COMMERCE CAPITAL CORPORATION LIMITED

Annual Report 1974

CONTENTS

This symbol, which was used for the first time in the 1973 Annual Report, has become more closely identified with Commerce Capital during this past year. The design graphically portrays the expansion which has taken place in Commerce Capital over its five-year history and its development into a closely integrated group of companies providing financial services to an increasing number of Canadians.

COMMERCE CAPITAL CORPORATION LIMITED

HIGHLIGHTS	1974	1973
Total Income	**$22,131,716**	$12,193,839
Earnings before Extraordinary Items	**$ 825,914**	$ 667,935
Per share	**36 cents**	30 cents
Net Earnings	**$ 825,914**	$ 666,681
Per share	**36 cents**	30 cents
Total Assets	**$220,708,411**	$146,594,275
Shareholders' Equity	**$ 8,063,383**	$ 7,044,969
Per share	**$ 3.38**	$ 3.09
Number of Shares Outstanding		
Weighted average	**2,314,843**	2,258,061
At year-end	**2,386,870**	2,276,870
Approximate Number of Registered Shareholders	**2,300**	2,300

COMMERCE CAPITAL CORPORATION LIMITED

DIRECTORS

T. L. CHARNE, Q.C., Winnipeg,
President,
Commerce Capital Properties Limited

M. GAASENBEEK, Toronto,
Vice-President,
Midland Doherty Limited

*D. C. HANNAFORD, Montreal,
President,
Mead & Co. Limited

R. B. LOVE, Q.C., Calgary,
Partner,
Macleod, Dixon

*P. E. MARTIN, Montreal,
President,
Canada Steamship Lines Limited

C. ORENSTEIN, Toronto,
President,
Commerce Capital Financial Corporation

D. A. ROSS, C.A., Calgary,
President,
Farmers & Merchants Trust Co. Ltd.

J. A. TIMMINS, Montreal,
Vice-President,
General Aviation Division,
Rockwell International of Canada Limited

R. H. E. WALKER, Q.C., Montreal,
Partner,
Martineau, Walker, Allison,
Beaulieu, MacKell & Clermont

*J. B. WHITELY, Montreal,
President of the Company

*Member of the Executive Committee

OFFICERS

J. B. WHITELY,
President and Chief Executive Officer

T. L. CHARNE, Q.C.,
Vice-President

J. W. LEECH,
Vice-President

D. A. ROSS, C.A.,
Vice-President

E. D. BATEMAN, C.A.,
Secretary-Treasurer

Auditors

THORNE RIDDELL & CO.
Montreal

Transfer Agent and Registrar

CANADA PERMANENT TRUST COMPANY,
Montreal, Toronto, Winnipeg, Regina,
Calgary and Vancouver

Stock Listings

THE TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE

Head Office

One Place Ville Marie, Suite 3424,
Montreal, Quebec H3B 3N6

SUBSIDIARY OPERATIONS

Farmers & Merchants Trust Co. Ltd.
209-8th Avenue S.W.,
Calgary, Alberta

J. B. WHITELY
Chairman of the Board

D. A. ROSS, C.A.
President

R. B. LOVE, Q.C.
Vice-President

O. J. DIZEP
Vice-President, Mortgages

L. R. LUNN
Vice-President, Investments

A. G. DUCIE
Treasurer

P. A. REMPEL
Secretary

Commerce Capital Properties Limited
349 Portage Avenue
Winnipeg, Manitoba

D. A. ROSS, C.A.
Chairman of the Board

T. L. CHARNE, Q.C.
President

G. O. TERRY
Vice-President, Leasing

G. K. CINNAMON
Vice-President, Development

A. G. DUCIE
Secretary-Treasurer

General Mortgage Corporation of Canada
8 King Street E., Suite 1801,
Toronto, Ontario

J. B. WHITELY
Chairman of the Board

C. J. CANN
President

L. STIMPSON
Vice-President and Secretary

W. DE LA ESPRIELLA
Assistant Treasurer

Commerce Capital Financial Corporation
121 Richmond Street W., Suite 203,
Toronto, Ontario

J. B. WHITELY
Chairman of the Board

C. ORENSTEIN
President

P. ORENSTEIN
Vice-President

N. R. STAGG
Vice-President

J. W. LEECH
Secretary

C. J. CANN
Treasurer

Comcap Factors Inc.
50 Cremazie Boulevard W., Suite 707,
Montreal, Quebec

J. B. WHITELY
Chairman of the Board

R. H. CAMERON
President

J. W. LEECH
Vice-President

P. G. BERNIER
Vice-President

E. D. BATEMAN
Secretary

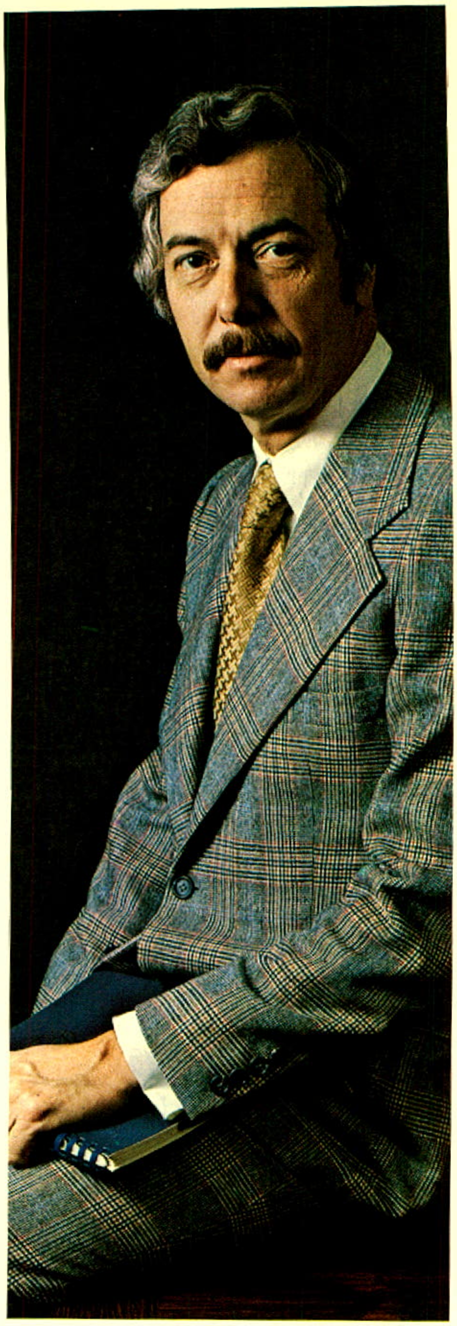
L. MARTIN
Assistant Secretary

PRESIDENT'S REPORT

Commerce Capital completed an excellent year in 1974, with the highest earnings in our history and a strong foundation for future growth in all major areas of activity. This performance was particularly gratifying since it occurred during a period of economic and financial stress characterized by unprecedented inflation and extremely high interest rates. During the period profit margins for most lending institutions narrowed considerably due to the increasing cost of short-term borrowings coupled with escalating administrative costs. Although by no means free of these problems, we were not as adversely affected as many others in our industry since over the years we have made an effort to keep the term of our liabilities relatively closely in line with the term of our assets. This accomplishment reflects our approach to money management matters. Although loan demand was exceptionally heavy, particularly during the first half of the year, we were able to meet most of the credit needs of our customers and we did so without sacrificing the quality of our assets or expanding beyond the limitation of our underlying resources. From an overall corporate viewpoint, we did not acquire any new subsidiaries but devoted all our efforts to enhancing the profitability of our existing operations.

Financial Performance

Earnings before extraordinary items amounted to $825,914 compared to $667,935 the previous year. After taking into account a small increase in the average number of shares outstanding, this was equal to 36 cents per share compared to 30 cents in 1973 — a gain of 20%. We are satisfied with these results since they meet the long-term performance standards we have set for the rate of growth in the Company's earnings. It should also be pointed out that they were achieved despite the affects of: (i) the imposition of the temporary federal corporate surtax, (ii) a more conservative method of accounting for mortgage fees and discounts by our subsidiary trust company and (iii) an upward adjustment in our provision for loan losses.



J. B. Whitely,
President and Chief Executive Officer.

Total assets increased by $74 million to $221 million. The greatest part of the gain was in mortgage loans which were up $62 million but it also included a $6 million increase in properties and a $2 million increase in factored accounts receivable. This growth was financed through various sources, principally the guaranteed accounts. Savings deposits increased by $25 million, guaranteed investment certificates by $30 million and bonds by $9 million. In addition, mortgages payable increased by $7 million, representing the permanent financing on our completed shopping centres.

The Business Environment

The Canadian economy has now moved into a period of recession, with the rate of real growth slowing down considerably and unemployment increasing to 6.8%. The situation is even more serious in the United States which is currently experiencing a negative growth rate and where certain industries such as real estate development and automobile manufacturing are in a depressed state.

All this is part of a world-wide inflation/recession condition brought about by many factors, including: (i) the energy crisis and the international balance of payments problems resulting from surplus oil funds flowing to Middle East countries, (ii) the world shortage of food, (iii) excessive demands on the productive capacity of world economies by the private sector and all levels of government and (iv) the inability to cope with problems of organized labour.

The highest rate of inflation ever seen in Canada and the United States was reached in the latter part of 1974. Now, as recessionary forces take hold, there is evidence that the rate of inflation is slowing down. Certainly this is happening in the case of commodity and wholesale prices which are usually fairly reliable leading indicators. This development, in turn, has led to a decline in interest rates in the past few months, particularly in the short end of the money markets. For example, in Canada the prime bank rate has fallen from an all-time high of 11½% in November to a current level of 9%. Over the same period, our five-year guaranteed investment certificate rate has declined from 10⅞% to 8½%.

These are welcome developments for trust companies and other mortgage lending institutions who as a group suffered badly when they were unable to offset the increase in interest rates on deposits and other short-term liabilities by raising the rates on longer-term mortgage loans. However, it would be wrong to assume that the pressures of inflation are behind us. Governments are on the horns of a dilemma. If they try to alleviate unemployment too quickly by running up large deficits there is real danger that the result will be serious reflation of the system, with even greater upward pressure on prices and interest rates. On the other hand, if they hold the line too closely, the economy may slide more deeply into recession. Our analysis is that there will be a greater concern over unemployment than inflation, resulting in a reinforcing of the inflationary pressures which unfortunately are becoming part of our way of life.

For this reason, the trust and loan company industry should make every effort to move in the direction of reducing its exposure to the damaging effect that increasing interest rate levels have on profit margins. Basically, this can be done by two methods: (i) lengthening the intervals at which rate adjustments can be made on borrowed funds and (ii) shortening the intervals at which rate adjustments can be made on mortgage loans. The second method leads into the concept of variable rate mortgages.

Five-Year Review

This year we are presenting a five-year financial review for the first time. For it was in 1970 that the Company's present policies and objectives were adopted and it is from that year forward that our performance should be measured.

From 1970 to 1974 shareholders' equity increased from $811,000 to $8 million or, on a per share basis, from $1.61 to $3.38. It is significant to note that this is equivalent to an average annual increase of 20%, again in line with our basic objectives with respect to corporate profitability.

Over the period ordinary earnings grew consistently every year, moving from a small loss in 1970 to a profit of $826,000 in 1974. On a per share basis, the progression was as follows: (9¢), 3¢, 25¢, 30¢ and 36¢.

Total assets expanded from $6 million to $221 million.

Commerce Capital To-Day

To-day Commerce Capital is a national financial service company operating through five major subsidiaries. The principal services we offer are near-banking facilities in many forms and various types of mortgage lending. We are also active in several other areas, including the factoring of accounts receivable and real estate development, particularly shopping centres. On a consolidated basis, we are now represented in twelve cities across Canada.

Our major subsidiaries are as follows:

1) Farmers & Merchants Trust Co. Ltd., a trust company with its head office in Calgary, Alberta, in which we hold a 62% interest.
2) Commerce Capital Properties Limited, a real estate development company in Winnipeg, Manitoba, in which Farmers & Merchants Trust holds a 90% interest.
3) General Mortgage Corporation of Canada, a mortgage lending company in Toronto, Ontario, in which we hold a 93% interest.
4) Comcap Factors Inc., a factoring company in Montreal, Quebec, in which we hold an 82% interest.
5) Commerce Capital Financial Corporation, a short-term mortgage lending company in Toronto, Ontario, in which we hold a 51% interest.

Mortgage Lending

Our overall mortgage activities continued to expand at a substantial rate in 1974. Through the operations of Farmers & Merchants Trust, General Mortgage and Commerce Capital Financial we disbursed $82 million in new mortgage loans compared to $54 million the previous year. This included $66 million in residential loans and $16 million in commercial and industrial loans. In the residential category we provided the financing for over 2,000 new housing units, both single and multiple family. After allowing for maturities and redemptions in our existing portfolio, our mortgage holdings by year-end reached a level of $168 million.

The loans of Farmers & Merchants Trust and General Mortgage, accounting for 96% of the total, are first mortgages, predominately residential and typically with an original term of five years. The loans of Commerce Capital Financial, accounting for the remainder, are short-term construction and development loans with terms of up to two years.

During 1974 our lending rates were adjusted upward to keep pace with our increasing cost of money and by the third quarter we were facing certain resistance on the part of borrowers. Fortunately, we have been able to reduce our lending rates since that time in line with a gradual decline in our money costs.

Factoring

Although the factoring business is relatively new to us, the senior management of Comcap Factors has had many years' experience in this field. During 1974 the capital base of the company was expanded, with our interest increasing to 82%. By year-end, only eighteen months after its incorporation, it was processing an annual accounts receivable volume of over $22 million. Factoring, a relatively undeveloped financial industry in Canada, has shown a marked increase in its rate of growth over the past few years and we expect this trend will continue in the future. We are very pleased with Comcap's progress to date and look forward to its continued growth and increasing contribution to our overall earnings.

Debt Management

The management of our various guaranteed funds, totalling $187 million at the end of 1974, is an important aspect of our overall operations. The largest component of these funds are guaranteed investment certificates sold by Farmers & Merchants Trust through its branch system. During 1974 these certificates, ranging up to five years in term, grew to $123 million. Another important category is the trust company's savings deposits which by year-end totalled $38 million, including $21 million in the form of funds deposited under registered retirement savings plans. It is worth noting that over the past four years the trust company's fixed-income plan enjoyed the best performance of any comparable registered retirement savings plan in Canada. A new type of savings fund is the registered home ownership savings plan which will be offered by the trust company for the first time in 1975. A growing segment of these guaranteed funds are the bonds sold by General Mortgage to finance its conventional mortgage fund. With maturities of up to five years, they are placed through investment dealers both on a continuing agency basis and from time to time on an underwriting basis.

An integral part of our debt management programme is the arranging of bank indebtedness and lines of credit. During the past year our lines of credit have been strengthened in order to meet the needs of our expanding operations.

Farmers & Merchants Trust is reviewing various financing alternatives to provide funds for expanding its capital base, particularly the possible private placement of debentures or subordinated notes. Recent legislative changes in this regard provide the trust company with greater flexibility for this type of financing.

General Mortgage has recently applied for an increase in its borrowing ratio from the current 17 times admitted capital to 20 times admitted capital. This increase will enable the company to carry out its expansion programme for the next several years.

Real Estate Development

Our real estate development programme, carried out through Commerce Capital Properties, continued to move forward in 1974. Of greatest significance was the opening of our first two shopping centres in mid-year, one in Kenora, Ontario and the other in Estevan, Saskatchewan. Both centres are now in full operation under our management.

Completion of Unicity Fashion Square, the regional shopping centre we are developing in Winnipeg with Trizec Corporation Ltd. and Hudson's Bay Company Limited, is expected in the fall of 1975. In November 1974 construction started on a neighbourhood shopping centre in Olds, Alberta. It is the first of other similar centres we expect to build in Alberta.

We plan to commence construction this spring of a new 140,000 square foot enclosed mall centre in Courtenay, British Columbia, with Zeller's Limited and Overwaitea Limited as the principal tenants. Completion is scheduled for early 1976.

Although we recognize that certain urban areas in Canada, particularly the larger cities, have sufficient shopping centre capacity for the time being, there are many opportunities to build first-class enclosed mall centres of the 125,000 to 200,000 square foot range in many medium-sized communities in Canada, particularly in the West. We intend to continue pursuing this area of the market.

Officer Changes

Early in 1975 Mr. James W. Leech was appointed Vice-President of Commerce Capital. Previously he had been Executive Assistant to the President.

In October Mr. Christopher J. Cann was appointed President of General Mortgage and elected a director of that company. He was formerly Executive Vice-President.

In March we were saddened by the death of Mr. Leonard Henderson who was Vice-President, Secretary and a director of General Mortgage. Mr. Henderson made an outstanding contribution to the affairs of that company, being responsible for its progress and direction for many years.

Other Corporate Matters

During 1974 we purchased additional shares of General Mortgage on the open market, increasing our interest from 87% to 93%.

In 1974 Farmers & Merchants Trust issued 65,000 shares of the trust company's stock to officers and employees under a Stock Purchase Plan. This, partly offset by our purchase of additional shares in the open market in February 1975, meant that our interest has been reduced from 64% to 62%.

In September 110,000 shares of Commerce Capital's stock were issued to officers and employees under our Stock Purchase Plan, bringing the total number of shares issued and outstanding to 2,386,870.

These Stock Purchase Plans were introduced to enable senior employees to purchase shares in our companies. Much of our success to date has been due to our ability to attract and keep good people and we believe it is important that they have an ownership position in the companies they help manage.

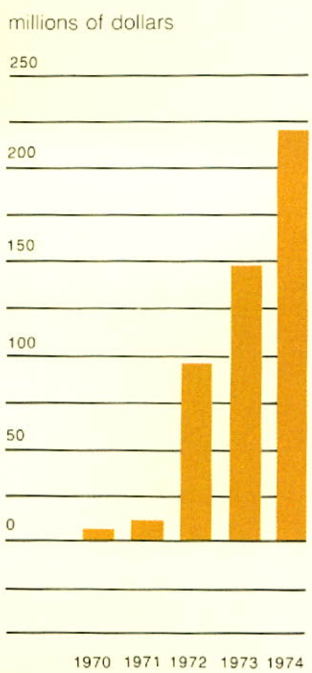
Outlook

We move into 1975 with a positive attitude despite unsettled economic and financial conditions. We believe that Canada, compared to most other countries in the world, is in a most favoured position and that our economy will enjoy a satisfactory long-term rate of growth in the future. All our operations are well managed and soundly financed and we are confident that we will carry on the process, started five years ago, of building an effective, co-ordinated financial service organization. With respect to earnings, we believe that the annual percentage increase experienced in the past two years will be maintained in 1975.

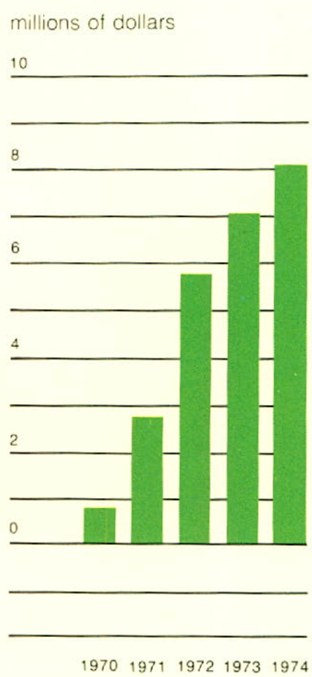
J. B. Whitely

Montreal, March 12, 1975

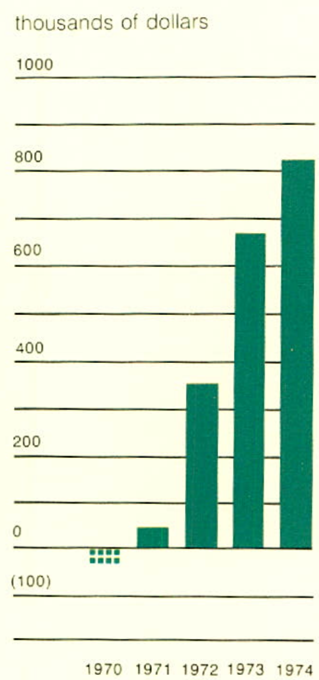
TOTAL ASSETS



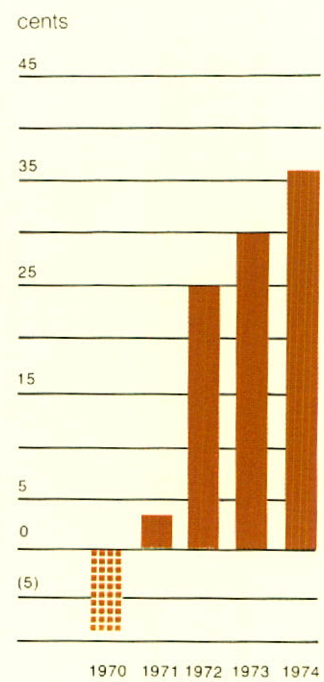
SHAREHOLDERS' EQUITY



EARNINGS BEFORE EXTRAORDINARY ITEMS



EARNINGS PER SHARE BEFORE EXTRAORDINARY ITEMS



COMMERCE CAPITAL CORPORATION LIMITED

CONSOLIDATED FINANCIAL STATEMENTS 1974

AUDITORS' REPORT

To the Shareholders
Commerce Capital
Corporation Limited

We have examined the consolidated balance sheet of Commerce Capital Corporation Limited and its subsidiaries as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of accounting for deferred income as outlined in Note 9 to the financial statements, have been applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.

Chartered Accountants

Montreal, Quebec,
February 26, 1975.

COMMERCE CAPITAL CORPORATION LIMITED

Incorporated under the Canada Corporations Act

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31

	1974	1973
Income		
Interest	$19,237,827	$ 9,848,706
Income from all other sources	2,893,889	2,345,133
	22,131,716	12,193,839
Expenses		
Interest and amortization of financing expenses	14,765,610	7,586,854
Other administrative and general expenses	4,797,970	2,752,762
	19,563,580	10,339,616
Earnings Before Income Taxes, Minority Interest and Extraordinary Items	2,568,136	1,854,223
Income Taxes		
Current	856,531	579,577
Deferred	462,943	275,768
	1,319,474	855,345
	1,248,662	998,878
Minority Interest	422,748	330,943
Earnings Before Extraordinary Items	825,914	667,935
Extraordinary Items	—	(1,254)
Net Earnings	$ 825,914	$ 666,681
Earnings per Share (Notes 9 and 11)		
Before extraordinary items	36¢	30¢
Net earnings	36¢	30¢

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31

	1974	1973
Balance at Beginning of Year	$ 1,318,060	$ 651,379
Net earnings	825,914	666,681
Balance at End of Year	$ 2,143,974	$ 1,318,060

COMMERCE CAPITAL CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET
as at December 31

	1974	1973
Assets		
Cash and deposit receipts	$ 5,952,139	$ 2,167,463
Marketable securities (Note 2)	28,046,207	29,400,512
Mortgages, agreements and secured loans (Note 3)	167,672,855	105,412,361
Accounts receivable and other assets (Note 4)	6,889,315	3,560,723
Investment in properties (Note 5)	9,642,578	4,098,728
Land, buildings, equipment and leasehold improvements — at cost less accumulated depreciation of $367,002 (1973 — $267,082)	1,611,980	1,132,968
Excess of cost of shares over net book value of assets of subsidiary companies (Note 1)	893,337	821,520
	$220,708,411	$146,594,275
Liabilities and Shareholders' Equity		
Guaranteed accounts (Note 6)		
Savings deposits	$ 37,916,033	$ 13,019,934
Guaranteed investment certificates	122,718,858	92,740,123
Bonds	24,643,387	15,419,101
Bank loans	1,321,000	1,444,000
	186,599,278	122,623,158
Other liabilities		
Bank indebtedness — secured	8,382,997	8,675,845
Accounts payable and accrued liabilities	2,098,611	1,591,166
Income taxes	94,474	558,975
Notes payable (Note 7)	1,149,800	1,099,800
Mortgages (Note 8)	7,420,682	280,735
Deferred income (Note 9)	2,899,021	1,722,793
	208,644,863	136,552,472
Deferred income taxes	952,028	489,085
Minority interest	3,048,137	2,507,749
Shareholders' equity		
Capital stock (Note 10)		
Authorized: 5,000,000 common shares without nominal or par value		
Issued: 2,386,870 shares (1973 — 2,276,870 shares)	5,919,409	5,726,909
Retained earnings	2,143,974	1,318,060
	8,063,383	7,044,969
	$220,708,411	$146,594,275

Signed on Behalf of the Board:
J. B. Whitely, Director
R. H. E. Walker, Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31

	1974	1973
Source of Funds		
Operations		
Net earnings	$ 825,914	$ 666,681
Items not involving funds	1,052,522	745,659
	1,878,436	1,412,340
Decrease (increase) in marketable securities	1,354,306	(2,382,445)
Increase in guaranteed accounts	63,976,120	42,362,973
Issue of notes payable	50,000	1,099,800
Increase in mortgages payable	7,139,947	115,340
Increase in deferred income	1,176,228	21,476
Investment in subsidiary companies by minority shareholders	227,500	100,690
Issue of shares	192,500	689,400
	$75,995,037	$43,419,574
Application of Funds		
Acquisition of shares of subsidiary companies	$ 57,196	$ 1,308,956
Increase (decrease) in cash and deposit receipts	3,784,676	(5,578,038)
Increase in mortgages receivable	62,237,995	51,786,471
Changes in accounts receivable and payable	3,044,240	1,239,547
Increase in investment in properties	5,573,850	2,319,935
Purchase of fixed assets	573,730	661,169
Decrease (increase) in bank indebtedness	292,848	(8,624,845)
Dividends paid by a subsidiary company to minority shareholders	96,825	74,876
Changes in other assets and liabilities	333,677	231,503
	$75,995,037	$43,419,574

NOTES TO 1974 CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the assets and liabilities of all subsidiary companies and the results of their operations and the changes in their financial positions from their respective dates of acquisition or incorporation.

The excess of the cost of shares over the net book value of assets of subsidiary companies acquired is carried on the consolidated balance sheet without amortization.

2. MARKETABLE SECURITIES

	1974	1973
Held by subsidiary companies	$28,046,207	$29,400,512
Quoted market value	$24,413,221	$27,220,974

The major portion of marketable securities consists of government and corporate bonds which are recorded in the accounts at amortized cost. No provision has been made for the decline in the market value of marketable securities below recorded value because, in the opinion of management, such decline does not represent a permanent diminution in value.

3. MORTGAGES, AGREEMENTS AND SECURED LOANS

Included therein is an amount of $7,400,000 (1973 — $7,400,000) representing a subsidiary company's beneficial ownership of interests in certain registered mortgages, which interests are held in trust for that subsidiary by an officer and director of the subsidiary, who is also a director of Commerce Capital Corporation Limited.

4. ACCOUNTS RECEIVABLE

Included therein is an amount of $3,282,000 (1973 — $1,828,000) of accounts receivable purchased by a subsidiary factoring company.

5. INVESTMENT IN PROPERTIES

	1974	1973
Developed properties	$ 7,336,633	$ —
Accumulated depreciation	30,000	—
	7,306,633	—
Properties under development	2,284,715	2,728,634
Rental properties	—	947,770
Properties held for sale	51,230	422,324
	$ 9,642,578	$ 4,098,728

Developed properties and properties under development pertain to the operations of a subsidiary real estate development company. All costs and expenses, including interest, property taxes and general administration expenses, net of revenue, which are directly related to development activities are capitalized until a substantial rental occupancy is achieved. Thereafter, all such costs, exclusive of land costs, are amortized to earnings over the life of the properties.

Properties held for sale, which are owned by another subsidiary company, are recorded at the lower of cost or appraised value. Cost is the mortgage balance receivable at the time of foreclosure plus related expenses of foreclosure and maintenance less revenues generated by the property.

6. GUARANTEED ACCOUNTS

The guaranteed accounts pertain to the operations of two of the company's subsidiaries and are secured by the following segregated assets:

	1974	1973
Cash and deposit receipts	$ 3,718,347	$ 997,993
Marketable securities	23,765,094	26,221,416
Mortgages and secured loans	159,115,837	95,403,749
	$186,599,278	$122,623,158

7. NOTES PAYABLE

Notes payable are due to minority shareholders of subsidiary companies, are unsecured and are subordinated to the bank indebtedness of the respective subsidiary companies. $1,000,000 thereof matures in 1979 and bears interest at 11% and the balance matures in 1984 and bears interest at 12%.

8. MORTGAGES

Mortgages are payable by subsidiary companies. The major portion of these mortgages, in the amount of $6,600,000, is due in 1994, bears interest at an average rate of 10% and is being amortized over a thirty-year period.

9. DEFERRED INCOME

Deferred income pertains to the mortgage operations of two of the company's subsidiaries. These subsidiaries issue mortgages at a discount or levy a service fee, both of which are deferred and taken into income over the term of the mortgages.

Effective January 1, 1974 one of the subsidiaries adopted a more conservative method of amortization than that used previously. Had this change not been adopted, other income, net earnings and earnings per share for 1974 would have been greater by $213,500, $65,600 and 3¢ respectively.

10. CAPITAL STOCK

	Number of Shares	Amount
Balance at December 31, 1973	2,276,870	$5,726,909
Shares issued under Stock Purchase Plan	110,000	192,500
Balance at December 31, 1974	2,386,870	$5,919,409

During the year the company created a Stock Purchase Plan for the benefit of designated officers and employees. In accordance with the terms thereof, the Trustees of the Plan purchased, for the benefit of such officers and employees, 110,000 common shares at $1.75 per share with funds advanced by the company. The advance is repayable over a period of up to nine years and is included in accounts receivable.

All options previously granted to officers of the company which had not been exercised were cancelled.

Notes to 1974 Consolidated Financial Statements
(Cont'd)

11. EARNINGS PER SHARE

Earnings per share have been calculated based on the weighted average number of shares outstanding in 1974 and 1973 of 2,314,843 and 2,258,061 respectively.

12. COMMITMENT AND CONTINGENT LIABILITY

A subsidiary real estate development company has an interest in a joint venture under which it has an eventual commitment of approximately $1,850,000 as one of the guarantors of a seven-year bank loan which the joint venture has arranged to cover the estimated expenditures. As at December 31, 1974 the subsidiary company's contingent liability as a guarantor was $255,000.

13. STATUTORY INFORMATION

	1974	1973
Remuneration of Directors and Officers		
Number of directors	10	10
Directors' remuneration	$ 24,600	$ 21,600
Number of officers	5	5
Officers' remuneration	$ 95,140	96,100
Number of directors who are also officers	3	3
Depreciation	$124,718	$114,190

14. COMPARATIVE FIGURES

Certain 1973 items have been reclassified to conform with the 1974 presentation.

Receptionist at Commerce Capital's head office, Montreal.

REVIEW OF OPERATIONS 1974

During 1974 there was a significant increase in customer demand for the financial services provided by the Commerce Capital companies. Our mortgage lending, trust, factoring and real estate development operations established record levels of activity. This performance is reflected in the financial statements shown on the preceding pages of the Report. The following Review of Operations is intended to give further insight into the specific accomplishments of our operating subsidiaries and their management.

An F&M representative explains the advantages of opening a registered retirement savings plan to a customer.

FARMERS & MERCHANTS TRUST CO. LTD.

Farmers & Merchants Trust Co. Ltd. provides a wide range of financial services to the public, including savings and chequing accounts, guaranteed investment certificates, mortgage loans, registered retirement savings plans, registered home ownership savings plans, investment and property management, corporate trust services and other estates, trusts and agencies services.

The company, with its head office located in Calgary, Alberta, is one of Canada's leading western-based trust companies. It operates in five provinces through a system of twelve branch offices. The newest of these offices is a full-service branch for downtown Winnipeg, Manitoba, opened in March 1975. This outlet was developed by Commerce Capital Properties which has moved its executive offices to the same location.

During 1974 Farmers & Merchants Trust enjoyed record growth in assets, customer deposits and earnings.

A Vancouver condominium project financed by Farmers & Merchants Trust.

Assets: Total assets rose from $117 million to $180 million, an increase of 54%. This was primarily due to the expansion of the mortgage portfolio through a net placement of $53 million. A total of 1,400 mortgages were written during the year, including the financing of over 1,200 housing units. Farmers & Merchants Trust continued, where possible, to tailor the maturities of these new loans to the maturities of its deposits.

Customer Deposits: The principal reason for the success of the company's expansion programme has been its ability to maintain a good supply of deposit money. During the year the trust company's family of customers grew to over 35,000. One savings instrument which was particularly popular was the guaranteed registered retirement savings plan offered by Farmers & Merchants Trust. A study made public in January 1975, showed that this plan out-performed all fixed income RRSP's over its four-year history. The company expects to launch a similar campaign for registered home ownership savings plans which have recently been approved under the Canadian Income Tax Act. This will afford the trust company's younger customers the opportunity of obtaining substantial tax relief by setting aside a portion of their savings to provide for the down payment on their first home.

Earnings: One significant measure of Farmers & Merchants Trust's success as an emerging national trust company is its ability to show continued earnings increases. Despite the record high cost of money which faced all trust companies during 1974, earnings before extraordinary items increased from $812,000 to $1,077,000, up 33%.

During the year the trust company commenced a major upgrading programme for its in-house computer, which until now has been used primarily for the centralized administration of the mortgage portfolio. Once completed, this more sophisticated installation will significantly increase the company's capacity to extend further the range of its fiduciary services.

Kenora Shoppers Mall, opened in July 1974.

COMMERCE CAPITAL PROPERTIES LIMITED

Commerce Capital Properties Limited is a Winnipeg-based real estate development company which specializes in the development and management of shopping centres. It has at present two shopping centres in operation, interests in two other centres under construction, plus sites for future development in various Canadian communities.

The year 1974 was a particularly active one, highlighted by the opening of the company's first two projects—enclosed mall shopping plazas in Kenora, Ontario and Estevan, Saskatchewan.

Kenora Shoppers Mall, situated on a 10-acre site in the downtown area, was formally opened in July 1974. It has 140,000 square feet of retail space and parking for 680 automobiles.

Estevan Shoppers Mall, situated on a 27-acre site, was opened in August 1974. It comprises 178,000 square feet of retail space and parking for 1,050 automobiles.

To date, retail sales in both locations have been well above expectations.

Construction of Unicity Fashion Square, our joint venture with Trizec and The Bay in the western part of Winnipeg, commenced in August 1974. This regional shopping centre will comprise 560,000 square feet and will provide parking for over 2,600 automobiles. The anchor department stores will be The Bay and Woolco and the supermarket, ~~Dominion~~ Stores. The opening is scheduled for fall 1975. Safeway

In November 1974 Commerce Capital Properties, together with a joint venture partner, commenced construction of Mountainview Plaza, a neighbourhood shopping centre for Olds, Alberta.

In December 1974 the company was successful in securing a Land Use Contract to develop an enclosed mall shopping centre on a 22-acre site in Courtenay, British Columbia. This shopping centre will comprise 140,000 square feet with provision to expand by a further 35,000 square feet. The department store will contain 60,000 square feet and has been leased to Zeller's. The supermarket tenant will be Overwaitea Foods, a major B.C. supermarket chain, who has leased 26,000 square feet. Lease negotiations are in progress for the remaining commercial rental units, with preference given to local merchants. Permanent financing has been arranged and construction is expected to commence shortly, for completion in early 1976.

At the beginning of 1975 the company completed a new building on Portage Avenue, Winnipeg, to house both its own executive offices and the new branch outlet for Farmers & Merchants Trust. These new facilities provide ample room for the future expansion of Commerce Capital Properties.

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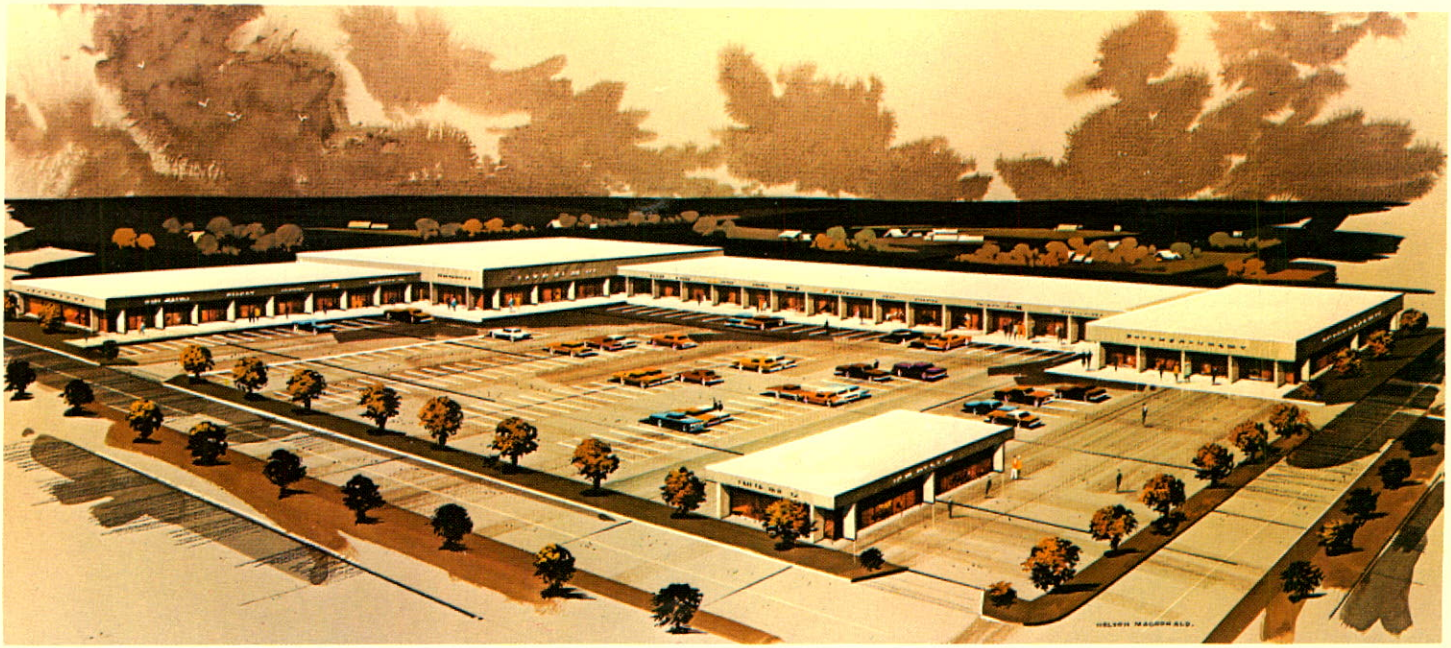

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1) Mountainview Plaza, Olds, Alberta, currently under construction and scheduled to open during the summer of 1975.

2) Santa Claus arrives at the Kenora Shoppers Mall.

3) T. L. Charne, President *left* addresses Mayor I.M. Petterson and the citizens of Estevan at the opening of Estevan Shoppers Mall, August 1974.

4) Estevan Shoppers Mall has brought many new retail outlets to the consumers of Estevan.

A suburban development on the outskirts of Toronto financed by General Mortgage.

GENERAL MORTGAGE CORPORATION OF CANADA

General Mortgage Corporation of Canada is a regulated mortgage company specializing in first mortgages on single family residential properties and, to a lesser extent, on commercial and industrial properties. The company funds its mortgage lending activities primarily through the sale of bonds to the public. General Mortgage operates from its head office in Toronto and mortgage loans are generated by its own mortgage officers in the field as well as through brokers and real estate agents. To date, the concentration of its lending has been throughout Ontario.

1974 was another year of impressive growth for General Mortgage. Its mortgage lending programme continued at a steady pace during the year despite a general slowdown in the mortgage market in the second half. Over 400 mortgages were written, most of which financed single family dwellings. In dollar terms, this meant a net mortgage placement of over $9 million. The increase was financed by the sale of an equivalent amount of one to five-year bonds through a group of investment dealers. The company continued its policy of matching the maturities of its bonds with the maturities of its mortgages in order to protect profit margins.

During the year General Mortgage's total assets rose from $19 million to $29 million, an increase of 53%. This growth in assets gave rise to a 46% increase in net earnings from $149,000 to $218,000.

In late 1973 General Mortgage introduced the sale of bonds on a continuous tap basis as a new financing technique. Throughout 1974 this method of financing was used extensively and proved to be highly successful during this tight money period.

One of Comcap's clients is a leading fashion manufacturer.

COMCAP FACTORS INC.

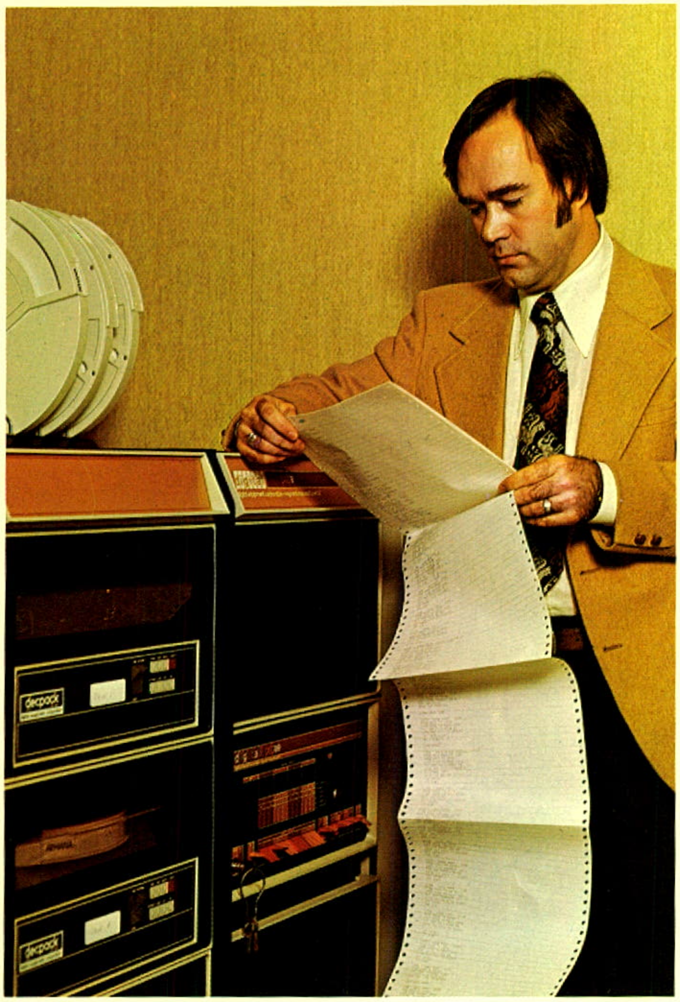
Comcap Factors Inc. operates in a specialized segment of the financial service industry, its principal activities being factoring and related commercial financing. In its role as a factor, Comcap purchases the accounts receivable of its clients, assuming full credit and collection responsibility. This service is offered on both a recourse and non-recourse basis and, in most cases, is accompanied by a commercial financing agreement which means that funds representing a percentage of the purchased accounts receivable are advanced to the client prior to their collection. Comcap also engages in import financing where funds are loaned against letters of credit. All clients receive a broad range of ancillary services, including credit approval, account collection and bookkeeping, business counselling and a variety of management information reports.

Since it commenced operations in mid-1973 Comcap has developed a base of quality accounts. These clients represent Canadian growth-oriented companies who use Comcap's services to increase their working capital, which otherwise would be tied up in accounts receivable, and to insure against bad debt losses.

By the last quarter of 1974, its first full year of operation, Comcap was processing an annual accounts receivable volume of over $22 million. New clients taken on during the year accounted for approximately 40% of this figure. This business was financed with the company's equity capital and lines of credit with Canadian chartered banks. Despite the fact that the company's cost of funds rose sharply during the year, its profit margins were not eroded because all of its contracts contain interest rate escalation clauses. Factoring commission rates also held steady during the year.

Historically, factoring has been closely associated with the textile and garment industries. For that reason clients associated with these sectors of manufacturing accounted for approximately 65% of the company's 1974 factoring volume. During the year additional firms from other industries were introduced to Comcap's full range of financial services, which can be tailored to specific industry requirements. As a result of these marketing efforts the company's client list was further diversified and now includes importers, exporters, manufacturers and distributors of such non-textile product lines as: packaging materials, home and office furnishings, leatherwear, hardware, automobile accessories, silk screen printing, steel rule dies and chrome plating. As Comcap develops and expands, one continuing objective is to diversify this client base further from both a geographic and industry point of view.

A townhouse project, financed by Commerce Capital Financial.



N. R. Stagg, Vice-President, reviews the computer records of Commerce Capital Financial's mortgage portfolio.

COMMERCE CAPITAL FINANCIAL CORPORATION

Commerce Capital Financial Corporation provides short-term mortgage financing, including construction loans, land development loans, wrap-around loans, gap loans and stand-by commitments. Operating from Toronto, the company makes loans on its own or in participation with other lenders in many provinces of Canada and in selected areas of the United States. Since operations commenced in mid-1973 the company has developed a substantial portfolio of mortgages. A diverse group of properties have been financed, including: condominiums, townhouses, nursing homes, apartments, shopping centres, industrial buildings and serviced land.

During 1974 the impact of escalating interest rates and rapidly inflating construction costs resulted in a general slowdown in new real estate projects across Canada and, to an even more pronounced extent, in the United States. These severe economic conditions forced many developers, especially in the U.S., to discontinue certain developments under construction. The construction slowdown, coupled with a more conservative lending policy adopted by the company, curtailed its mortgage lending programme. In total, the 1974 mortgage loan production was just over $3 million compared to $8 million in 1973, resulting in a slight decline in mortgages outstanding. For this reason, together with an upward adjustment in the provision for loan losses, Commerce Capital Financial's earnings were lower than anticipated.

FIVE-YEAR FINANCIAL REVIEW

	1974	1973	1972	1971	1970
YEAR-END POSITION (thousands except per share figures)					
Assets					
Cash and deposit receipts	$ 5,952	$ 2,167	$ 7,746	$ 2,496	$ 345
Securities	28,046	29,483	27,101	1,295	475
Mortgages	167,673	105,412	53,566	6,422	5,372
Accounts receivable factored	3,282	1,828	—	—	—
Properties	9,643	4,099	1,851	63	—
Other	6,112	3,605	1,637	222	21
	$220,708	$146,594	$ 91,901	$ 10,498	$ 6,213
Guaranteed accounts					
Savings deposits	$ 37,916	$ 13,020	$ 10,720	$ —	$ —
Guaranteed investment certificates	122,719	92,740	59,123	—	—
Bonds	24,643	15,419	7,627	5,577	1,522
Bank loans	1,321	1,444	2,790	1,786	3,091
	$186,599	$122,623	$ 80,260	$ 7,363	$ 4,613
Other liabilities	$ 22,046	$ 13,929	$ 2,959	$ 36	$ 34
Deferred income taxes	$ 952	$ 489	$ 213	$ 73	$ 23
Minority interest	$ 3,048	$ 2,508	$ 2,780	$ 273	$ 732
Shareholders' equity	$ 8,063	$ 7,045	$ 5,689	$ 2,753	$ 811
Per share	$ 3.38	$ 3.09	$ 2.68	$ 2.04	$ 1.61
RESULTS FOR YEAR (thousands except per share figures)					
Income					
Interest	$ 19,238	$ 9,849	$ 6,663	$ 682	$ 243
Other	2,894	2,345	1,679	94	25
	$ 22,132	$ 12,194	$ 8,342	$ 776	$ 268
Expenses					
Interest	$ 14,766	$ 7,587	$ 5,224	$ 436	$ 163
Other	4,798	2,753	1,726	247	135
	$ 19,564	$ 10,340	$ 6,950	$ 683	$ 298
Earnings before extraordinary items	$ 826	$ 668	$ 357	$ 44	$ (46)
Per share	36¢	30¢	25¢	3¢	(9¢)
Net earnings	$ 826	$ 667	$ 401	$ 251	$ (465)
Per share	36¢	30¢	28¢	19¢	(92¢)
SHAREHOLDERS' STATISTICS					
Common shares outstanding					
Weighted average	2,314,843	2,258,061	1,441,037	1,349,370	503,788
At year-end	2,386,870	2,276,870	2,124,370	1,349,370	503,788
Approximate number of registered shareholders	2,300	2,300	2,000	1,700	1,600

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