining $50,000 promissory note may be offset against any balances due to Mr. Green from the Company.

Included in "Mortgages receivable" in the consolidated balance sheet is the Company's 100% interest in the $1,550,000 7% note receivable at a book value of $1,516,748.

(b) The amount of $1,801,605 included in the consolidated balance sheet as "Due to directors and officers" represents amounts due to persons who are directors and officers of the Company and/or members of their families and/or family trusts and/or companies controlled by one or more of them.

(i) Included therein is an amount of $1,628,000 which is owing to Mr. Alex J. Rubin (an officer of the Company until July 20, 1972 and formerly a director), Mr. Harry Rubin (formerly a director and officer of the Company), four family trusts, and two companies controlled by one or more of them (hereinafter referred to as "the Rubins").

By agreement dated December 1, 1971 the Company acknowledged a total indebtedness to the Rubins of $1,628,000 comprised of advances of $788,000 and interest of $840,000. The agreement was conditional upon the entry of non-reviewable and non-appealable final judgments in the United States civil actions by the United States District Court for the District of Massachusetts. This condition was satisfied on March 13, 1972 (see note 23(a)).

The Company agreed to repay the indebtedness of $1,628,000 to the Rubins on December 1, 1974 together with interest from February 1, 1972 at 12% per annum payable monthly.

As part of the above agreement the Company gave to the Rubins a promissory note in the amount of $788,000 collaterally secured at December 31, 1971 by an assignment of certain assets of the Company amounting to $2,862,000 which are pledged against loans payable of $1,150,000.

On December 1, 1971 the Company and the Rubins released each other from any further or additional claims existing up to that date except for the item outlined in (ii) below.

(ii) Included therein is a liability in the amount of $46,000, substantially since paid, owing to Mr. Alex J. Rubin at December 31, 1971 with respect to leased space in a building acquired by the Company in 1961.

(iii) Also included therein is the $122,165 equity of Mr. Green in certain consolidated joint ventures (see (c) (ii) below).

(c) Certain other matters involving persons who are directors and officers of the Company and/or members of their families and/or family trusts and/or companies controlled by one or more of them follow:

(i) In 1961, pursuant to the arrangement leading to the formation of the Company, a property was purchased for $136,250 subject to an existing lease which expires in 2018 with Mr. Samuel Gotfrid (a director and President of the Company until April 21 and June 28, 1972, respectively). Under the lease Mr. Gotfrid has an option to purchase the property for a price of $40,000 exercisable in 2018.

(ii) Companies and a limited partnership which are controlled by Mr. Green have an interest in certain joint ventures, the accounts of which are included in the consolidated financial statements (see note 2(c)). The participation of Mr. Green is 10% in one joint venture and 25% in the others. The accounts of these joint ventures at December 31, 1971 show that the assets total $13,515,255, the liabilities total $7,849,059 and the Company's equity therein is $5,534,031.

By arrangements made between the parties on a mutually satisfactory basis, cash amounting to $360,000 and other assets amounting to $390,000 of the joint ventures have been distributed up to December 31, 1971 to Mr. Green prior to the times at which such distributions were to have been made in accordance with the terms of the agreements.

Mr. Green also participates to the extent of 12½% and 15% in the profits or losses of each of two other joint ventures, the Company's investment in which is included in "Investment in and advances to joint ventures not consolidated" in the consolidated balance sheet (see note 10).

(iii) At December 31, 1971 Mr. Green owns 23.75% of the shares of Century City Developments Limited, a consolidated subsidiary (see notes 2(a) and 8) and 16.25% of the share equity of Canadian Century Homes Limited, an associated company (see note 11).

(iv) See also note 20 for the subsequent share subscriptions and the share options.

25. Consolidated statement of income

(a) *Interest — Charges*

Long-term debt	
Debentures (including the amortization of deferred financing costs of $96,548 and the currency adjustment of $30,097 included in note 17 (a))	$1,277,092
Mortgages	3,456,065
Other	1,391,005
Short-term debt	239,630
	$6,363,792

(b) *Extraordinary items — Debenture financing costs*

Although refinancing of the 7½% Sinking fund debentures became effective June 30, 1972 (see note 17), the terms of the refinancing had been substantially negotiated by December 31, 1971. As a result $212,007, being the debenture financing costs relating to the amortization period subsequent to June 30, 1972, has been written off in 1971 consistent with the Company's accounting policy. The amortization amount for the six months ending June 30, 1972 is included in "Debenture financing costs less amortization" in the consolidated balance sheet.

(c) *Loss per share*

The calculation is based on 10,962,070 common shares outstanding during 1971. The dilutive effect resulting from the conversion of the convertible debentures and the exercise of 1961 and 1965 warrants and stock options would reduce the loss per share and consequently such calculation is not provided.

(d) *Aggregate direct remuneration to directors and senior officers*

Remuneration	$163,262
Fees to certain directors	35,082
Legal and finders' fees to a firm in which a director has an interest	95,001
Consultant's fees to First Canada Financial Corporation Limited	28,124
Income (net of losses) of consolidated joint ventures allocated to director (see note 24(c)(ii))	98,678
	$420,147

26. **Subsequent events**

The following notes summarize briefly certain events which took place subsequent to December 31, 1971 up to January 15, 1973:

(a) Mortgages receivable with a net book value of $738,000 as at December 31, 1971 were sold for approximately that amount.

(b) Substantially all principal on "Mortgages receivable" and "Balances receivable for land sold under agreements of purchase and sale" outstanding at December 31, 1971, which has become due either because of mortgages maturing or otherwise as summarized in notes 5 and 6 has been received.

(c) Properties included in "Real estate held for development or sale — Properties other than Century City" and having a book value of approximately $4,649,000 at December 31, 1971 have been sold at a profit; the Company also reacquired from its associated company property which was then sold at a profit.

(d) Four properties included in "Revenue producing real estate" and having a book value at December 31, 1971 of $1,584,000 have been sold for approximately that amount.

(e) A multi-tenancy industrial building has been completed at an additional cost of approximately $382,000 and is now fully leased.

(f) All principal on loans and mortgages payable outstanding at December 31, 1971, which has become due as summarized in notes 12 to 16 inclusive, has been paid (except as set out in (g) below) or arrangements have been made for extension, renewal or refinancing as follows:

  (i) $3,261,500 of "Loans payable secured by mortgages receivable" bearing interest at rates which vary from 10½% to 17%, weighted average 12.3% have been renewed or replaced or arrangements have been made for extension at rates which vary from 10% to 12%, weighted average 11.2%.

  (ii) $861,500 of "Other secured loans payable" bearing interest at rates which vary from 7% to 13%, weighted average 7.2% have been replaced at a rate of 11%.

  (iii) $481,000 of "Mortgages payable secured by land sold under agreements of purchase and sale" bearing interest at rates which vary from 6% to 16%, weighted average 14% have been renewed at rates which vary from 9% to 12%, weighted average 11.4%.

  (iv) $1,658,000 of "Mortgages payable on real estate held for development or sale" bearing interest at rates which vary from 6% to 16%, weighted average 13.9%, have been renewed or replaced or arrangements have been made for extension at rates which vary from 7% to 12%, weighted average 11.4%.

  (v) $521,000 of "Mortgages payable on revenue producing real estate" bearing interest at rates which vary from 7% to 12%, weighted average 11.4%, have been renewed or replaced or arrangements have been made for extension at rates which vary from 10½% to 12%, weighted average 11%.

(g) Payments of principal and interest on "Mortgages payable on real estate held for development or sale — Century City" were in arrears to the extent of approximately $1,916,000.

(h) New permanent mortgage financing of $661,000 bearing interest at rates which vary from 9½% to 10%, weighted average 9.6%, and new interim financing of $1,595,000 bearing interest at rates which vary from 10½% to 11½%, weighted average 10.8% have been arranged.

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