

REVENUE  
PROPERTIES  
COMPANY  
LIMITED

CONSOLIDATED  
FINANCIAL  
STATEMENTS

Nine Months Ended  
December 31, 1970

*MAY 1972*





## DIRECTORS

John R. Campbell, Q.C., Toronto  
Samuel Gotfrid, Q.C., Toronto  
Paul W. Hellen, Toronto  
F. Timothy Parker, Toronto  
C. Harris Tod, C.A., Toronto  
Sara Tuberman, Toronto  
Michael G. Wright, Montreal

## OFFICERS

President: Samuel Gotfrid, Q.C.  
Vice-President, Finance and Administration:  
C. Harris Tod, C.A.  
Vice-President: Alex J. Rubin  
Secretary: Sara Tuberman

## AUDITORS

Thorne, Gunn, Helliwell & Christenson

## 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

## CONVERTIBLE SUBORDINATED DEBENTURES

Trustee: National Trust Company, Limited

## HEAD OFFICE

12 Sheppard Street, Toronto 1, Canada

# REVENUE PROPERTIES COMPANY LIMITED

## TO THE SHAREHOLDERS:

Attached hereto are the consolidated financial statements of Revenue Properties Company Limited and its subsidiaries for the nine months ended December 31, 1970, and the report of the auditors thereon.

You will note that shareholders' equity amounted to approximately \$13,800,000 at December 31, 1970. This represents a reduction of approximately \$4,000,000 from the equity shown in the consolidated balance sheet of March 31, 1970, and is the result of a provision for the settlement of U.S. lawsuits in the amount of \$1,262,035 and operating losses of \$2,810,231.

The operating losses include the following unusual items of expense:

Provision for losses incurred or anticipated subsequent to December 31, 1970, in the realization of certain receivables and land .....	\$1,450,000
Settlement with former directors and officers .....	465,000
Approximate amount of extraordinary audit and legal expenses .....	300,000
	<hr/>
	<u>\$2,215,000</u>

Also included as an operating expense for the period is an amount of \$500,000 which, except for the change in accounting practice referred to in note 3 to the financial statements, would have been capitalized and added to the book value of the "Century City lands".

The Company had a net income before provision for taxes for the six months ended June 30, 1971, of \$340,000 as shown by the following unaudited statement of income:

**REVENUE PROPERTIES COMPANY LIMITED**  
AND SUBSIDIARIES

**UNAUDITED CONSOLIDATED STATEMENT OF INCOME**  
SIX MONTHS ENDED JUNE 30, 1971

**Revenue**

Real estate sales .....	\$12,126,000
Rentals .....	4,475,000
Interest .....	1,121,000
Equity in income (net of losses)	
Joint ventures not consolidated .....	(97,000)
Associated companies .....	(207,000)
	\$17,418,000

**Expenses**

Real estate cost of sales .....	11,058,000
Property operating .....	3,323,000
Interest .....	2,258,000
Administration and general .....	450,000
Depreciation .....	376,000
	17,465,000
Loss before undernoted items .....	47,000
Equity in the profit on disposal of joint venture assets .....	342,000
Earned portion of income deferred .....	65,000
Other income .....	29,000
	436,000
	389,000
Minority interest .....	49,000
Net income before provision for taxes for the six months ended June 30, 1971 .....	<u>\$ 340,000</u>
Net income per share before provision for taxes .....	3.1¢

Throughout the nine months ended December 31, 1970, and the six months ended June 30, 1971, the Company operated certain leasebacks and similar contracts at a loss. On an annual basis, these losses are currently creating a cash drain of approximately \$500,000. Every effort is being made to minimize the negative effect of these operations on the Company's overall financial picture and it is expected that this amount will reduce annually, and may be eliminated entirely in the foreseeable future.

I am pleased to report that substantially all renewals or extensions of mortgages and loans payable since December 31, 1970, have been negotiated at reduced rates of interest as shown in note 26 (f).

In March of 1972, the Government of Canada announced its intention to expropriate approximately 1,600 acres of land owned by a subsidiary of the Company and included in its "Century City lands". At the same time, the Provincial Government froze temporarily all development on an additional 3,500 acres of these lands pending final determination of the location of the proposed new airport and the development which will be allowed on the lands adjacent to the proposed airport. Because of the introduction of the Toronto Centred Region Plan in 1970, which designated the "Century City lands" as "green belt", and the further complications arising from the above notice of intention to expropriate and the accompanying freeze on development, the Company is presently unable to proceed with its Century City project as originally planned. However, experience has shown that the location of an airport in an area brings development of all kinds, and it is hoped that, as plans for the airport proceed, the land held by the Company in the vicinity of the airport will be suitably developed.

#### **Proposed plan of reorganization**

Your attention is drawn to note 27 to the financial statements which sets out in detail the plans which the Directors have formulated for a reorganization of the Company's debenture debt and an increase in paid-in capital. The terms of the proposed amendments to the Trust Deed, particularly the provisions dealing with the security and use of funds on hand, represent the greatest flexibility possible consistent with considerations of security. They will, in effect, enable the Company to maintain sufficient liquidity to carry on as a viable business entity.

Sinking fund and principal payments will be reduced by approximately \$6,300,000 in the years 1972 to 1975 inclusive if the plan is approved. Taken together with the proposed addition of \$1,000,000 to working capital through the issuance of additional common shares, the cash position will be approximately \$7,300,000 better at the end of 1975 than it will be if the plan is not approved as proposed. The potential earning power of this additional available cash in the intervening period cannot be overlooked in considering the advantages to the Company of successfully completing the plan of reorganization.

The private placement of 1,000,000 common shares of the Company at a subscription price of 50¢ per common share to First Canada Financial Corporation Limited and Maxwell Goldhar as trustee for two separate companies to be incorporated, will take place after the debenture-holders have agreed to the proposed amendments, after the shareholders have approved the same, and after the contemplated rights offering to shareholders has commenced. A voting trust agreement is to be executed giving Maxwell Goldhar the right to vote all shares of Revenue

Properties Company Limited owned directly or indirectly by Alex J. Rubin, Harry Rubin and the members of their immediate families. The voting trust also covers the 1,000,000 common shares to be privately placed, so that as a result, Maxwell Goldhar will control the votes of approximately 3,600,000 common shares of the Company.

The Company intends to obtain additional financing by issuing rights to all shareholders whereby such shareholders will be entitled to subscribe for 1 common share at a price of 50¢ in respect of each 10 common shares of which they are the holders of record. Such rights will not be issued in respect of the 1,000,000 common shares to be placed privately. First Canada Financial Corporation Limited intends to agree to subscribe for those common shares which are not purchased under the rights offering.

A notice is to be mailed to holders of 7½% sinking fund debentures calling meetings to consider the proposed amendments.

If the debentureholders agree to the proposed amendments, you will be asked to approve them at the shareholders' meetings which will be called as soon as possible after the debentureholders meetings. Formal notice of the shareholders' meetings, together with an information circular, will be mailed to you in due course.

On behalf of the Board of Directors

C. H. TOD  
Vice-President  
Finance and Administration

May 23, 1972.

## 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, 1970 and the consolidated statements of income, deficit and source and application of funds for the nine months 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 nine months ended December 31, 1970 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. These costs entered into the determination of the gain on such sales of which the unamortized portion is included in deferred income in the consolidated balance sheet and the earned portion for the nine months ended December 31, 1970 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, including the proposed corporate reorganization, as described in notes 10, 26 and 27.

In addition, it is not possible to determine the outcome and to estimate the possible effect on the accompanying consolidated financial statements of two major uncertainties as follows:

- (a) The realizable value of the Century City lands has not been determined, as explained in note 8.
- (b) For other real estate held for development or sale by the Company and by joint ventures not consolidated, we have been unable to determine whether certain of this real estate will be held for development or will be sold. Generally accepted accounting principles require that real estate, when held for sale, be recorded at the lower of cost and market. Because of the difficulties inherent in determining the market value of real estate we are unable to be satisfied that the amount recorded in the accounts for some of the real estate is the appropriate basis of valuation.

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, 1970 and the results of operations and the source and application of funds for the nine months then ended in accordance with generally accepted accounting principles. We do not express an opinion on the consistency of application of accounting principles in the consolidated statements of income, deficit and source and application of funds because the Company did not prepare such consolidated financial statements for the preceding period.

However, we report that

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

Cash and short-term deposits  
Cash in escrow (note 17)  
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 companies less provision for losses (note 11)  
Sundry investments and advances, at cost  
Debenture financing costs less amortization

- Accounts payable and accrued liabilities (note 11(c) )
- 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
- Purchasers' deposits
- Bank loan, secured (note 7)
- 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)
- Minority interest
- Capital stock (note 20)
- B in our opinion, the following individual items in the consolidated statement of income are presented fairly for the nine months ended December 31, 1970 in accordance with generally accepted accounting principles:
  - 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 — Provision for losses on mortgages receivable
  - Expenses — Depreciation
  - Settlement with former directors and officers (note 24(b)(i) )
- C in our opinion, the individual item "Settlement of United States civil actions (note 23(a))", charged with respect to a prior period in the consolidated statement of deficit at March 31, 1970, is presented fairly in accordance with generally accepted accounting principles
- D in our opinion, the following individual items in the consolidated statement of source and application of funds are presented fairly for the nine months ended December 31, 1970 in accordance with generally accepted accounting principles:
  - Mortgages received
  - Balances received for land sold under agreements of purchase and sale
  - Loans and mortgages obtained
  - Real estate — Additions, less related loans and mortgages
  - Real estate — Charges to income, less related loans and mortgages
  - Investments and advances
  - Directors and officers
  - Loans and mortgages paid
  - Sinking fund debentures paid
  - Other
- E 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" presents fairly the information therein.

Whereas we express an opinion in sub-paragraphs A, B, C, D and E 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.

As required by The Business Corporations Act we report that the accompanying consolidated financial statements do not fulfill all the requirements of the Act concerning financial statements.

Toronto, Canada  
April 26, 1972

THORNE, GUNN, HELLIWELL & CHRISTENSON  
Chartered Accountants

# REVENUE PROPERTIES COMPANY LIMITED

(Incorporated under the laws of Ontario)  
and subsidiaries

**CONSOLIDATED**  
**DECEMBER**

## ASSETS

Cash and short-term deposits .....	\$ 789,486
Cash in escrow (note 17) .....	901,617
Accounts, rents and other receivables (note 4) .....	3,374,540
Due from directors and officers (note 24(a)) .....	2,545,659
Prepaid expenses .....	452,395
Mortgages receivable (note 5) .....	16,061,554
Balances receivable for land sold under agreements of purchase and sale (note 6) .....	4,074,592
Real estate held for development or sale	
Properties other than Century City (note 7) .....	\$23,228,802
Century City (note 8) .....	<u>12,673,150</u> 35,901,952
Revenue producing real estate, at cost less accumulated depreciation of \$5,206,076 (note 9) .....	30,398,863
Investment in and advances to joint ventures not consolidated (note 10) .....	2,832,831
Investment in and advances to associated companies less provision for losses (note 11) .....	3,150,698
Sundry investments and advances, at cost .....	362,732
Debenture financing costs less amortization .....	359,529

Approved by the Board

SAMUEL GOTFRID, Director

C. H. TOD, Director

\$101,206,448

**BALANCE SHEET**  
31, 1970

**LIABILITIES**

Accounts payable and accrued liabilities (note 11(c)) .....	\$ 8,598,451
Liability for settlement of United States civil actions (note 23(a)) ...	1,288,318
Due to directors and officers (note 24(b)) .....	1,700,194
Estimated completion costs for land sold .....	928,181
Purchasers' deposits .....	800,114
Bank loan, secured (note 7) .....	3,119,270
Loans payable secured by mortgages receivable (note 12) .....	9,170,263
Other secured loans payable (note 13) .....	2,408,450
Mortgages payable secured by land sold under agreements of purchase and sale (note 14) .....	3,279,497
Mortgages payable on real estate held for development or sale (note 15)	
Properties other than Century City .....	\$ 9,518,694
Century City .....	5,205,933
Mortgages payable on revenue producing real estate (note 16) ...	14,724,627
7½% Sinking fund debentures (note 17) .....	19,355,183
7½% Convertible subordinated sinking fund debentures Series A (note 18) .....	14,978,155
	986,000
Deferred income (note 19) .....	81,336,703
Deferred income taxes .....	4,909,479
Minority interest .....	922,586
	205,239
	<u>87,374,007</u>

**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 .....	230,278
Deficit .....	(11,461,703)
Capital stock less deficit .....	<u>13,832,441</u>
	<u>\$101,206,448</u>

Lease and similar obligations, contingent liabilities, pending legal proceedings, subsequent events and proposed corporate reorganization (notes 21, 22, 23, 26 and 27)

# REVENUE PROPERTIES COMPANY LIMITED

and subsidiaries

## CONSOLIDATED STATEMENT OF INCOME NINE MONTHS ENDED DECEMBER 31, 1970

Revenue			
Real estate sales			
Held for development or sale .....	\$12,983,548		
Revenue producing .....	2,663,563		
Construction .....	7,593,360		
Rentals .....	6,775,647		
Interest .....	1,672,945		
Equity in income (net of losses)			
Joint ventures not consolidated (note 10) .....	168,882		
Associated companies .....	12,361		
			\$31,870,306
Expenses			
Real estate cost of sales			
Held for development or sale .....	11,364,865		
Provision for losses .....	632,876		
Revenue producing .....	2,462,208		
Construction .....	7,227,996		
Property operating .....	5,143,272		
Interest			
Charges (note 25(a)) .....	\$5,146,362		
Less amounts capitalized .....	1,707,530		
Administration and general .....	3,438,832		
Provision for losses on mortgages receivable .....	1,983,977		
Depreciation .....	1,078,661		
	626,179		
Loss before the undernoted items .....	33,958,866		
Unearned income transferred to deferred income .....	2,088,560		
Less earned portion of the income deferred at March 31, 1970 .....			
	299,292		
	503,918		
	(204,626)		
Settlement with former directors and officers (note 24(b)(i)) .....	465,402		
	260,776		
			2,349,336
Income (net of losses) allocated to other participants of consolidated joint ventures .....	383,666		
Loss before income taxes .....	2,733,002		
Income taxes			
Current .....	44,643		
Deferred .....	32,586		
	77,229		
Loss for the nine months ended December 31, 1970 .....	\$ 2,810,231		
Loss per share (note 25(b)) .....	25.6¢		

## CONSOLIDATED STATEMENT OF DEFICIT NINE MONTHS ENDED DECEMBER 31, 1970

Deficit March 31, 1970		
Before restatement .....	\$ 7,389,437	
Settlement of United States civil actions (note 23(a)) .....	1,262,035	
As restated .....	8,651,472	
Loss for the nine months ended December 31, 1970 .....	2,810,231	
Deficit December 31, 1970 .....	\$11,461,703	

# REVENUE PROPERTIES COMPANY LIMITED

and subsidiaries

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

NINE MONTHS ENDED DECEMBER 31, 1970

### Source of funds

Mortgages received .....	\$ 3,529,535
Balances received for land sold under agreements of purchase and sale .....	4,844,539
Loans and mortgages obtained .....	2,698,500
	<hr/>
	11,072,574

### Application of funds

#### Operations

Loss for the nine months ended December 31, 1970 .....	\$ 2,810,231
Deduct items not requiring an outlay of funds .....	2,467,245
Funds applied to loss from operations .....	342,986

#### Real estate

Additions, less related loans and mortgages of \$2,507,059 .....	\$3,549,768
Capitalized interest and carrying charges .....	2,285,456
	<hr/>
	5,835,224

Charges to income, less related loans and mortgages of \$9,923,855 .....	3,934,774	1,900,450
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Investments and advances .....	483,388
Directors and officers .....	626,151
Loans and mortgages paid .....	8,920,653
Sinking fund debentures paid .....	819,675
Other .....	386,058
	<hr/>
	13,479,361

Decrease in funds for the nine months ended December 31, 1970 .....	2,406,787
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### Deficiency March 31, 1970

Before restatement .....	198,303
Subsidiary and two joint ventures now consolidated (note 2(a)(ii) and (c)(ii)) .....	954,001
Settlement of United States civil actions .....	1,262,035
As restated .....	<hr/>
	2,414,339

### Deficiency December 31, 1970

Cash and short-term deposits .....	(789,486)
Cash in escrow .....	(901,617)
Accounts, rents and other receivables .....	(3,374,540)
Accounts payable and accrued liabilities .....	8,598,451
Liability for settlement of United States civil actions .....	1,288,318
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	\$ 4,821,126

# REVENUE PROPERTIES COMPANY LIMITED

*and subsidiaries*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1970

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Throughout these notes "the Company" refers to Revenue Properties Company Limited, its consolidated subsidiaries, and its consolidated joint ventures, unless the context indicates otherwise. All notes should be read in conjunction with notes 26 and 27 which describe events subsequent to December 31, 1970.

## 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 the consolidated statements of income, deficit and source and application of funds are for the nine months ended December 31, 1970, comparative figures for the year ended December 31, 1969 are not available and the consolidated financial statements have not been presented within the prescribed time.

## 2. Principles of consolidation

(a) The consolidated financial statements include the accounts of all companies, except as shown in note 11, in which Revenue Properties Company Limited holds an interest of more than 50% of the voting equity (except for Rusuth Investments Limited) as follows:

Principal active subsidiaries	Ownership %
Revenue Properties Central Developments Limited .....	100
One Thirty One Bloor West Limited .....	100
Savarin Investments Limited .....	100
The Rubin Development Corporation (United States) .....	100
Century City Developments Limited (see (i) below) .....	71.25
Rusuth Investments Limited (see (ii) below) .....	50

(i) Subsequent to December 31, 1970 the Company acquired at no cost an additional 5% of the outstanding shares increasing its ownership to 76.25% (see also note 24(c) (iii) ).

(ii) At March 31, 1970 the equity interest was reflected in "Investment in and advances to associated companies" in the consolidated balance sheet. Subsequent to December 31, 1970 the remaining 50% interest was acquired at a cost of \$90,650.

(b) The accounts of the subsidiary companies in the United States are converted 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, 1970.

(iii) revenue and expenses — at the average exchange rate prevailing throughout the nine months ended December 31, 1970 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 included in the consolidated balance sheet as "Investment in and advances to joint ventures not consolidated" on an equity basis such that the investment is increased or decreased by the Company's share of the undistributed profits or losses of the joint ventures.

Exceptions to the principle outlined in the preceding paragraph result in 100% of the assets, liabilities, revenue and expenses of the following joint ventures being included in the consolidated financial statements:

- (i) Certain joint venture agreements provide that the Company is responsible for all financing required and 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 varies from 63.75% to 90%.
- (ii) Subsequent to December 31, 1970 the remaining 50% equity of two joint ventures with participants other than those in (i) above was acquired at a total cost of \$192,000. The equity of these participants is included in "Minority interest" 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 each development property or construction project other than properties 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, is capitalized (see "Change in accounting practice" below).

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.

#### Change in accounting practice

Effective April 1, 1970 no interest was charged by the Company on its advances to Century City Developments Limited. Prior to April 1, 1970 such interest was charged to and capitalized by the subsidiary and included in the consolidated balance sheet in "Real estate held for development or sale — Century City". This change results in an increased interest expense in the consolidated statement of income for the nine months ended December 31, 1970 of \$500,000.

#### (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 and is 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 written off as redemption occurs. The balance of these 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) which is applicable to those sinking fund payments falling due within one year, based upon the rate of adjustment 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 allow for the deferral of taxes otherwise currently payable. Such provisions relate mainly to (i) reserves deductible for tax purposes when real estate is sold and mortgages are received as partial consideration, (ii) excess of depreciation allowed for tax purposes over depreciation recorded in the accounts, and (iii) deductibility for tax purposes of interest, overhead and other carrying charges capitalized in the accounts as a cost of real estate.

The effect of accumulated losses for tax purposes, which losses are deductible in determining income taxes in the years up to 1975, is not recorded in the accounts.

**4. Accounts, rents and other receivables**

Construction contracts and holdbacks .....	\$1,824,001
Notes and loans .....	424,616
Interest .....	416,416
Rents and miscellaneous .....	709,507
	<hr/>
	\$3,374,540
	<hr/>

**5. Mortgages receivable**

Mortgages on properties sold, including \$4,767,327 on certain properties leased back or managed (see note 21), maturing at various dates to 2019 (interest rates vary from 5 1/4 % to 15%, weighted average 7.6%)

1971 .....	\$ 1,758,745
1972 .....	438,329
1973 .....	1,564,377
1974 .....	294,562
1975 .....	252,565
1976 and subsequent .....	10,544,563
	<hr/>
	14,853,141

Second mortgages on housing units sold, maturing at various dates to 1994 (interest rates vary from 6% to 12%) .....	1,208,413
	<hr/>
	\$16,061,554
	<hr/>

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

See note 26(a) for mortgages receivable sold subsequent to December 31, 1970 and note 26(b) concerning principal received and mortgages receivable which have matured subsequent thereto.

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

Balances receivable amounting to \$4,074,592 mature as to \$2,128,437 and \$1,946,155 in 1971 and 1972 respectively (interest rates vary from 5% to 9%, weighted average 5.9%).

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 December 31, 1970.

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

	Land	Construction including carrying charges	Total
	Acquisition costs	Capitalized carrying charges	
<b>Land</b>			
Unimproved .....	\$ 2,799,781	\$ 645,720	\$ 3,445,501
Under development .....	6,578,805	1,241,771	7,820,576
Serviced .....	2,847,337	991,434	3,838,771
<b>Housing units and commercial buildings</b>			
Under construction .....	810,055	\$4,851,913	5,661,968
Completed .....	321,404	2,140,582	2,461,986
	<u>\$13,357,382</u>	<u>\$2,878,925</u>	<u>\$6,992,495</u>
			<u>\$23,228,802</u>

All real estate held for development or sale is recorded at cost except that a provision for losses has been recorded in respect of properties sold subsequent to December 31, 1970 at less than cost or for which a loss is anticipated on sale.

During the nine months ended December 31, 1970 land and construction were charged with carrying charges of \$1,397,498 and \$527,078 respectively.

The commercial building under construction is pledged as security for the bank loan of \$3,119,270. Subsequent to December 31, 1970 the bank loan was discharged out of the permanent mortgage financing of \$4,300,000 included in note 26(h).

See note 26(c) concerning properties sold subsequent to December 31, 1970 and note 26(e) concerning completion costs of the commercial building under construction.

#### 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, and known as "Century City" is included in "Real estate held for development or sale" at a cost of \$12,673,150 which includes capitalized carrying charges of \$1,925,239 of which \$360,880 was capitalized during the nine months ended December 31, 1970 (see "Change in accounting practice" — note 3(a) ).

In May 1970 the Province of Ontario published a study entitled "Design for Development: The Toronto-Centred Region". That study recommended that the Century City lands and

surrounding area be retained for recreation, agriculture and other open space uses. 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. Until the final intentions of the Government of Canada with respect to the proposed expropriation of a portion of these lands for a new airport, and the intentions of the Province of Ontario with respect to permitted uses of lands surrounding the proposed airport are known, the realizable value of this property cannot be reasonably determined.

In 1970 Century City Developments Limited executed an agreement with Kaufman and Broad Limited for a term to December 31, 1970 under which the latter was to make advances to the former up to a maximum of \$800,000. Further, the agreement contained provisions whereby all advances from Kaufman and Broad Limited would cease and all advances made would be immediately repayable in the event of default or other occurrences as defined in the agreement. Kaufman and Broad Limited advanced \$293,000 to May 1970 but ceased to make further advances thereafter following publication of the study referred to in the second paragraph herein.

In May 1971 an agreement was executed between Revenue Properties Company Limited and certain of its subsidiaries (including Century City Developments Limited), and Kaufman and Broad Limited and certain of its affiliated companies. Under that agreement Kaufman and Broad Limited, as part of a general settlement of certain outstanding matters between it, its said affiliated companies and the Company, assigned all of its interest in the advances made by it and in the said agreement between it and Century City Developments Limited to a subsidiary of Revenue Properties Company Limited, and Century City Developments Limited released Kaufman and Broad Limited from that agreement.

Virtually no payments have been made on mortgages on the Century City lands (see notes 15 and 26(g)) or for realty taxes on these lands, since May 1970.

#### 9. Revenue producing real estate

Buildings and improvements, at cost .....	\$32,030,038
Furniture and equipment, at cost .....	429,414
	<hr/>
	32,459,452
Less accumulated depreciation .....	5,206,076
	<hr/>
	27,253,376
Land, at cost .....	3,145,487
	<hr/>
	\$30,398,863

See note 26 (d) concerning properties sold subsequent to December 31, 1970.

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

The Company's investment in 15 joint ventures not consolidated consists of the following:

Mortgages receivable .....	\$ 860,500
Other investments and advances, equity basis .....	2,186,408
	<hr/>
	3,046,908

Less 50% of profit arising on transfer of property by the Company to a joint venture in which the Company has a 50% interest .....	214,077
	<hr/>
	\$2,832,831

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 it 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:

**COMBINED BALANCE SHEET**  
**December 31, 1970**

<b>Assets</b>		
Cash and short-term deposits .....	\$ 150,927	
Accounts receivable and sundry assets .....	369,999	
Mortgages receivable .....	840,209	
Real estate held for development or sale (see (a) below) .....	<u>10,066,895</u>	
	<u><u>\$11,428,030</u></u>	
<b>Liabilities</b>		
Bank indebtedness, unsecured .....	\$ 111,959	
Accounts payable and accrued liabilities .....	896,760	
Loans and mortgages on real estate held for development or sale .....		
Payable to the Company .....	\$ 860,500	
Payable to others (see (b) below) .....	<u>5,620,081</u>	6,480,581
Deferred income (see (c) below) .....		<u>153,039</u>
		<u><u>7,642,339</u></u>
<b>Participants' Equity</b>		
The Company .....	2,186,408	
Others .....	<u>1,599,283</u>	3,785,691
		<u><u>\$11,428,030</u></u>

**COMBINED STATEMENT OF INCOME**  
**Nine Months Ended December 31, 1970**

Revenue		
Real estate sales		
Held for development or sale .....	\$ 3,174,870	
Construction .....	200,717	
Rentals .....	1,063,595	
Interest .....	<u>40,815</u>	\$ 4,479,997
Expenses		
Real estate cost of sales		
Held for development or sale .....	2,682,660	
Construction .....	142,722	
Property operating .....	1,261,388	
Administration and general .....	<u>45,981</u>	4,132,751
Income before the undernoted .....		347,246
Earned portion of the income deferred at March 31, 1970		<u>37,071</u>
Income (net of losses) for the nine months ended December 31, 1970 .....	<u><u>\$ 384,317</u></u>	

**COMBINED STATEMENT OF PARTICIPANTS' EQUITY**  
**Nine Months Ended December 31, 1970**

	Participants' Equity		
	The Company	Others	Total
Balance March 31, 1970			
Before restatement .....	\$2,223,318	\$1,108,725	\$3,332,043
Deduct equity of two joint ventures now consolidated (note 2(c) (ii) ) .....	488,600	21,754	510,354
As restated .....	1,734,718	1,086,971	2,821,689
Income (net of losses) for the nine months ended December 31, 1970 .....	168,882	215,435	384,317
Contributions, net of drawings .....	282,808	296,877	579,685
Balance December 31, 1970 .....	<u>\$2,186,408</u>	<u>\$1,599,283</u>	<u>\$3,785,691</u>

(a) Real estate held for development or sale

	Land			Total
	Acquisition costs	Capitalized carrying charges	Construction including carrying charges	
<b>Land</b>				
Unimproved .....	\$4,326,554	\$ 998,361	—	\$ 5,324,915
Serviced .....	1,375,579	304,006	—	1,679,585
Industrial and commercial buildings.	<u>1,128,898</u>	<u>—</u>	<u>\$1,933,497</u>	<u>3,062,395</u>
	<u><u>\$6,831,031</u></u>	<u><u>\$1,302,367</u></u>	<u><u>\$1,933,497</u></u>	<u><u>\$10,066,895</u></u>

The real estate is at cost except for two development properties owned by one of the joint ventures which have been written down to the amount of the mortgages and other liabilities payable on them. Arrears of principal and interest on those and other mortgages total approximately \$725,000 to March 31, 1972 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 (see (b) below).

During the nine months ended December 31, 1970 land and construction were charged with carrying charges of \$301,965 and \$428,292 respectively.

Subsequent to December 31, 1970 properties having a book value of approximately \$1,609,000 at December 31, 1970 were sold from one joint venture 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, maturing in 1974  
 (see (a) above) (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 12%, weighted average 8.1%)

1971 .....	\$ 847,866
1972 .....	722,857
1973 .....	681,049
1974 .....	392,409
1975 .....	1,125,421
1976 and subsequent .....	<u>224,119</u>
	<u><u>3,993,721</u></u>
	<u><u>\$5,620,081</u></u>

Subsequent to December 31, 1970 all principal on loans and mortgages payable outstanding at December 31, 1970, which has become due as summarized above, has been paid (except as set out in (a) 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 unamortized gain on sale and leaseback transactions. The balance of \$153,039 remains deferred indefinitely pending the attainment of the specified annual level of gross income and the release of certain holdbacks or termination of the lease agreements (see (d) below).

(d) **Lease obligations**

Two apartment projects were sold and leased back by two of the joint ventures for terms to 1970 and 1971 respectively. Both leases have been renewed for further terms. Annual rents payable under the leases by the joint ventures total \$750,000.

The sale agreements contain clauses providing for a reduction of the selling prices of the buildings in the event that a specified level of gross annual income, as defined, is not achieved by the time of expiry of the leases including renewal periods. The specified levels of gross annual income have not yet been reached. Based on such levels of income on the expiry of the leases in 1971 a reduction of \$1,510,000 would have been made in the selling prices of which the Company's share would have been \$755,000. The leases are renewable annually at the present rental rates at the option of either the joint ventures or the lessors. Since the determination and realization of any such reduction in selling prices may be deferred indefinitely, it is not provided for in these accounts.

(e) **Long-term interest**

The joint ventures incurred long-term interest during the nine months ended December 31, 1970 which is reflected as follows:

Charged to property operating .....	\$ 125,597
Capitalized .....	281,216
	<u>\$ 406,813</u>

**11. Investment in and advances to associated companies**

	Shares				Advances and mortgages receivable	Total
	Cost	Equity in income since acquisition	Provision for losses			
Cal-Mor Industries Limited (a)	\$ 750	\$ (75,000)			\$ 450,000	\$ 375,750
Canadian Century Homes Limited .....	(b) 695	1,500			1,003,888	1,006,083
Centennial Properties Limited .....	(c) 440,286	97,000	\$ (439,286)	395,865		493,865
Dizengoff Centre "A" Limited .....	(d) 1,643,661		(368,661)			1,275,000
	<u>\$2,085,392</u>	<u>\$ 23,500</u>	<u>\$ (807,947)</u>	<u>\$1,849,753</u>		<u>\$3,150,698</u>

(a) The Company had agreed to loan up to \$750,000 to Cal-Mor Industries Limited and \$250,000 to the minority shareholder in Cal-Mor, who in turn was to loan the monies to Cal-Mor. Advances totalling \$350,000 and \$100,000 respectively had been made by the Company to December 31, 1970. No further advances were made subsequently.

Subsequent to December 31, 1970 the Company sold its total investment in Cal-Mor for \$375,750 and the loan commitments ceased.

(b) The Company owns 50% of the voting common shares and 100% of the non-voting participating Class A shares of Canadian Century Homes Limited, representing a 63.75% equity interest therein (see also notes 22(d) (i) and 24(c) (iii) ).  
 The Company's share of the profit recorded on the transfer of certain properties to Canadian Century Homes Limited in 1970, amounting to \$219,235, is eliminated from these accounts.

(c) Subsequent to December 31, 1970 the Company sold its shares in Centennial Properties Limited for \$125,000. At the same time the advances of \$395,865 were applied against construction payables of \$1,064,705 owing to Centennial. The latter amount is included in "Accounts payable and accrued liabilities" in the consolidated balance sheet.

(d) Subsequent to December 31, 1970 the Company sold its shares in Dizengoff Centre "A" Limited for \$1,275,000.

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

Loans maturing (interest rates vary from 9½% to 17%, weighted average 14.3%)

1971	.....	\$7,966,174
1972	.....	981,558
1973	.....	23,655
1974	.....	25,956
1975	.....	172,920
		<u>\$9,170,263</u>

See note 26(f) concerning principal paid and loans payable which have matured subsequent to December 31, 1970.

#### 13. **Other secured loans payable**

Loans maturing (interest rates vary from 7% to 15½%, weighted average 10.2%)

1971	.....	\$1,262,400
1972	.....	916,500
1973	.....	219,500
1974	.....	10,050
		<u>\$2,408,450</u>

The loans are secured as to \$1,303,000 by lands sold and a mortgage receivable related thereto as described in note 24(a) and as to \$1,105,450 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 December 31, 1970.

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

Mortgages maturing (interest rates vary from 7½% to 17%, weighted average 12.1%)

1971	.....	\$1,899,430
1972	.....	—
1973	.....	1,317,835
1974	.....	62,232
		<u>\$3,279,497</u>

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 December 31, 1970.

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

Properties other than Century City

Mortgages maturing at various dates to 1979 (interest rates vary from 5% to 15%, weighted average 8.2%)

1971	.....	\$ 2,231,668
1972	.....	1,475,483
1973	.....	3,253,406
1974	.....	554,186
1975	.....	19,400
1976 and subsequent	.....	741,127
		<hr/>
		8,275,270

Mortgages on condominium units, to be assigned to purchasers as units are sold, 9 3/4 % .....

1,243,424

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9,518,694

Century City

Mortgages maturing at various dates to 1990 (interest rates vary from 7% to 9%, weighted average 7.9%) .....

5,205,933

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\$14,724,627

See note 26(f) concerning events subsequent to December 31, 1970 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 5 1/4 % to 16%, weighted average 8.7%)

1971	.....	\$ 3,669,944
1972	.....	995,932
1973	.....	676,342
1974	.....	3,394,505
1975	.....	1,094,790
1976 and subsequent	.....	9,523,670
		<hr/>
		\$19,355,183

See note 26(f) concerning principal paid and mortgages payable which have matured subsequent to December 31, 1970.

**17. 7 1/2 % Sinking fund debentures**

See "Proposed corporate reorganization" — note 27.

	Principal December 31, 1970	Maturity date	Annual sinking fund requirements		
			Amount	Date	Years
Series A	\$ 2,023,000	Nov. 15, 1973	\$ 50,000	Nov. 15	1962 to 1972
Series B	1,374,000	June 1, 1977	40,000	June 1	1966 to 1976
Series C	6,000,000	Feb. 15, 1976	750,000	Aug. 15	1969 to 1975
Series D	5,400,000	June 15, 1976	600,000	Dec. 15	1969 to 1975
Series E (see below)	14,797,000		<hr/>	<hr/>	<hr/>
			\$1,440,000		

Add currency  
adjustment:

1970 balance 55,740

1971 125,415

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\$14,978,155

The principal amounts of the Series A and Series B debentures outstanding at December 31, 1970 as shown above are after deducting \$27,000 Series A and \$426,000 Series B debentures redeemed and cancelled in advance of sinking fund requirements. The Series D payment due December 15, 1970 was paid on January 15, 1971 in the amount of \$655,740 (including the currency adjustment of \$55,740). An amount of \$529,069 included in "Cash in escrow" held by the trustee at December 31, 1970 was used in meeting such sinking fund obligation.

Subsequent to December 31, 1970 the Company purchased \$119,000 Series A and \$413,000 Series D debentures for a total consideration of \$436,219. The Company used \$23,000 Series A and \$413,000 Series D of these debentures to satisfy certain 1971 sinking fund obligations. All other sinking fund requirements subsequent to December 31, 1970 have also been met.

The debentures are redeemable as follows:

Series A—At 100.75% on or before November 15, 1971 reducing to 100.60% up to and including November 15, 1972 and thereafter and prior to maturity at 100.00%.

Series B—At 101.35% on or before June 1, 1971 reducing by 0.15% per year up to and including June 1, 1976 and thereafter and prior to maturity at 100.00%.

Series C and D—At par on or before maturity.

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.

Series C and Series D principal and interest payments are subject to a proportionate adjustment up to a maximum of 15% (increase or decrease) dependent upon the relationship between the Canadian and Federal Republic of Germany currencies at the time of such payments. The principal amount of these debentures outstanding at December 31, 1970 was increased by a charge to income in the amount of \$125,415 being the adjustment applicable to the sinking fund payments due in 1971.

The terms of the Deed of Trust and Mortgage securing the Series C and Series D debentures also provide that the sinking fund payments may be substantially accelerated if certain changes occur in the tax laws of the Federal Republic of Germany. Subsequent to December 31, 1970 the Minister of Finance of Canada announced that an agreement, to be effective no later than January 1, 1973, was reached with the Federal Republic of Germany which would provide for such changes. In the event that such agreement is concluded, the Company's obligations for sinking fund payments with respect to the Series C and D debentures may be increased in the calendar year following the effective date of the amendment from \$1,350,000 to \$3,600,000 annually (see note 27(a) (iii) ).

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 and the performance and enforcement by Century City Developments Limited of its obligation to and rights against Kaufman and Broad Limited (see note 8). 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 (a) certain realty taxes are in arrears, and (b) principal payments received in respect of certain of the mortgages receivable which partially secure these debentures have not been paid to the trustee as required by the Deed of Trust and Mortgage. Company's counsel is of the view that no event of default may be declared by the trustee with respect to the facts noted in (a)

and (b) above until 30 days after receipt by the Company of a written demand of the trustee, and is not prepared to state that the facts outlined in (b) above would, after such notice and considering all of the surrounding facts and circumstances, constitute such an event of default. Company's counsel is of the opinion that an event of default may not be declared if payment of the above-noted tax arrears and principal payments is made within 30 days of receipt of such notice from the trustee; in the opinion of the Company, it would be able to make such payment.

In 1968 the Company issued Series E debentures of \$5,000,000 principal amount which were pledged as security for a bank loan. When the loan was repaid in the same year, these debentures were transferred to a nominee of the Company and may be cancelled or reissued as the Company may direct subject to compliance with the provisions of the Deed of Trust and Mortgage relating to the issue of additional debentures. The Company intends to cancel the Series E debentures.

#### 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. They are convertible up to the earlier of June 30, 1988 or 3 business days prior to the date specified for their redemption into common shares of the Company as follows: on or before June 30, 1978 at \$9.00 per share; thereafter and on or before June 30, 1983 at \$10.67 per share; and thereafter at \$12.67 per share. Such 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 (see note 27(b) (iv)). No debentures were converted during the nine months ended December 31, 1970 or subsequent thereto.

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, 1970, 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 7½ % sinking fund debentures 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 .....	\$1,449,582
(b) Unamortized gain on sale and leaseback transactions .....	2,238,521
(c) Unamortized gain on sale of nine properties now managed by the Company .....	873,800
(d) Unamortized gain on sale of the Company's 75% interest in a long-term lease of commercial space .....	347,576
	<hr/>
	\$4,909,479

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

See "Proposed corporate reorganization" — note 27.

No common or second preference shares were issued during the nine months ended December 31, 1970.

### (a) Common shares — reserved

At December 31, 1970 a total of 1,818,000 common shares are reserved for the conversion of convertible debentures, the exercise of 1961 and 1965 warrants and stock options.

#### (i) Convertible debentures

The conversion of the \$986,000 7 1/2 % convertible subordinated debentures Series A outstanding at December 31, 1970 at \$9.00 per share would result in the issue of 109,000 common shares.

#### (ii) Series A 1961 and Series B 1965 warrants

Warrants to purchase 1,585,000 common shares are outstanding at December 31, 1970. The warrants were issued in connection with the sale of the sinking fund debentures Series A and Series B. 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 (b) below)	Series B 1965 warrants
Exercisable on or before	The earlier of November 15, 1973 or the expiration of 2 years following the retirement of all sinking fund debentures Series A	June 1, 1975
Price per share	\$1.0417 on or before November 15, 1971 and increasing by \$0.0417 per year thereafter	\$1.83 on or before June 1, 1972 and thereafter at \$2.17
Number of shares	1,080,000	505,000

#### (iii) Stock options

Options to purchase 37,000 common shares are held at December 31, 1970 by two 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.

Other options to purchase an additional 87,000 common shares were held at December 31, 1970 by three former directors and officers. Subsequently the options were cancelled by agreement or expired.

Subsequent to December 31, 1970 an option to purchase 25,000 common shares at a price of \$0.63 per share, exercisable as to 5,000 shares in each of the 5 five-year periods ending September 19, 1977 to 1981 inclusive, was granted to a director and officer.

### (b) Second preference shares — reserved

At December 31, 1970 a total of 23,028 second preference shares are reserved for the exercise of Series A 1961 warrants.

The holders of the Series A 1961 warrants are entitled to receive, in addition to the common shares outlined in (a) (ii) 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. During the period from November 15, 1961 to March 31, 1970 stock dividends in the form of second preference shares were paid to the holders of common shares. Upon the exercise of the Series A 1961 warrants, second preference shares will be required to be issued without further consideration. Accordingly \$230,278 is appropriated for such purpose.

## 21. Lease and similar obligations

Payments	Sale and leasebacks (a)			Long-term land leases (b)	Management agreement (c)
	Leases in effect	If leases terminated or forfeited			
1971 .....	\$ 2,110,000	\$ 350,000		\$ 320,000	\$ 725,000
1972 .....	2,080,000	318,000		320,000	725,000
1973 .....	2,080,000	318,000		320,000	725,000
1974 .....	2,080,000	318,000		320,000	725,000
1975 .....	2,080,000	318,000		320,000	725,000
1976 and subsequent .....	24,803,000	2,302,000		25,334,000	16,065,000

(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. One other lease agreement provides that the lease may be terminated by the Company and all liability thereunder ended at no termination cost to the Company. This lease for which the annual rent payable was \$257,000 was terminated subsequent to December 31, 1970.

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.

Subsequent to December 31, 1970 the Company executed a long-term land lease providing for an annual rent of \$37,000 to 1995 and increased annual rents thereafter to 2020 for an aggregate of \$3,265,000 over the entire term of the lease.

(c) In 1969 the Company sold nine properties and entered into an agreement with the purchaser concerning operation and management by the Company of the properties for a term of 30 years. 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 154 residential first mortgages, bearing interest at approximately 9%, maturing in 1994 and having an aggregate outstanding principal balance of \$2,464,000 at December 31, 1970, at a price of \$98.25 per \$100 principal then outstanding.
- (b) In 1969 Victoria Wood Development Corporation Limited, a partially owned subsidiary of the Company at that time, issued \$5,000,000 8% sinking fund debentures Series A. Subsequent to December 31, 1970 the principal outstanding on these sinking fund debentures was reduced to \$380,000. The Century City lands (see note 8) are pledged by the Company as security for these debentures.
- (c) Subsequent to December 31, 1970 the Company paid counsel fees and litigation expenses of \$45,000 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). A motion before the United States District Court for the District of Massachusetts may require that the Company pay additional fees and expenses of \$44,000 or may provide for the recovery of the sums already paid by the Company.
- (d) Subsequent to December 31, 1970 the Company guaranteed
  - (i) a loan of \$800,000 from a third party to Canadian Century Homes Limited (see note 11(b)). At the same time the Company pledged certain real estate held for development or sale as security for the loan.
  - (ii) a loan of \$200,000 from a third party to a limited partnership in which the Company has a 15% interest.
- (e) There are other miscellaneous contingent liabilities of the Company totalling \$550,000.
- (f) See also notes 10 and 23.

## 23. **Pending legal proceedings**

Legal proceedings in which the Company is a defendant and claims and potential claims against the Company 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 pretrial 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 has 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 of \$1,050,000 and related legal costs are reflected in "Settlement of United States civil actions" in the consolidated statement of deficit.

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.

In 1969 the United States Securities and Exchange Commission obtained an injunction which prohibits the Company from selling or offering to sell any equity securities of the Company or any subsidiary in the United States unless a registration statement under the Securities Act of 1933 is in effect or has been filed with respect thereto.

- (b) Charges laid against the Company in 1969 by the Ontario Securities Commission alleging that the Company's 1968 consolidated financial statements contravened the provisions of The Securities Act, 1966 (Ontario) were dismissed in 1970 and an appeal was filed. The original decision was reversed in 1971 and the Company was fined \$26,000. The Company does not intend to appeal the decision and the fine is reflected in "Administration and general" in the consolidated statement of income.
- (c) An action is pending in the Supreme Court of Ontario by Mr. Walter Davis as plaintiff 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 and 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.
- (d) An action has been commenced in the United States by the estates of two workmen killed in February 1970 as the result of a construction accident at a project in which a subsidiary of the Company in the United States and another company acted as the joint venture general contractor. Named as defendants, in addition to the Company's subsidiary and its joint venture partner, are the owner, architect and two subcontractors. The joint venture partner has also commenced a law suit relating to the same accident against all other named defendants in the initial action. Insurance coverage held by the Company's subsidiary has been disclaimed by the insurer on the basis of a coverage exception for certain joint ventures which disclaimer is in dispute. The plaintiffs claim damages of unspecified amounts.

Because of their contingent nature no provisions are made in the consolidated financial statements with respect to the unsettled civil action and the unsettled actions included in (a), (c) and (d) above respectively.

**24. Transactions with directors and officers**

(a) The amount of \$2,545,659 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.

Included therein is a 7% mortgage receivable amounting to \$2,232,290 which matures on June 28, 1973 together with accrued interest thereon of \$235,713 which interest has been subsequently received. Information concerning this mortgage receivable and the transactions related thereto follows:

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 in note 24 as "Mr. Herbert M. Green"). In 1968 the Company sold its interest in the land to the limited partnership at a profit of which \$841,000, being the Company's share, is included in "Deferred Income" in the consolidated balance sheet. The Company had an option through June 1970, which was subsequently extended, to repurchase a 70% interest in the land at a price equal to an equivalent proportion of the selling price (70% of \$2,662,500) plus development expenses (including carrying costs) incurred by the purchaser. On December 15, 1971 the option was cancelled.

Mortgages payable on this land amounting to \$1,083,000 at December 31, 1970 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.

(b) The amount of \$1,700,194 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 (presently an officer of the Company 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").

Subsequent to December 31, 1970 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)).

Principal and interest aggregating \$1,195,723 payable to the Rubins was included in "Due to directors and officers" in the consolidated balance sheet at March 31, 1970. During the nine months ended December 31, 1970 the Company paid \$33,125 and reflected \$465,402 as "Settlement with former directors and officers" in the consolidated statement of income.

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 has given to the Rubins a promissory note in the amount of \$788,000 collaterally secured by an assignment of certain assets of the Company amounting to \$2,819,000 at December 31, 1970 which are pledged at that date against loans payable of \$1,000,000.

On December 1, 1971 the Company and the Rubins released each other from any further or additional claims existing up to that date including those which were the subject of dispute at March 31, 1970 except for the item outlined in (ii) below.

- (ii) Included therein is a liability, subsequently paid, in the amount of \$36,000 owing to Mr. Alex J. Rubin at December 31, 1970 with respect to leased space in a building acquired by the Company in 1961.
- (iii) Also included therein is the equity totalling \$30,996 of Mr. Herbert M. 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. 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. Herbert M. Green have an interest in certain joint ventures, the accounts of which are included in the consolidated financial statements (see note 2(c)(i)). The participation of Mr. Herbert M. Green is 10% in one joint venture and 25% in the others. The accounts of these joint ventures at December 31, 1970 show that the assets total \$17,799,318, the liabilities total \$10,053,166 and the Company's equity therein is \$7,686,462.

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, 1970 to Mr. Herbert M. Green prior to the times at which such distributions were to have been made in accordance with the terms of the agreements.

Mr. Herbert M. 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, 1970 Mr. Herbert M. Green owns 23.75% of the shares of Century City Developments Limited, a consolidated subsidiary (see notes 2 (a) and 8) and 29.3% of the common shares of Canadian Century Homes Limited, an associated company (see note 11).
- (iv) In May 1970 a consolidated joint venture (in which the participants were the Company and Mr. Herbert M. Green, see (ii) above) 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. Herbert M. Green was assigned an undivided 19.1% interest in the note amounting to \$296,002 which represented his share of the profit thereon. The Company retains an undivided 80.9% interest amounting to \$1,253,998 which is included in the consolidated balance sheet in "Mortgages receivable".

In May 1971 the Company loaned \$100,000 to Mr. Herbert M. 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 by Mr. Herbert M. Green of his undivided 19.1% interest.

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

(v) See also the share options and the conditional share subscriptions outlined in notes 20(a)(iii) and 27(b)(i) respectively.

(vi) See also the contingent liability outlined in note 22(c).

## 25. Consolidated statement of income

### (a) Interest — Charges

#### Long-term

Debentures (including the amortization of deferred financing costs of \$96,693 and the currency adjustment of \$125,415 referred to in note 17) .....	\$1,205,228
Mortgages .....	2,385,517
Other .....	1,362,975
Short-term .....	192,642
	<hr/>
	\$5,146,362

(b) The loss per share calculation is based on 10,962,070 common shares outstanding during the nine months ended December 31, 1970. The dilutive effect resulting from the conversion of the convertible debentures, the exercise of 1961 and 1965 warrants and stock options would reduce the loss per share and consequently such calculation is not provided.

### (c) Aggregate direct remuneration to directors and senior officers

Remuneration .....	\$ 142,841
Fees to certain directors .....	45,822
Legal and finders' fees to a firm in which a director has an interest .....	49,256
Director's participation in certain consolidated joint ventures (see note 24(c)(ii))	
Allocation of income (net of losses) .....	344,909
Distributions of deferred income .....	83,545
	<hr/>
	\$ 666,373

## 26. Subsequent events

Subsequent to December 31, 1970 up to March 31, 1972:

- (a) Mortgages receivable which had a net book value of \$1,712,000 as at December 31, 1970 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, 1970, 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" and having a book value of approximately \$9,986,000 at December 31, 1970 have been sold at a profit.
- (d) Eleven properties included in "Revenue producing real estate" and having a book value at December 31, 1970 of \$2,538,000 have been sold at a profit.

- (e) Completion costs of buildings under construction at December 31, 1970 were approximately \$408,000, substantially all of which applies to "Real estate held for development or sale".
- (f) All principal on loans and mortgages payable outstanding at December 31, 1970, 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) \$5,722,000 of "Loans payable secured by mortgages receivable" bearing interest at rates which vary from 9½% to 16%, weighted average 13.1%, have been renewed or replaced or arrangements have been made for extension at rates which vary from 10½% to 12½%, weighted average 11.5%.
  - (ii) \$1,070,000 of "Other secured loans payable" bearing interest at rates which vary from 7% to 15½%, weighted average 8.8%, have been renewed or replaced at rates which vary from 11% to 12%, weighted average 11.2%.
  - (iii) \$890,000 of "Mortgages payable secured by land sold under agreements of purchase and sale" bearing interest at a rate of 16% have been renewed at a rate of 11½%.
  - (iv) \$1,187,000 of "Mortgages payable on real estate held for development or sale" bearing interest at rates which vary from 7½% to 13%, weighted average 11.2%, have been renewed or replaced or arrangements have been made for extension at rates which vary from 10% to 12½%, weighted average 11.1%.
  - (v) \$4,200,000 of "Mortgages payable on revenue producing real estate" bearing interest at rates which vary from 7½% to 16%, weighted average 12.2%, have been renewed or replaced or arrangements have been made for extension at rates which vary from 9¾% to 12%, weighted average 11.1%.
- (g) Payments of principal and interest on "Mortgages payable on real estate held for development or sale" were in arrears to the extent of approximately
 

(i) Century City lands .....	\$1,280,000
(ii) Other mortgages .....	503,000

 Certain mortgagees have commenced proceedings and issued writs of foreclosure to enforce their security. The Company is defending these actions.
- (h) New permanent mortgage financing of \$4,900,000 bearing interest at rates which vary from 8¾% to 9¾%, weighted average 8.9%, and new interim financing of \$450,000 bearing interest at a rate of 11% has been arranged.

## 27. Proposed corporate reorganization

- (a) 7½% Sinking fund debentures (see note 17)

The Company intends to make application to all interested persons and regulatory bodies for approval of the following changes in the 7½% sinking fund debentures to be effective as of June 30, 1972. These changes will not become effective until approved by the shareholders.

(i) The interest rate would be increased to 9% per annum.

(ii) Maturity dates would be extended as follows:

Series	Present	Proposed
A	November 15, 1973	May 15, 1976
B	June 1, 1977	June 1, 1981
C	February 15, 1976	February 15, 1981
D	June 15, 1976	June 15, 1981

(iii) Sinking fund requirements would be amended as follows:

Series A would be extended through to November 15, 1975.

Series B, C and D sinking funds would be consolidated and each series would share rateably in the amounts to be paid on November 15 of each year as follows:

1972 .....	\$ 250,000
1973 .....	250,000
1974 .....	500,000
1975 .....	500,000
1976 to 1980 inclusive .....	1,550,000

All provisions relating to sinking fund acceleration would be deleted.

No sinking fund credit would be available with respect to Series B, C or D debentures as a result of the Company having purchased such debentures.

The proportionate adjustment in Series C and D principal and interest payments would be amended from a maximum 15% to a maximum 25% (increase or decrease).

(iv) Each debenture series would be sub-divided into four separate sub-series, each to be in a principal amount equal to one-quarter of the principal amount of the debenture series being sub-divided. Each sub-series, with each sub-series relating to the Series C and D being adjusted as provided in (iii) above, would be convertible into common shares at any time prior to maturity as follows:

<u>Sub-series</u>	<u>Conversion price</u>
I	\$2.00
II	3.00
III	4.00
IV	5.00

The Ontario Securities Commission has ruled that the common shares resulting from a conversion of the contemplated 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.

(v) Additional security would be pledged under the Deed of Trust and Mortgage as follows:

- (1) Revenue-producing properties having a value of approximately \$3,900,000, subject to prior mortgages aggregating approximately \$1,100,000;
- (2) Lands held for development or sale having a net equity balance of approximately \$1,600,000; and
- (3) Mortgages receivable having a net equity balance of approximately \$616,000.

The limit of \$6,600,000 applicable to the lands known as Century City would be removed and such lands would, subject to the provisions of the Deed of Trust and Mortgage dealing with the release of property, be subject to the full charge of the Deed of Trust and Mortgage.

(vi) Extensive amendments would be made to the Deed of Trust and Mortgage concerning, primarily, the mortgaging and sale of property subject to the charge thereof, and the use which the Company may make of funds deposited with the trustee. In the opinion of the Company, such amendments will greatly enhance the flexibility which the Company has in dealing with such property and funds.

(b) Common shares (see note 20)

(i) Conditional subscriptions

Subsequent to December 31, 1970 First Canada Financial Corporation Limited and Mr. Maxwell Goldhar, as trustee for two corporations to be incorporated, by condi-

tional agreements have subscribed for 1,000,000 common shares at 50¢ each for a total consideration of \$500,000. Mr. Goldhar was engaged as a consultant to the Company on January 11, 1971 at a fee of \$2,500 per month and he has acted continuously in such capacity since that time.

Mr. C. H. Tod, a director and officer of the Company, may become the owner of 25% of all the outstanding shares in one of the corporations to be incorporated which has subscribed for 200,000 common shares.

The subscription agreements are subject to various conditions including the following:

- (1) By October 30, 1972 the repayment and other terms of the outstanding 7½% sinking fund debentures shall have been extended and modified in a manner satisfactory to First Canada Financial Corporation Limited (see (a) above).
- (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, is of the opinion are associated or affiliated with either of Mr. Alex J. Rubin and Mr. Harry Rubin or do not deal at arm's length with either of them) shall have executed a voting trust agreement satisfactory to First Canada Financial Corporation Limited, whereby Mr. Goldhar is 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 would also have the right to vote the 1,000,000 common shares so long as such shares are owned by the subscribers.

- (ii) The Company intends to issue rights to all shareholders whereby such shareholders would be entitled to subscribe for 1 common share at a price of 50¢ in respect of each 10 common shares of which they are the holders of record. Such rights would not be issued in respect of the 1,000,000 common shares subscribed for, as outlined in (i) above.

First Canada Financial Corporation Limited intends to agree to subscribe for those common shares which are not purchased under the rights offering.

- (iii) If the proposed corporate reorganization is completed a maximum additional 4,873,000 common shares would be reserved for the proposed conversion rights attaching to the amended sinking fund debentures.
- (iv) The conversion prices of the convertible subordinated sinking fund debentures Series A (see note 18) would be reduced substantially if common shares are issued pursuant to the proposed corporate reorganization and consequently common shares would be reserved in addition to those mentioned in note 20(a) (i).
- (v) The Company intends to make application to increase the authorized capital in order to provide for the additional common shares required to be reserved as a result of the proposed corporate reorganization.







