

Annual Report  
Daon Development  
Corporation

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## **Contents**

- 1 Five Year Financial Highlights
- 2 President's Report
- 4 Office Centres
- 12 Shopping Centres
- 20 Residential Properties
- 28 Industrial Development
- 34 Land Development
- 38 Financial Statements
- 52 Corporate Directory

## FIVE YEAR FINANCIAL HIGHLIGHTS

	1981	1980	1979	1978	1977
<b>Operating Results</b>					
Total Revenue (in \$000)	696,126	697,961	531,236	347,576	155,307
Net Income (in \$000)	17,224	51,340	42,203	15,482	10,340
Earnings per Common Share (in \$)	0.38	1.32	1.10	.42	.27
Cash Flow (in \$000)	23,075	91,224	78,974	33,394	22,261
Cash Flow per Common Share (in \$)	0.54	2.43	2.12	.91	.60

**Financial Performance**

Total Assets (in \$000)	2,370,574	1,674,218	1,221,662	653,622	464,306
Income Properties (in \$000)	805,028	529,362	447,520	307,738	228,069
Shareholders' Equity:					
Historic Cost (in \$000)	162,103	159,183	121,003	70,935	34,110
Net Market Value (in \$000)*	448,228	393,697	312,658	183,196	96,664
Net Market Value of Assets per Common Share (in \$)*	11.50	9.81	7.46	4.30	2.58
Total Liabilities/Shareholders' Equity:					
Historic Cost	13.62×	9.52×	9.10×	8.21×	12.61×
Net Market Value*	5.57×	4.44×	4.13×	3.79×	5.10×
Interest Coverage (expense basis)	1.17×	2.68×	3.41×	2.42×	2.71×

**Common Share Data**

Price (in \$):					
High	13.62	11.25	10.38	3.63	1.63
Low	3.85	4.80	2.69	1.47	.44
Trading Volume:**					
Number of Shares (in 000's)	7,233	11,772	5,285	1,603	642
Dollar Volume (in \$000)	75,274	104,256	70,270	17,407	7,323
Dividends Paid (in \$)	0.155	0.12	0.07	0.029	0.016
Number of Shareholders at October 31	4,238	4,312	2,571	1,534	1,012

\*After allowance for income taxes at 50%.

\*\*Canadian stock exchanges only.

To describe 1981 as a year of great challenge to the real estate industry is indeed an understatement. Interest rates rose again to all-time highs, residential mortgages became unaffordable for the majority of home buyers and sales of new and existing homes in the United States dropped to their lowest level in a decade, creating the worst housing depression since World War II. The high carrying costs and the slowdown in residential sales severely hurt our condominium conversion business and substantial losses resulted. These losses, including a writedown of the book value of our residential inventory in the amount of \$44 million, reduced earnings for the year to \$17,224,000. Earnings from our two principal ongoing businesses, commercial real estate and land, were strong.

### Market Value of Assets and Equity Base

Following our established procedure, a valuation by independent real estate appraisers of all Daon's interest in real estate was completed as of October 31, 1981. The total appraised market value of Daon's

holdings exceeds book value by \$573 million as of that date. To arrive at the Company's real as opposed to book equity base, two components should be added—retained earnings and common share capital in the amount of \$137 million and deferred income taxes in the amount of \$122 million, for a total amount of \$832 million. Expressed on a common share basis, this "gross equity" employed by the Company is in excess of \$23.00 per share. The net after tax value (appraisal surplus less a 50% provision for taxes, retained earnings and common share capital) amounts to approximately \$400 million or \$11.50 per common share.

### Business Strategy

We are proceeding with the game plan that was outlined in my letter to shareholders of August 26, 1981, and in the Nine-Month Report. That strategy, restated very simply, is as follows:

1. To reduce inventories, with special emphasis on our apartment portfolio.
2. To reduce overheads to a level in keeping with business activity.
3. To reduce floating rate debt.
4. To concentrate on our two ongoing principal product lines—land and commercial income properties.

Reduction in the U.S. bank prime rate has had a very positive effect on our apartment portfolio, both real and psychological. With bank prime a full five percentage points lower

than it was in September, the cost of holding these properties as rentals is becoming much less significant and we look for further reductions in the prime rate in the months to come. Also, investors recognize that falling rates are the first signal of a turnaround in the housing market. We are, of course, aware of the increasing viability of retaining some of these properties in our own portfolio as interest rates drop and this option will be reviewed property by property as offers to purchase are received. Since our decision to sell our apartment inventory of 8,600 net units was announced in August, we have sold or received offers on about 2,500 net units.

The market for North American commercial income properties is strong, and it is a world-wide market. Some of our completed commercial income properties have been offered for sale and the second quarter should see several sales concluded. We have also received offers to purchase a number of our undeveloped sites. These sales will produce substantial profits and substantial cash.

Turning to land, management's efforts during the first half of the year will be focused on

obtaining land use approvals and completing the planning and engineering for an expected pick-up in residential lot demand in the second half. Physical work on the land will be deferred until we have sales orders for the finished product. On the other hand, our industrial land is in strong demand with construction and sales of serviced sites proceeding as usual.

### **Liquidity**

The Company maintained substantial reserves of cash and credit throughout 1981, and entered the new fiscal year with \$158 million of cash and committed but unused credit. This will shrink during the first quarter, but will increase again in the second and subsequent quarters as we complete the property sales mentioned earlier. Managing liquidity will continue to be our major priority throughout 1982.

### **Dividends**

The Company's policy, adopted in 1977, is to pay out a minimum of 10% of prior year's net earnings in the form of common share dividends. On December 14, 1981, your Board of Directors approved a quarterly dividend of 4¢ per common share payable January 25, 1982, to shareholders of record at

January 1, 1982. Holders of common shares who were residents of Canada may elect to receive dividends in common shares instead of cash.

### **Share Purchase Program**

It was the Company's policy to allocate approximately 10% of prior year's net earnings to the purchase of Daon common shares in the open market. These purchases took place only during those periods between the release of a quarterly or annual report and the end of the quarter in which the report is released. Since this program was established in 1977, the Company has purchased in the open market 4,241,000 common shares (after giving effect to stock splits) at a cost of \$12,542,000—an average cost of \$2.96 per share. This program is being discontinued. The Company may make further purchases in the future, in which case we will file the necessary notices and disclosures with regulatory bodies and make open market purchase or tender offers for a specified number of shares. No such purchases are contemplated prior to the end of the second quarter of 1982.

### **Outlook for 1982**

Our business strategy is based on the conservative assumption that interest rates will remain high. Having said that, we are well aware and pleased that bank prime rates have come down—faster and farther than the experts predicted.

As the recession takes hold we expect these rates to fall still further. This will help us greatly. Our inventory will be less expensive to carry and in a few months the mood of prospective home buyers will turn positive. Already, we can feel this swing in California. We believe home sales will pick up this year and, as builders move their inventory of homes, demand will increase for residential lots. We expect to experience this in the second half. Demand for industrial land and buildings continues strong and our offerings of commercial income properties have generated considerable interest that will result in profitable sales later in the year. With the exception of the first quarter, we are confident of a return to higher profitability in 1982, along with a significant increase in liquidity.

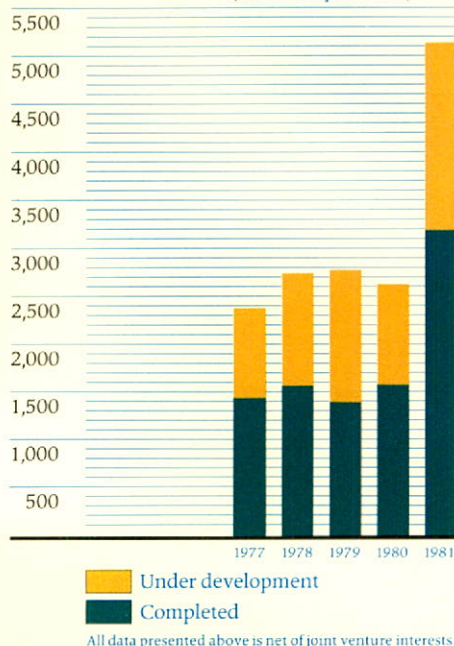
On Behalf of the Board,



J. W. Poole,  
President and  
Chief Executive Officer.

December 14, 1981.

**RENTABLE SPACE**  
(in 000's square feet)



The Company develops or acquires a variety of high-quality, city-core properties. When fully-leased, a property is financed long-term for retention, or if satisfactory financing is not available, a portion or all of the property is sold to other investors.

During 1981, the Company responded to a number of excellent opportunities to supplement its portfolio of office centres by purchasing several existing buildings for investment and acquiring some first class sites for development. This followed on three years of sharply increased activity.

Until 1981, the Company had concentrated its Office Centres activity in the West. The past year saw a shift from this

traditional base with the purchase of Place Victoria as a joint venture, 47 storeys, 1,114,000 square feet, in downtown Montreal; 1818 Market Street, 40 storeys, 900,000 square feet, in Philadelphia; and a half interest in the well known Omni complex in Atlanta. The most recent acquisition was a superb site at 1300 New York Avenue, in Washington, D.C. Long-term financing to cover 100% of the development costs has been committed, and construction is scheduled to begin early in 1982 on what will be the District of Columbia's largest office building.

Among its California locations, downtown San Francisco continues to be the most active in Daon's office centre development. The Company holds a 50 percent interest in 444 Market Street, one of the city's premier office structures. During 1981, Phases I and II of the Apparel Mart project were completed and substantially leased. Currently under construction is a 23-storey, 256,000 square foot tower at 353 Sacramento Street, with long-term financing committed for 100% of the development costs. City planning approvals and permits are being sought for a 22-storey tower at 115-135 Main Street and for a 47-storey building on what is known as the Dollar Property, also in San Francisco's downtown core.

Other California office centre projects include Arco Center, in Long Beach, twin 14-storey towers, 432,000 square feet, on which construction has started; Riverside Centre in Riverside; Growers Square in Walnut

Creek; two projects under study in Sacramento; and a site recently acquired in San Diego.

The Company continues to develop prestige office space on prime sites in downtown Vancouver. Construction began in mid-1981 on Park Place, a 35-storey, 605,000 square foot joint venture, which will be Vancouver's largest single office tower.

Daon also retains a full or part interest in several office buildings in Western Canada—Daon Centre, the Company's head office, and two other Vancouver buildings on West Pender Street, as well as the Daon Building in Calgary and Seventh Street Plaza in Edmonton.

During 1981, the Company completed its first office centre in Seattle—the Daon Building, 19 storeys, 262,000 square feet, in the city's downtown core. Another site is being purchased nearby, at 6th Avenue and Pike Street.

In total, Daon's office centre holdings represent a dramatic increase over the previous year. Excluding partners' interests, the Company owned at October 31, 1981, 3,191,000 net square feet of completed office space and had another 1,962,000 square feet under development. This compared with 1,565,000 net square feet completed and 1,065,000 square feet underway a year earlier.

*Park Place, a 35-storey, 605,000 square foot office building under construction in downtown Vancouver.*





⬆ 353 Sacramento, a 256,000 square foot office building under construction in downtown San Francisco.

⬆ 444 Market Street, a 605,000 square foot office building in downtown San Francisco.

⬆ Pacific I and II, two adjoining office buildings in downtown San Francisco, totalling 424,000 square feet.





⬆ Proposed office building on Fox Property in San Diego, California.

⬆ 1818 Market Street, a 900,000 square foot office building in Philadelphia.

⬆ Growers Square, proposed office building in Walnut Creek, California.



⬆ 135 Main Street site in San Francisco.

⬆ 1300 New York Avenue, proposed office building in Washington, D.C.





➤ *Arco Center, Long Beach, California, 432,000 square feet in twin towers.*

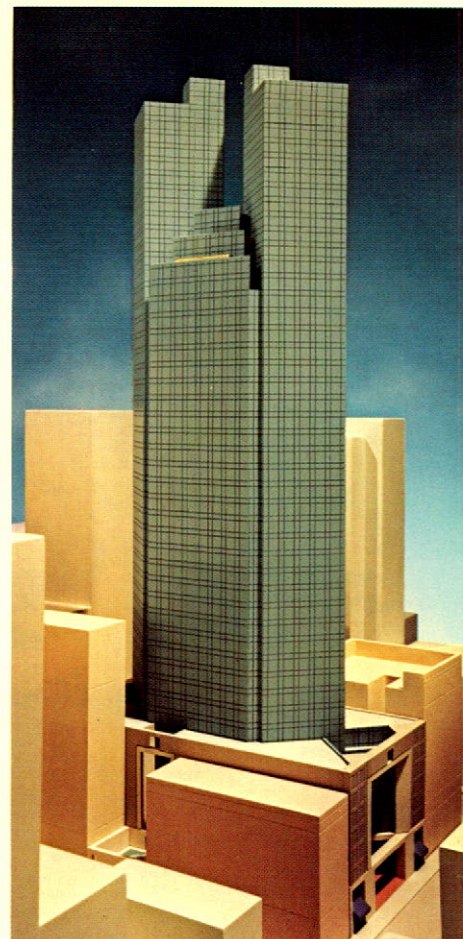
➤ *Site for an office tower at 6th and Pike in downtown Seattle.*



➤ *Place Victoria in downtown Montreal, 1,114,000 square feet.*

➤ *1166 West Pender Street, a 150,000 square foot office building in downtown Vancouver.*

➤ *Daon Centre in downtown Vancouver, 207,000 square feet.*



⌚ Proposed office building on Dollar Property in downtown San Francisco.

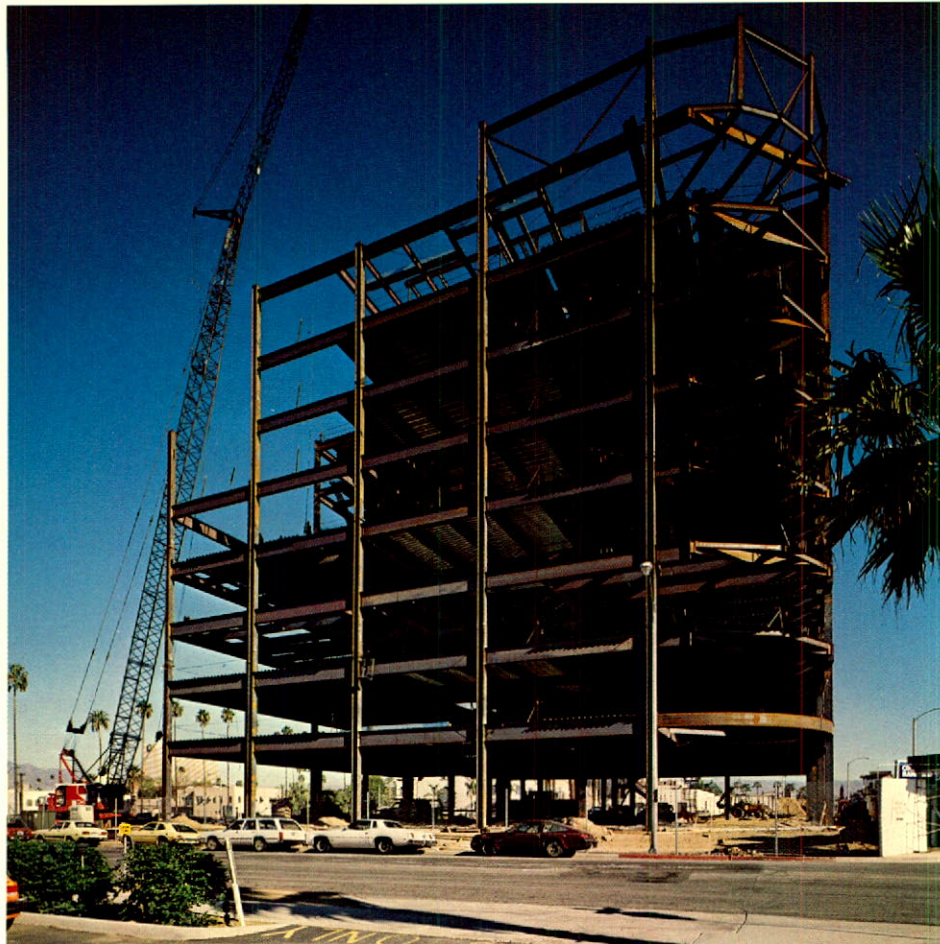
⌚ Daon Building in downtown Calgary, Alberta, 168,000 square feet.

⌚ Seventh Street Plaza in downtown Edmonton, Alberta, 329,000 square feet in twin towers.





➤ 1050 West Pender Street, a 247,000 square foot office building in downtown Vancouver.

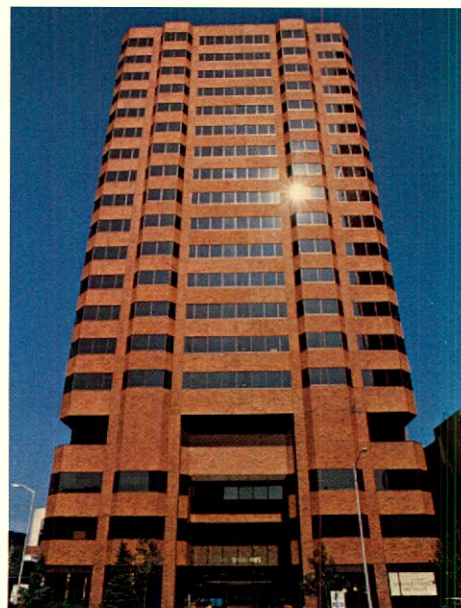


➤ ➤ Riverside Centre, a 142,000 square foot office building under construction in Riverside, California.



➤ Daon Building in downtown Seattle, 262,000 square feet.

➤ Omni International, Atlanta, Georgia, 1,625,000 square feet.



## MAJOR PROPERTIES

	Name	Location	Year of Completion of Development	Rentable Area (Sq. Ft.)
<b>Alberta</b>				
	DAON BUILDING	Calgary	1973	168,000
	SEVENTH STREET PLAZA (1)	Edmonton	1978	329,000
<b>British Columbia</b>				
	DAON CENTRE (2)	Vancouver	1980	207,000
	PARK PLACE (2)	Vancouver	1984	605,000
	1050 WEST PENDER (3)	Vancouver	1974	247,000
<b>California</b>				
	ARCO CENTER	Long Beach	1982	432,000
	444 MARKET STREET (2)	San Francisco	1980	605,000
	HERITAGE PARK	Alameda County	1980	100,000
	PACIFIC I (2)	San Francisco	1978	153,000
	PACIFIC II (2)	San Francisco	1981	271,000
	RIVERSIDE CENTRE	Riverside	1982	142,000
	353 SACRAMENTO	Sacramento	1983	256,000
<b>Colorado</b>				
	PTARMIGAN PLACE (2) (4)	Denver	1982	408,000
<b>Washington</b>				
	DAON BUILDING	Seattle	1981	262,000
<b>Quebec</b>				
	PLACE VICTORIA (2)	Montreal	Acquired in 1981	1,114,000
<b>Pennsylvania</b>				
	1818 MARKET STREET	Philadelphia	Acquired in 1981	900,000
<b>Other</b>				
	OMNI INTERNATIONAL (2)	Atlanta, Georgia	Acquired in 1981	1,625,000

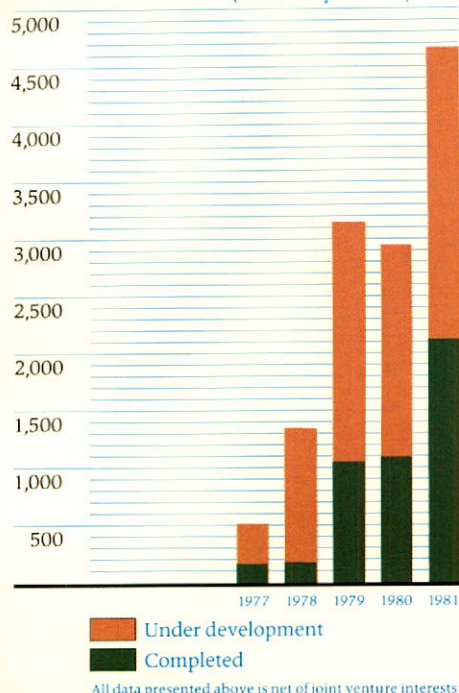
(1) 20% interest.

(2) 50% interest.

(3) 30% interest.

(4) Subsequent to October 31, 1981 the Company sold its 50% interest in this property.

## RENTABLE SPACE (in 000's square feet)



**D**aon develops and acquires shopping centres for its income property portfolio and for sale to others. In many instances, shopping centre sites are generated in the normal course of developing large land assemblies.

During 1981, the Company concentrated much of its shopping centre activity in Alberta, where three regional centres, totalling 1,860,000 square feet, were brought on stream in Edmonton, Calgary and Red Deer. As well, the Company initiated a major expansion of the 258,000 square foot Northwood Mall in Edmonton, which

will increase the total space to 529,000 square feet.

In the case of the three new Alberta centres, the Company sold limited partnership units in the amount of \$148 million while retaining an interest of 47%.

Development is scheduled to begin in late 1982 on the first phase of a 450,000 square foot centre in Langley, British Columbia. The Company also retains total or part interest in centres in Coquitlam, Langley and Trail, British Columbia; North Bay, Ontario; Portage la Prairie, Manitoba; and Wetaskiwin, Alberta.

During 1981, the Company expanded its U.S. shopping centre activity and has several joint venture projects under development or consideration. In Washington State, construction is expected to begin in 1983 on an 810,000 square foot centre at Federal Way, near Seattle, and on a two-phase 927,000 square foot centre in North Spokane. In addition, construction is projected for the fall of 1982 on a 780,000 square foot centre at Bakersfield, California.

Shopping centre development will continue to be an area of special emphasis over the next several years, in both the United States and Canada. At year-end, the Company's shopping centre projects totalled 2,104,000 square feet of finished space and a further 2,557,000 square feet was underway or planned.

*Heritage Mall in Edmonton, Alberta, a regional shopping centre of 779,000 square feet.*



## SHOPPING CENTRES

➤ *Langley Mall, Langley, British Columbia, 132,000 square feet.*



➤ *Portage Mall in Portage la Prairie, Manitoba, 190,000 square feet.*



➤ *An interior view of Heritage Mall.*



➤ *Northgate Square, North Bay, Ontario, 282,000 square feet.*

➤ *Wetaskiwin Mall in Wetaskiwin, Alberta, 145,000 square feet.*

↩ Site for Federal Way Regional Mall near Seattle, Washington.

➡ Northwood Mall, a 529,000 square foot regional shopping centre in Edmonton, Alberta.

⬇ Langley Regional Shopping Centre site in Langley, British Columbia.





↗ Site for Bakersfield Town Centre in Bakersfield, California.

➡ An interior view of Sunridge Mall.

⬇ Waneta Plaza, Trail, British Columbia, 189,000 square feet.



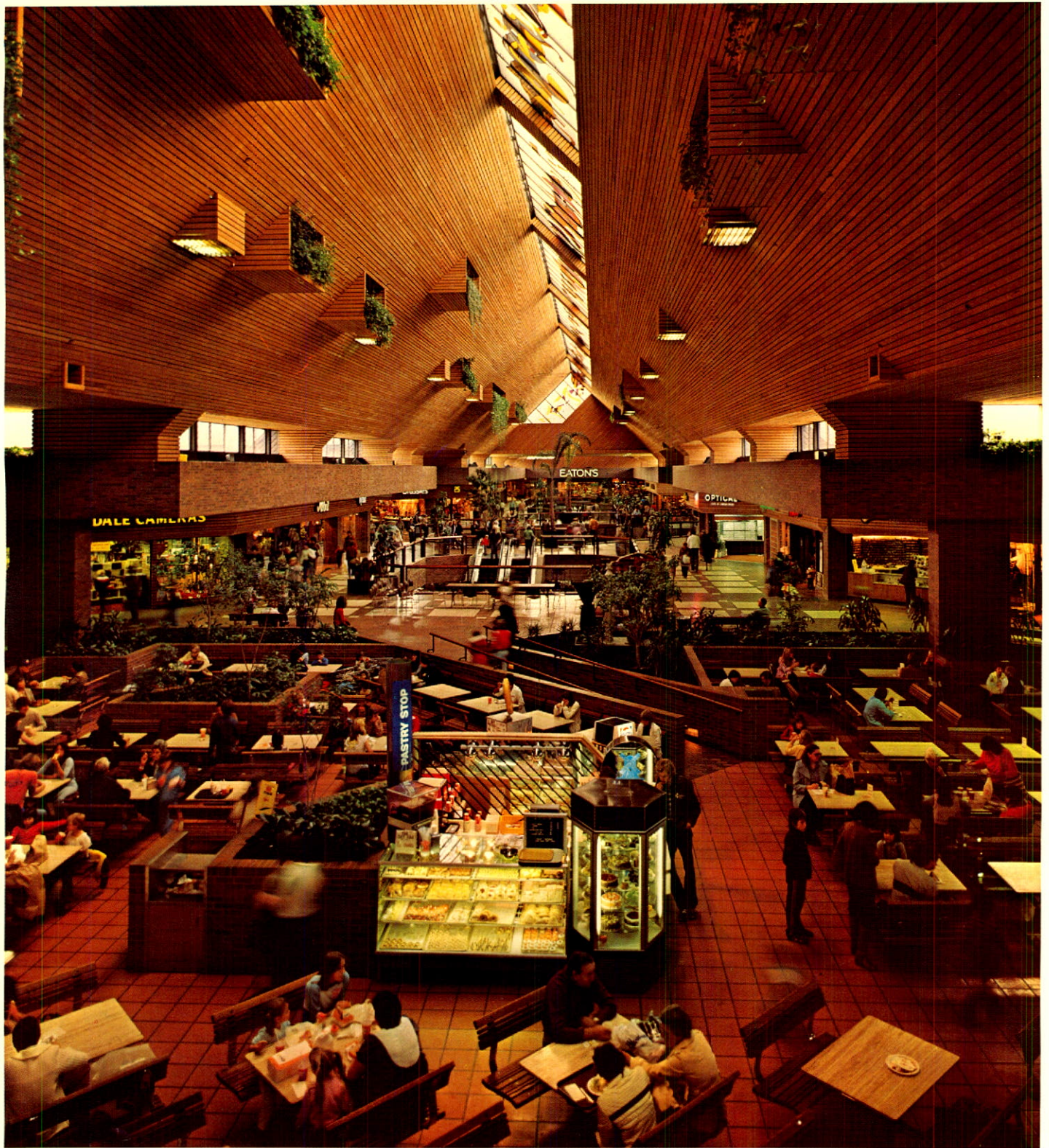


☞ ☞ Sunridge Mall in Calgary, Alberta, 646,000 square feet.

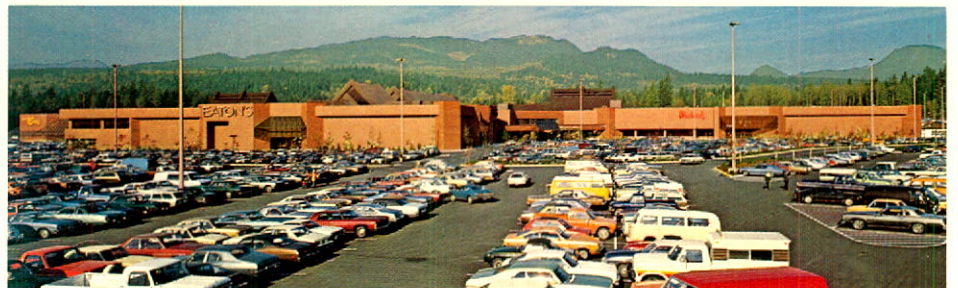


☞ ☞ Bower Place, a 435,000 square foot regional shopping centre in Red Deer, Alberta.





↔ Coquitlam Centre in Coquitlam, British Columbia, a regional shopping centre anchored by three major department stores.



## MAJOR PROPERTIES

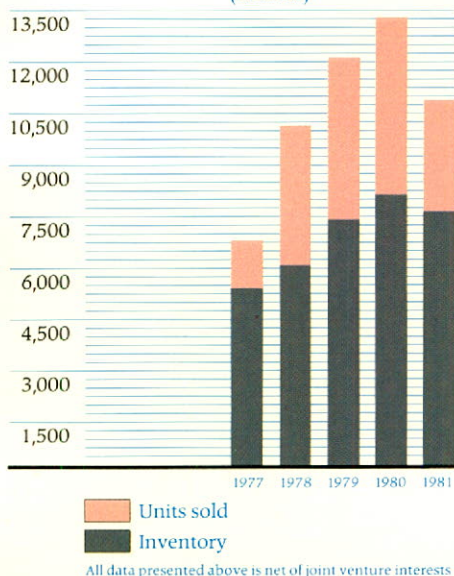
Name	Location	Year(s) of Completion of Development	Rentable Area (Sq. Ft.)
<b>Alberta</b>			
BOWER PLACE (1)	Red Deer	1981	435,000
HERITAGE MALL (1)	Edmonton	1981	779,000
NORTHWOOD MALL	Edmonton	1982	529,000
SUNRIDGE MALL (1)	Calgary	1981	646,000
WETASKIWIN MALL	Wetaskiwin	1979	145,000
<b>British Columbia</b>			
COQUITLAM CENTRE (2)	Coquitlam	1979	735,000
LANGLEY MALL (3)	Langley	1975	132,000
WANETA PLAZA	Trail	1979	189,000
<b>Manitoba</b>			
PORTAGE MALL	Portage la Prairie	1979	190,000
<b>Ontario</b>			
NORTHGATE SQUARE	North Bay	1980	282,000
<b>Washington</b>			
FEDERAL WAY	Seattle	1983-84	810,000
NORTH SPOKANE MALL (2)	Spokane	1984-85	927,000

(1) This shopping centre is owned by a partnership, Daon Shopping Centres, Alberta, in which at October 31, 1981, the Company had a 47% interest.

(2) 50% interest.

(3) 33 1/3% interest.

## INVENTORY & SALES (in units)



Over the past several years, the conversion of rental apartments for sale as condominiums has played an important part in the Company's operations and prior to 1981 had made a major contribution to earnings. However, this segment of the Company's business is particularly vulnerable to prolonged periods of high interest rates such as were experienced throughout much of 1981.

In view of the continuing poor market for condominiums and the considerably higher carrying charges during the past year, the Company announced in August that it would remove itself from this business. This involved the sale of approximately 8,600 net units that had

been assembled primarily in Southern California and Florida.

All of the Company's apartment property is of high quality and well located. The properties are carried below replacement value, which explains the high level of investor interest even during a severe downturn in the housing market.

There is a strong pent-up demand for housing in the regions of the United States in which the Company operates. The rate of family formation in California, for example, has far outpaced the production of housing units.

Of the Company's California holdings of 4,900 units, including partners' interests, the largest are—The Place in San Bruno with 843 garden apartments; The Park in Los Angeles, 350 units; Woodside in Sacramento, 294 units and Village Square in San Diego with 206 units.

Other large holdings include five Florida waterfront properties—Belle Plaza, Ocean Pavilion and South Bay Club in Miami Beach; the Hallmark and The Diplomat in Hollywood. Also Westchester Park in College Park, Maryland, 384 high-rise units and Four Lakes Village in Chicago, Illinois, 307 low-rise apartments.

In total, at fiscal year-end, inventory of residential properties stood at 7,600 net units, excluding partners' interests in co-ventures. All of these units are currently being marketed.





⌂ *Times Square,  
Burnaby, British Columbia.*

⌂ *Kings Country,  
Los Angeles, California.*



⌂ *South Pointe,  
Everett, Washington.*

⌂ *The Diplomat,  
Hollywood, Florida.*

⌂ *South Coast Terrace,  
Orange County, California.*



⌂ *Woodside,  
Sacramento, California.*



⌂ *Tiburon Hills,  
Tiburon, California.*



🏡 Buena Vista,  
Pasadena, California.

🏡 Meridian Woods,  
San Jose, California.

🏡 Peppertree,  
Santa Ana, California.





⌚ Governor's Square,  
Sacramento, California.

⌚ Mariners Cove,  
San Mateo, California.

⌚ Westchester Park,  
near Washington, D.C.



⌚ Briarcrest,  
North Hollywood, California.



⌚ Foxborough,  
San Jose, California.



⌚ Ocean Pavilion,  
Miami Beach, Florida.

⌚ The Park,  
Los Angeles, California.

⌚ Newcastle Manor,  
Encino, California.





⌚ Woodsborough,  
Santa Clara, California.

⌚ Hallmark,  
Hollywood, Florida.

⌚ Porto Verde,  
Los Angeles, California.





➤ *Four Lakes Village,  
Chicago, Illinois.*

➤ *South Bay Club,  
Miami Beach, Florida.*



➤ *Belle Plaza,  
Miami Beach, Florida.*

➤ *Casa Loma,  
Mission Viejo, California.*

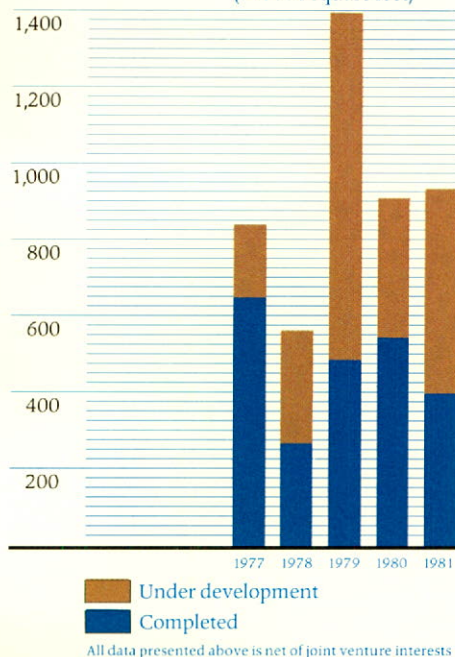
➤ *Hamilton Cove,  
Catalina Island, California.*



## MAJOR PROPERTIES

	Name	Location	Description	Year of Acquisition or Completion of Development	No. of Units Remaining
<b>California</b>					
	BRIARCREST	North Hollywood	Low rise apartments	1980	126
	CANYON CLUB ESTATES	Los Angeles	Low rise apartments	1981	137
	CASA LOMA	Mission Viejo	Low rise apartments	1980	143
	COTE D'AZUR	Sausalito	Garden apartments	1979	60
	FOXBOROUGH	San Jose	Garden apartments	1980	202
	GOVERNOR'S SQUARE	Sacramento	Garden apartments	1979	200
	HAMILTON COVE (1)	Catalina Island	Low rise condominiums	1983	330
	KINGS COUNTRY	Los Angeles	Low rise apartments	1981	194
	NEWCASTLE MANOR	Encino	Low rise apartments	1979	119
	THE PARK	Los Angeles	Garden apartments	1980	350
	PEPPERTREE	Santa Ana	Garden apartments	1980	184
	THE PLACE (1)	San Bruno	Garden apartments	1980	843
	PORTO VERDE	Los Angeles	Low rise apartments	1980	216
	VILLAGE SQUARE (1)	San Diego	Low rise apartments	1980	206
	VISTA DEL LAGO (2)	Santa Clara	Garden apartments	1981	184
	WOODSIDE I-IV	Sacramento	Garden apartments	1979	294
<b>Florida</b>					
	BELLE PLAZA	Miami Beach	High rise apartments	1979	124
	THE DIPLOMAT (3)	Hollywood	High rise apartments	1979	268
	HALLMARK (1)	Hollywood	High rise apartments	1979	344
	OCEAN PAVILION	Miami Beach	High rise apartments	1980	334
	SOUTH BAY CLUB	Miami Beach	High rise apartments	1979	332
<b>Washington</b>					
	SOUTH POINTE	Everett	Garden apartments	1979	249
	TOWNE SQUARE	Seattle	Garden apartments	1979	77
<b>Other</b>					
	FOUR LAKES VILLAGE PHASES I & II (2)	Chicago, Illinois	Low rise apartments	1980	307
	WESTCHESTER PARK (2)	College Park, Maryland	High rise apartments	1979	384
	(1) 50% interest.				
	(2) 60% interest.				
	(3) 83⅓% interest.				

**RENTABLE  
SPACE**  
(in 000's square feet)



The Company's industrial development activity continued to enjoy record growth through fiscal 1981, especially in Alberta and Southern California. The Company has identified these regions as the most favourable in North America for the marketing of industrial property. The main thrust in industrial development is producing serviced sites for sale to other developers. In addition, the Company builds to order and sells completed buildings to end users.

In Alberta, industrial development activity is concentrated in Horizon Estates in Calgary and Norwester Industrial in Edmonton. Gross sales in Alberta during 1981 were almost double 1980, and prospects for 1982 are excellent, especially in

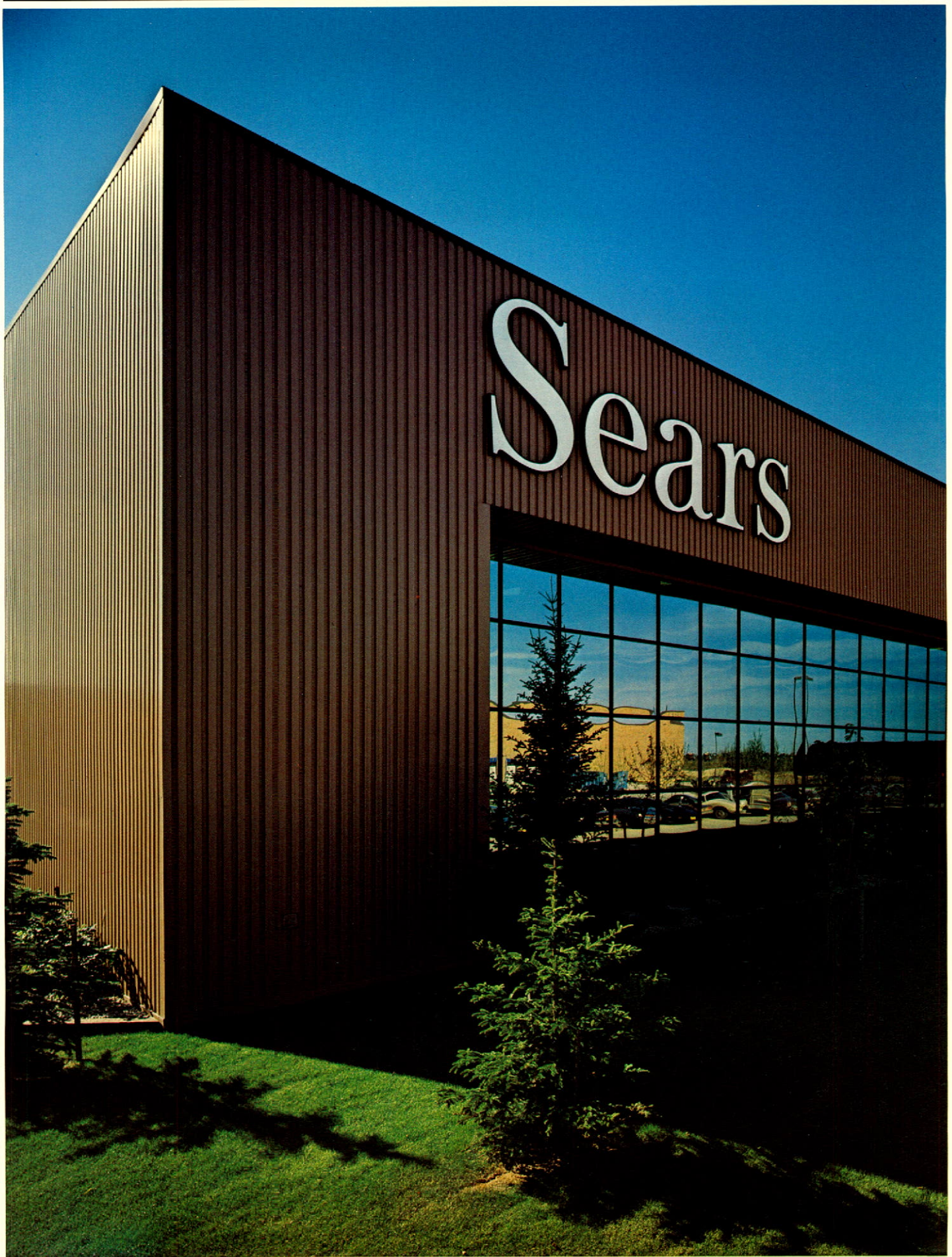
Calgary, where the demand for serviced industrial land seems to be insatiable. A highlight during 1981 was the completion of a 246,000 square foot regional distribution facility for Sears at Norwester.

Despite record production and sales of serviced industrial land and buildings in Alberta during 1981, Daon has been able to replace it acre for acre. The Company has assembled more than 1,300 acres in Calgary and Edmonton alone, enough for the next 10 years.

In Southern California, the Company's key industrial project is at Rancho Cucamonga Business Park near San Bernardino, where the sale of a 28-acre parcel for a Civic Center and a Law and Justice Building will enhance the success of the entire 292 acres the Company is developing. Other Southern California activity during fiscal 1981 included development of 209,000 square feet of industrial buildings, of which 57,000 square feet was sold. At Torrance Freeway Business Park, near Los Angeles International Airport, the Company sold 17 acres of serviced land and is developing 128,000 square feet of industrial space on the last remaining property there.

Including smaller industrial projects underway in California, Washington State and British Columbia, Daon's total industrial holdings at October 31, 1981, consisted of 395,000 square feet of completed space, 538,000 square feet under development, 285 acres under development, 1,374 acres held for future development and 450 acres under option.

*Sears Distribution Centre  
in Norwester Industrial, Edmonton,  
Alberta.*





✦ *An aerial view of Norwester Industrial, Phases I and II.*

✦ *Irvine Industrial Condominiums, Irvine, California.*

✦ *Automotive Building in Broadmoor Centre, Edmonton, Alberta.*

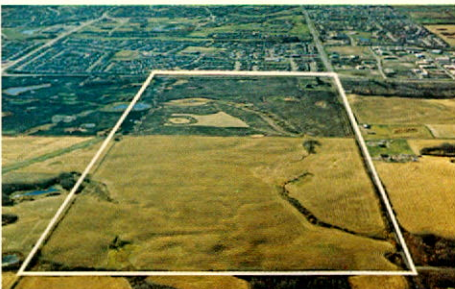


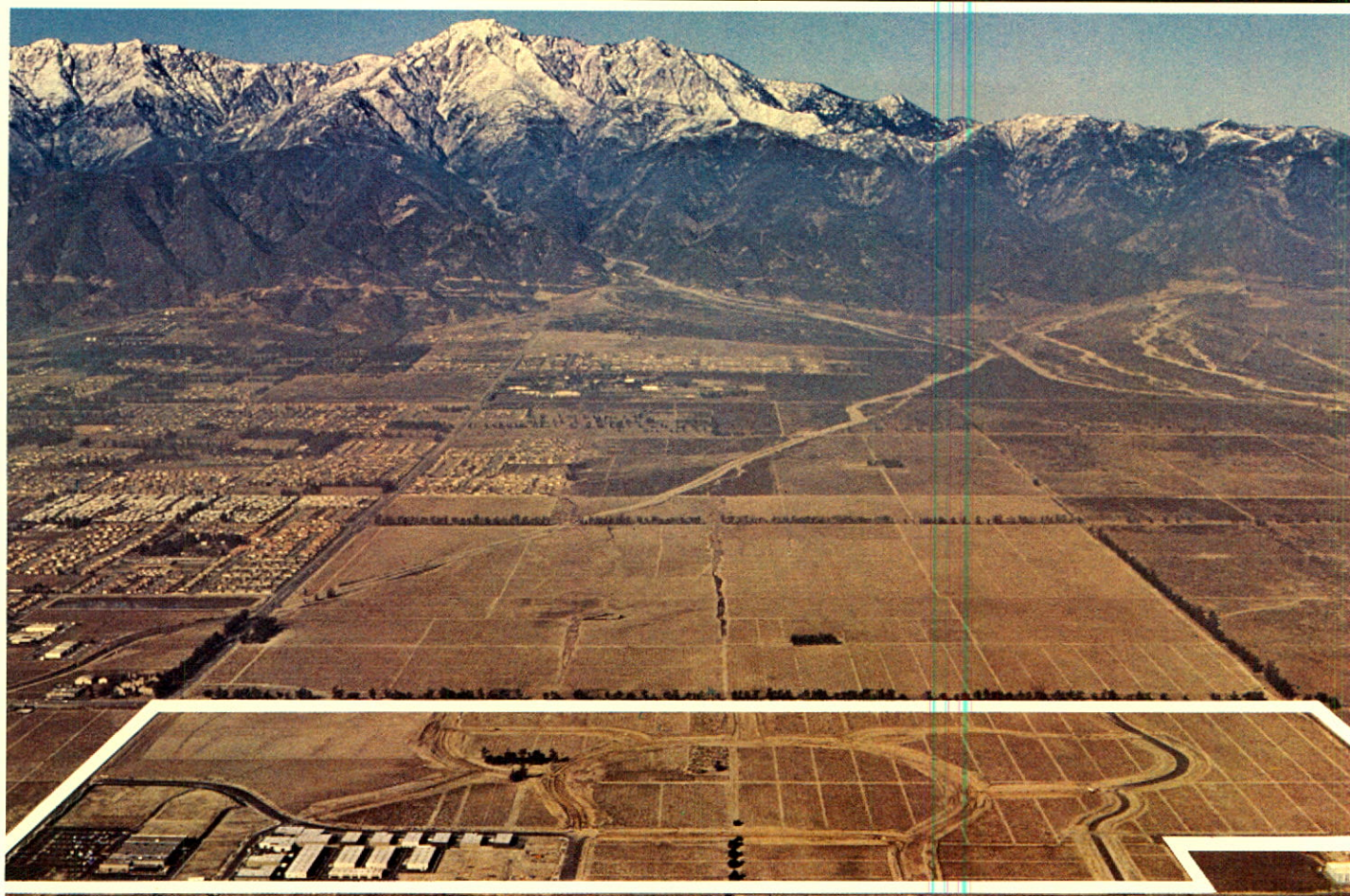
✦ *Broadview Park, Edmonton, Alberta.*



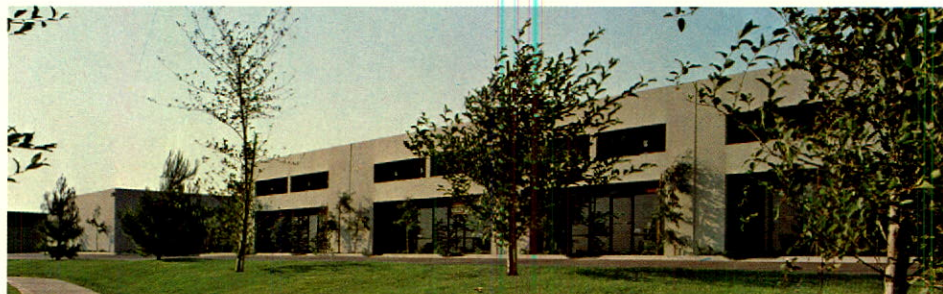
◀ ◀ Horizon Industrial Estates,  
Calgary, Alberta.

◀ McGaw II, Orange County,  
California.





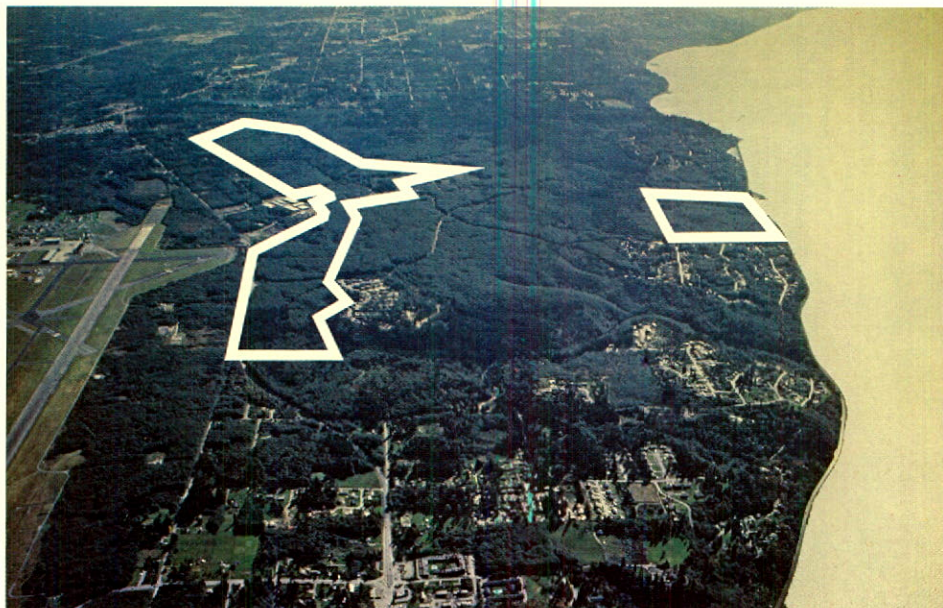
➤ An aerial view of Rancho Cucamonga, San Bernardino County, California.



➤ Two shots of buildings in Rancho Cucamonga.



➤ Harbour Pointe industrial land, north of Seattle, Washington.



## MAJOR PROPERTIES

Name	Location	Year(s) of Completion of Development	Rentable Area Remaining
<b>Alberta</b>			
NORWESTER INDUSTRIAL PHASE I	Edmonton	1977-80	108,000
NORWESTER INDUSTRIAL PHASE II	Edmonton	1980-82	322,000
<b>California</b>			
CENTRAL D & C (1)	San Bernardino County	1980	94,000
IRVINE INDUSTRIAL CONDOMINIUMS	Orange County	1980	111,000
RANCHO CUCAMONGA (1) PHASE IA	San Bernardino County	1981	155,000

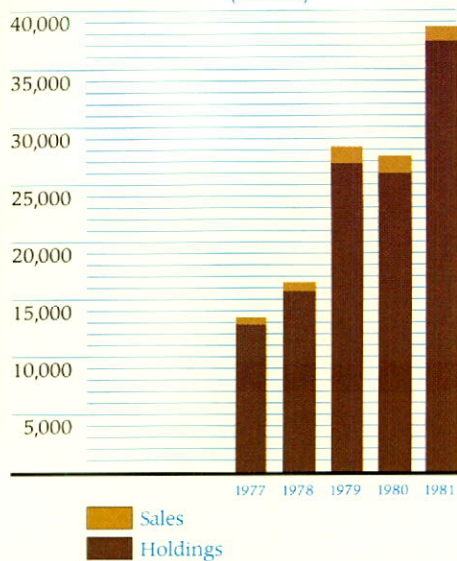
## INDUSTRIAL LAND

Name	Location	Year(s) of Acquisition	Acres Remaining	Scheduled Year(s) of Development and/or Sale
<b>Alberta</b>				
BROADVIEW PARK	Edmonton	1980	319	1981-88
GLENMORE	Edmonton	1974-78	160	1982-88
HORIZON (SUNRIDGE)	Calgary	1973-80	339	1980-86
NORTH CALGARY LAND ASSEMBLY	Calgary	1981	302	1982-88
NORTHWEST LAND ASSEMBLY	Edmonton	1974-78	157	1980-90
<b>British Columbia</b>				
LAKE CITY	Burnaby	1974	26	1982-83
<b>California</b>				
RANCHO CUCAMONGA (2)	San Bernardino County	1980	189	1980-84
RANCHO SAN DIEGO	San Diego	1979	39	1982
UNIROYAL	Los Angeles	1979	44	1980-83
VISTA PACIFIC (1)	San Diego	1980	74	1980-84

(1) 50% interest.

(2) The Company holds a 50% interest in 64 acres of this property and a 100% interest in the remaining 125 acres of this property.

## HOLDINGS & SALES (in acres)



**T**he Company continues to follow a policy of developing land for sale to homebuilders as residential building lots and to industrial users for industrial buildings; also for shopping centres and for sale to others for development of office, industrial and residential buildings.

Land assembly and development provide the greatest potential for profit with the eventual recovery of the housing market in North America. Serviced land will be the first product to respond to a housing upturn. This is especially significant in Southern California and Alberta where Daon holds several large tracts of outstanding residential and multi-use land.

In California, five of the Company's properties alone total

more than 13,000 acres. Three are in San Diego County—La Costa, 3,440 acres; Miramar Ranch, 1,196 acres; Shadowridge, 629 acres. The Corona Foothill property in Riverside County contains about 7,021 acres and the Las Virgenes Ranch in Los Angeles County has 823 acres.

Development is underway at all five locations and 1981 saw the first finished lots come to market at Shadowridge where 223 residential units and a 12-acre commercial site were sold. In addition, the Company holds a number of smaller parcels in this region. The Southern California properties can be expected to produce profit all through the 1980's.

Of equal importance are land holdings in Alberta, where land development has been the most constant profit producer throughout the past decade. The largest of the Alberta tracts are The Homesteads, 3,431 acres in Calgary, and Project 80, 1,337 acres in Edmonton. Value of the latter property was enhanced in 1981 when it was included in a City of Edmonton annexation.

Late in fiscal 1981, the Company sold 555 acres in The Homesteads to the Province of Alberta. Development and marketing programs continue at the Applewood Park and McKenzie properties in Calgary and at the Bonnyville Land Assembly, northeast of Edmonton.

In British Columbia, the selling of finished lots began in 1981 at Dilworth Mountain, 821 acres in Kelowna. When completed over the next four to six years, this project will produce about 1,200 residential units to

house a population of about 4,000. The Company also has residential lot inventory at Langley and Matsqui, east of Vancouver.

In Washington State, the marketing program continues at Harbour Pointe, a beautiful 1,410-acre tract in Snohomish County, north of Seattle. When the housing market recovers, development will begin at Newcastle, 1,863 acres of multi-use land near Bellevue.

Development is underway on two substantial residential land projects in Denver, Colorado—Cottonwood and Smoky Hill—and the Company also has smaller land holdings in Oregon, Idaho and Texas.

In total, Daon's land bank is of such size, scope and diversity that it provides the potential for more than a decade of development and marketing. At October 31, 1981, the Company's land holdings, including industrial acreage were 2,257 acres under development for sale, 24,647 acres held for future development, and 10,243 acres held under option. This represents an increase of approximately 43 per cent over the previous year.



⌂ Smoky Hill, Denver, Colorado

⌂ Miramar Ranch, San Diego County, California.

⌂ Project 80, Edmonton, Alberta.

⌂ Greyhawk, Sun Valley, Idaho.



⌂ Harbour Pointe, Snohomish County, Washington.

⌂ La Costa, San Diego County, California.

⌂ Las Virgenes Ranch, Los Angeles County, California.

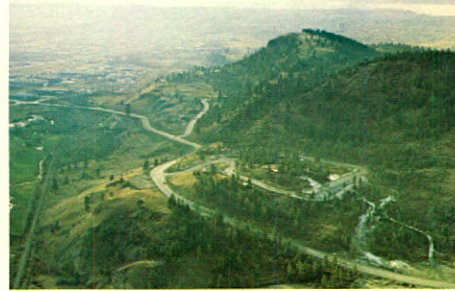
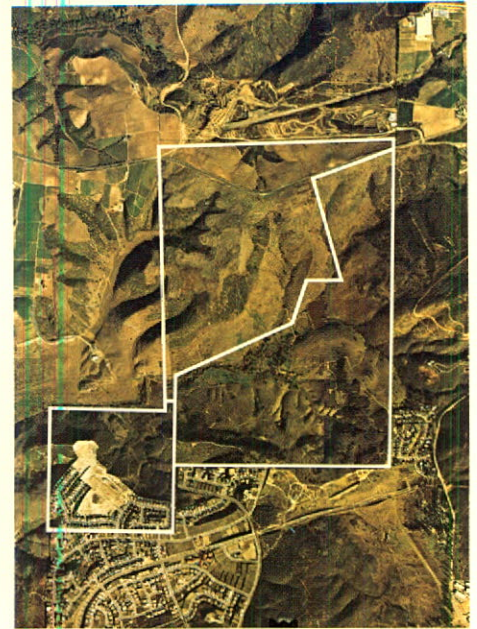




Corona McKinley, Riverside County, California.

Carillo Ranch, San Diego County, California.

Dilworth Mountain, Kelowna, British Columbia.



Corona Foothill, Riverside, California.

Newcastle Hills, King County, Washington.



Shadowridge, San Diego County, California.

The Homesteads, Calgary, Alberta.

Applewood, Calgary, Alberta.



## MAJOR PROPERTIES

Name	Location	Description of Development	Year(s) of Acquisition	Acres Remaining	Scheduled Year(s) of Development and/or Sale
<b>Alberta</b>					
APPLEWOOD PARK	Calgary	Residential	1979	173	1981-84
BONNYVILLE LAND ASSEMBLY	Bonnyville	Residential	1980-81	378	1981-86
GIBBONS ASSEMBLY	Gibbons	Residential	1977-78	168	1977-85
THE HOMESTEADS	Calgary	Multi-use	1973-79	3,431	1980-95
PROJECT 80	Edmonton	Multi-use	1978-81	1,337	1981-90
<b>British Columbia</b>					
DILWORTH MOUNTAIN	Kelowna	Residential	1973	728	1980-86
<b>California</b>					
CARILLO RANCH	San Diego County	Residential	1979	361	1980-83
CORONA FOOTHILL	Riverside County	Multi-use	1981	7,021	1981-90
CORONA MCKINLEY	Riverside County	Multi-use	1979	348	1982-84
LA COSTA LAND	San Diego County	Multi-use	1981	3,440	1981-90
LAS VIRGENES RANCH	Los Angeles County	Multi-use	1981	823	1982
MIRAMAR RANCH NORTH	San Diego County	Multi-use	1979-81	1,196	1981-86
SHADOWRIDGE	San Diego County	Multi-use	1976-77	629	1980-88
<b>Colorado</b>					
COTTONWOOD	Denver	Residential	1981	323	1981-82
SMOKY HILL	Denver	Residential	1981	668	1981-82
<b>Idaho</b>					
GREYHAWK (1)	Sun Valley	Residential	1980	62	1982-84
<b>Oregon</b>					
MOUNTAIN PARK & TOWN CENTER	Portland	Multi-use	1978	70	1979-82
<b>Texas</b>					
WOODHAVEN	Fort Worth	Multi-use	1978-79	108	1980-82
<b>Washington</b>					
HARBOUR POINTE	Snohomish County	Multi-use	1978	1,410	1980-90
NEWCASTLE HILLS (2)	King County	Residential	1978-81	200	1982-92

(1) 41 $\frac{2}{3}$ % interest.

(2) The Company has an additional 1,663 acres under option.

## CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED OCTOBER 31, 1981

	Note Reference	1981 (in thousands of dollars)	1980
REVENUE			
Real estate sales		\$573,167	\$608,948
Rental		78,995	45,103
Other	17	43,964	43,910
Total revenue		696,126	697,961
EXPENSES			
Cost of real estate sales		491,517	509,905
Rental operating costs		41,864	23,171
Interest	18	111,984	52,404
General and administrative		21,314	18,510
Depreciation and amortization		6,360	3,533
Other		4,070	2,453
Total expenses		677,109	609,976
INCOME BEFORE INCOME TAXES		19,017	87,985
Income taxes		1,793	36,645
NET INCOME		\$ 17,224	\$ 51,340
EARNINGS PER COMMON SHARE			
BASIC		\$0.38	\$1.32
FULLY DILUTED		\$0.38	\$1.31

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED OCTOBER 31, 1981

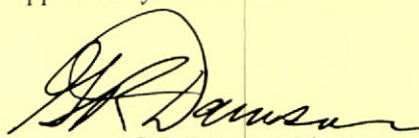
	1981 (in thousands of dollars)	1980
RETAINED EARNINGS, BEGINNING OF YEAR	\$123,002	\$ 79,953
Net income	17,224	51,340
	140,226	131,293
Dividends—Common Shares	5,506	4,316
—Preference Shares	3,353	3,460
—75¢ Class A Shares	478	478
Share issue expenses	417	37
	9,754	8,291
RETAINED EARNINGS, END OF YEAR	\$130,472	\$123,002

## CONSOLIDATED BALANCE SHEET

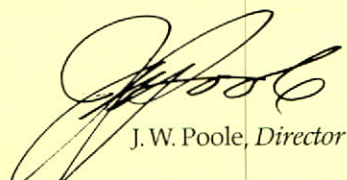
OCTOBER 31, 1981

	Note Reference	1981 (in thousands of dollars)	1980
<b>ASSETS</b>			
Properties:			
Income producing	1	\$ 646,335	\$ 401,838
Under development	2	489,066	499,037
Held for future development	3	688,564	297,827
Cash and term deposits	4	96,483	180,103
Marketable securities	5	470	4,549
Amounts receivable	6	393,395	246,648
Investments	7	17,954	19,163
Other assets	8	38,307	25,053
		<b>\$2,370,574</b>	<b>\$1,674,218</b>
<b>LIABILITIES</b>			
Debt on properties:	9		
Income producing		\$ 493,108	\$ 320,587
Under development		355,467	358,886
Held for future development		535,996	250,140
Debentures payable	10	192,159	154,104
Other secured liabilities	11	230,366	166,949
Bank indebtedness		115,883	—
Accounts payable and accruals	12	163,194	144,923
Deferred income taxes	13	122,298	119,446
		<b>2,208,471</b>	<b>1,515,035</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	14	44,173	45,184
Retained earnings		130,472	123,002
		174,645	168,186
Shares held by subsidiary	15	12,542	9,003
		162,103	159,183
		<b>\$2,370,574</b>	<b>\$1,674,218</b>

Approved by the Directors:



G. R. Dawson, Director



J. W. Poole, Director

## CONSOLIDATED STATEMENT OF CASH FLOW FROM OPERATIONS

FOR THE YEAR ENDED OCTOBER 31, 1981

	1981 (in thousands of dollars)	1980
Net income	\$ 17,224	\$ 51,340
Items not requiring a current outlay of cash:		
Deferred income taxes	(200)	36,257
Depreciation and amortization	6,360	3,533
Other	(309)	94
CASH FLOW FROM OPERATIONS	\$ 23,075	\$ 91,224
CASH FLOW PER COMMON SHARE	\$0.54	\$2.43

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED OCTOBER 31, 1981

	1981 (in thousands of dollars)	1980
OPERATIONAL ACTIVITIES		
Cash flow from operations	\$ 23,075	\$ 91,224
Cash recovered through sales of properties:		
recovery of real estate costs	491,517	509,905
less debt discharged on properties sold	357,832	339,806
	133,685	170,099
Gross cash flow from operations	156,760	261,323
Cash applied to properties:		
income producing	328,449	223,391
under development	363,430	499,699
held for future development	428,207	140,436
	1,120,086	863,526
less net proceeds from property debt	812,790	594,613
	307,296	268,913
NET CASH APPLIED TO OPERATIONAL ACTIVITIES	(150,536)	(7,590)
OTHER ACTIVITIES		
Net (decrease) in marketable securities	(4,079)	(7,794)
Net (decrease) in investments	(1,209)	(6,267)
Net increase in other assets	15,043	13,759
Dividends paid	9,337	8,254
NET CASH APPLIED TO OTHER ACTIVITIES	(19,092)	(7,952)
CORPORATE FINANCING ACTIVITIES		
Proceeds from debenture issues	50,000	27,500
less debentures purchased and redeemed	11,490	2,736
	38,510	24,764
Net proceeds from share issues	207	397
less—shares purchased by subsidiary	3,539	4,407
—shares purchased and redeemed	1,270	896
	(4,602)	(4,906)
Net proceeds from other secured liabilities	63,417	58,605
Net increase in amounts receivable	(146,747)	(68,783)
Net increase in accounts payable and accruals	19,547	40,179
Net increase in bank indebtedness	115,883	—
	52,100	30,001
NET CASH PROVIDED FROM CORPORATE FINANCING	86,008	49,859
(DECREASE) INCREASE IN CASH AND TERM DEPOSITS	\$ (83,620)	\$ 34,317

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies, of which the Company is a member. In management's opinion, these financial statements have been properly prepared within reasonable limits of materiality within the framework of the accounting policies summarized as follows:

### A. Consolidation

The consolidated financial statements of the Company include:

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

### B. Income recognition

The Company recognizes income as follows:

- (i) Sales of land and income producing properties

When the Company has fulfilled all material conditions and has received a down payment that is appropriate in the circumstances having regard to the financial resources of the purchaser.

- (ii) Sales of homes

When the sale has been completed and the purchaser is entitled to occupancy.

- (iii) Rental

Rental income from each income producing property is recognized in the consolidated statement of income when breakeven cash flow after debt service is achieved. Prior to achieving this level of cash flow the Company capitalizes rental losses as a part of the normal development cost of an income property, subject to not capitalizing costs beyond fair market value of the property and subject to a reasonable maximum lease-up period.

### C. Income producing properties

Income producing properties are carried at cost less accumulated depreciation. Depreciation on buildings is provided on the sinking fund basis over a 50-year life for office buildings and shopping centres and a 40-year life for residential and industrial buildings. The sinking fund method provides for a depreciation charge of a fixed annual amount increasing at the rate of 5% per annum, which will result in the cost of the properties being fully depreciated over their estimated useful lives.

### D. Properties under development

Properties under development for retention as income producing properties are carried at cost. Each property under development for sale is carried at the lower of its cost and net realizable value.

### E. Properties held for future development

Each property held for future development is carried at the lower of its cost and net realizable value.

### F. Marketable securities

Marketable securities are carried at the lower of cost and quoted market value. Sales transactions are recorded on settlement dates.

### G. Investments

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

### H. Capitalization of costs

The Company capitalizes all direct costs relating to properties under development and properties held for future development. In addition, certain indirect costs including specific interest, property taxes and interest on the portion of total costs financed by general corporate borrowings are capitalized. Where overhead costs, including salaries, can be clearly identified with the development of a property, the Company allocates these costs to that property.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**I. Allocation of costs—land**

On subdivision, costs are applied to the various parcels using the net yield method whereby such costs are allocated in proportion to estimated market values.

**J. Depreciation and amortization of other assets**

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

**K. Foreign exchange**

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

**L. Per share data**

Earnings and cash flow per share are calculated using the weighted average number of common shares outstanding during the year (net of shares held by a subsidiary) after providing for dividends on the outstanding Preference Shares and Class A Shares. Fully diluted per share data assumes the conversion of the 10<sup>3</sup>/<sub>4</sub>% Convertible Subordinated Debentures and exercise of all stock options.

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**AUDITORS' REPORT**

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To the Shareholders,  
Daon Development Corporation:

We have examined the consolidated balance sheet of DAON DEVELOPMENT CORPORATION (a British Columbia company) and subsidiaries as of October 31, 1981 and 1980, and the related consolidated statements of income, retained earnings, cash flow from operations and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Daon Development Corporation and subsidiaries as of October 31, 1981 and 1980, and the results of their operations and changes in financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

  
Chartered Accountants

Vancouver, B.C.  
December 8, 1981.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 1981

## 1. Income producing properties

	1981 (in thousands of dollars)	1980
<b>Net book value—</b>		
Residential properties	\$266,284	\$213,470
Office buildings	213,238	111,460
Shopping centres	159,045	64,316
Industrial buildings	12,784	15,471
	651,351	404,717
Accumulated depreciation	5,016	2,879
	<b>\$646,335</b>	<b>\$401,838</b>
<b>Activity—</b>		
Balance, beginning of year	\$401,838	\$345,763
Transfers from properties under development	95,507	(29,937)
Cost of properties acquired	231,947	142,273
Cost of property enhancements	76,663	66,751
Property taxes	1,106	657
Capitalization of indirect overhead	4,159	1,982
Capitalization of interest	14,574	11,728
	328,449	223,391
Transfers to cost of real estate sales	(176,153)	(135,283)
Depreciation expense	(3,306)	(2,096)
Balance, end of year	<b>\$646,335</b>	<b>\$401,838</b>

The activity schedules (see Notes 1, 2 and 3) summarize by source the principal changes in book value at the year-end as compared to the beginning of the year. For income producing properties, amounts capitalized as property taxes, indirect overhead and interest were incurred during the period on certain properties under development, prior to their completion and subsequent transfer to income producing properties.

The Company's residential properties consist of 4,878 units (1980—4,872 units), of which 4,046 units (1980—3,214 units) have the necessary approvals for marketing as condominium or co-operative units. The Company will market these units as such when operating and financial plans warrant.

## 2. Properties under development

	1981 (in thousands of dollars)	1980
<b>Book value—</b>		
Income properties under development:		
Office buildings	\$113,787	\$ 54,794
Shopping centres	26,114	61,325
Industrial buildings	18,792	7,033
Residential	—	4,372
	158,693	127,524
Homes for sale	177,138	247,540
Land under development for sale	153,235	123,973
	<b>\$489,066</b>	<b>\$499,037</b>
<b>Activity—</b>		
Balance, beginning of year	\$499,037	\$298,267
Transfers from properties held for future development	18,041	40,733
Direct acquisition, development and construction costs	269,761	412,410
Property taxes	3,223	5,457
Capitalization of indirect overhead	9,862	10,743
Capitalization of interest	80,584	71,089
	363,430	499,699
Transfers to income producing properties	(95,507)	29,937
Transfers to cost of real estate sales	(295,935)	(369,599)
	(391,442)	(339,662)
Balance, end of year	<b>\$489,066</b>	<b>\$499,037</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OCTOBER 31, 1981

**3. Properties held for future development**

	1981 (in thousands of dollars)	1980
<b>Book value—</b>		
Purchase price	\$489,428	\$215,130
Preliminary development costs	69,188	27,993
Capitalized costs	100,364	45,357
	658,980	288,480
Option deposits and related costs	29,584	9,347
	<u>\$688,564</u>	<u>\$297,827</u>
<b>Activity—</b>		
Balance, beginning of year	\$297,827	\$203,147
Direct acquisition, development and construction costs	348,937	107,661
Property taxes	2,015	781
Capitalization of indirect overhead	7,468	4,112
Capitalization of interest	69,787	27,882
	428,207	140,436
Transfers to properties under development	(18,041)	(40,733)
Transfers to cost of real estate sales	(19,429)	(5,023)
	(37,470)	(45,756)
Balance, end of year	<u>\$688,564</u>	<u>\$297,827</u>

**4. Cash and term deposits**

At October 31, 1981, \$39,650,000 (1980—\$30,000,000) is lodged with a Canadian chartered bank in support of various liabilities of the Company to that bank.

**5. Marketable securities**

Marketable securities held at October 31, 1981 have quoted market values of \$470,000 (1980—\$4,572,000) and are lodged with a Canadian chartered bank in support of various liabilities of the Company to that bank.

**6. Amounts receivable**

	1981 (in thousands of dollars)	1980
Mortgages and agreements for sale	\$325,872	\$219,455
Amounts due on real estate sales	1,317	7,532
Rents and other tenant charges	4,144	2,009
Secured advances due from joint venture partners	47,536	8,258
Amounts receivable from employees pursuant to stock purchase plans and house mortgage loans, including \$253,000 due from certain directors and officers (1980—\$722,000)	448	886
Sundry	14,078	8,508
	<u>\$393,395</u>	<u>\$246,648</u>

The mortgages and agreements for sale yield a weighted average interest rate of 14.5% per annum (1980—12.3%).

The due dates of the amounts receivable are as follows:

	(in thousands of dollars)
Years ending October 31, 1982	\$177,482
1983	53,657
1984	53,943
1985	58,136
1986	16,439
Subsequent to 1986	33,738
	<u>\$393,395</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OCTOBER 31, 1981

## 7. Investments

	1981 (in thousands of dollars)	1980
Marketable securities acquired for long-term investment, having a quoted market value of \$13,840,000 (1980—\$21,501,000)	<b>\$ 17,954</b>	\$ 19,163
Marketable securities with a quoted market value of \$11,003,000 (1980—\$20,282,000) are lodged with a Canadian chartered bank in support of various liabilities of the Company to that bank.		

## 8. Other assets

	1981 (in thousands of dollars)	1980
Prepaid expenses	<b>\$ 4,952</b>	\$ 4,889
Equipment and sundry assets, at cost less accumulated depreciation of \$11,657,000 (1980—\$2,331,000)	<b>28,351</b>	17,153
Debenture financing and issue expenses, net of accumulated amortization of \$1,378,000 (1980—\$884,000)	<b>5,004</b>	3,011
	<b>\$ 38,307</b>	\$ 25,053

## 9. Debt on properties

	1981 (in thousands of dollars)			1980
	Term Debt	Other Financing	Total	Total
Income producing	\$227,875	\$265,233	<b>\$ 493,108</b>	\$320,587
Under development	77,207	278,260	<b>355,467</b>	358,886
Held for future development	249,644	286,352	<b>535,996</b>	250,140
	<b>\$554,726</b>	<b>\$829,845</b>	<b>\$1,384,571</b>	<b>\$929,613</b>

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

The term debt bears interest at a weighted average rate of 10.3% per annum (1980—9.7%), with principal repayments due as follows:

	(in thousands of dollars)
Years ending October 31, 1982	\$ 70,762
1983	103,574
1984	44,544
1985	41,075
1986	22,793
Subsequent to 1986	271,978
	<b>\$554,726</b>

The other financing is secured by individual properties with the interest rate on this debt fluctuating with the prime rate. Under the terms of the various trust indentures governing the issuance of debt secured by properties, this debt can be issued for terms of up to 36 months in duration. Generally, it is secured by a first or second mortgage charge against the individual properties, with each loan being secured by only one property. Substantially all of this debt is held by financial institutions who require that the amount and terms of the outstanding loans be reviewed annually, regardless of the stated terms of the debt.

The future disposition of this debt is expected to be as follows:

	(in thousands of dollars)
(a) To be discharged at the time of sale of property (the Company having purchase commitments as at November 30, 1981 that will result in the discharge of \$38,779,000 of the balance outstanding at October 31, 1981)	\$273,071
(b) To be assumed or discharged by purchasers of homes (the Company having arranged commitments from lenders to provide long-term mortgage funds as required by qualified purchasers)	83,812
(c) To be replaced with term debt for which the Company has yet to arrange commitments	128,342
(d) To be either replaced by alternative financing for which the Company has yet to arrange commitments, or discharged when due	344,620
	<b>\$829,845</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OCTOBER 31, 1981

## 10. Debentures payable

	1981 (in thousands of dollars)	1980
<b>Daon Development Corporation</b>		
9 <sup>3</sup> / <sub>4</sub> % Sinking Fund Debentures, Series C, maturing April 15, 1994, retractable April 15, 1984	\$ 7,091	\$ 7,803
11 <sup>1</sup> / <sub>2</sub> % Sinking Fund Debentures, Series E, maturing April 1, 1991, retractable October 1, 1982	13,903	14,278
11 <sup>1</sup> / <sub>4</sub> % Sinking Fund Debentures, Series F, maturing March 1, 1997, retractable March 1, 1986	16,704	17,397
11% Sinking Fund Debentures, Series G, maturing February 15, 1998, retractable February 15, 1988	13,711	14,225
11 <sup>1</sup> / <sub>4</sub> % Sinking Fund Debentures, Series H, maturing June 15, 1998, retractable June 15, 1988	13,900	14,226
Floating Rate Debenture, Series I, maturing April 30, 2000, retractable April 30, 1990	9,375	9,875
Floating Rate Debenture, Series J	—	7,500
Floating Rate Debenture, Series K, maturing April 30, 2000, retractable April 30, 1985	7,500	—
10 <sup>3</sup> / <sub>4</sub> % Convertible Subordinated Debentures maturing January 31, 2001, convertible to January 31, 1991	50,000	—
Floating Rate Debenture	—	10,000
<b>Daon Corporation (a wholly-owned subsidiary)</b>		
Floating Rate Subordinated Debenture, Series A, due October 15, 1999 (U.S. \$50 million)	59,975	58,800
	<b>\$192,159</b>	<b>\$154,104</b>

The Debentures, Series C to K, of Daon Development Corporation are secured by a first floating charge, subject to the exceptions permitted by the instruments authorizing the issuance of each series, on the assets of Daon Development Corporation (but not the assets of any subsidiary company). The Series I and Series K Debentures bear interest at floating rates which at October 31, 1981 is 20.25% per annum.

Pursuant to an underwriting agreement dated February 24, 1981 the Company issued and sold for cash 10<sup>3</sup>/<sub>4</sub>% Convertible Subordinated Debentures with an aggregate principal amount of \$50,000,000. These Debentures which are unsecured and carry certain mandatory sinking fund obligations are redeemable at Daon's option, subject to conditions which vary, at any time after February 1, 1982.

The Debenture of Daon Corporation is an unsecured obligation of Daon Corporation and carries a floating interest rate which at October 31, 1981 is 15.61% per annum (1980—11.4%). By agreement Daon Development Corporation will, at the request of the debenture holder or under certain conditions, purchase this Debenture by May 15, 1982.

As well as being required to establish a sinking fund for its debentures, the Company is required, subject to certain defined conditions, to establish a purchase fund for certain of its debentures. The maximum amount required to meet sinking fund and purchase fund requirements for the next five years is as follows:

	Sinking Fund	Purchase Fund	Total
	(in thousands of dollars)		
Years ending October 31, 1982	\$ 3,763	\$ 1,366	\$ 5,129
1983	4,089	1,440	5,529
1984	4,042	1,440	5,482
1985	4,002	1,440	5,442
1986	4,002	1,559	5,561
	<b>\$ 19,898</b>	<b>\$ 7,245</b>	<b>\$ 27,143</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OCTOBER 31, 1981

**11. Other secured liabilities**

These interest bearing liabilities, due at various intervals to 1990, are secured by the following non-property assets:

	1981 (in thousands of dollars)			1980
	Term Debt	Other Financing	Total	Total
Amounts receivable	\$ 26,977	\$188,903	<b>\$215,880</b>	\$152,510
Other assets	9,888	4,598	<b>14,486</b>	14,439
	<b>\$ 36,865</b>	<b>\$193,501</b>	<b>\$230,366</b>	<b>\$166,949</b>

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

**12. Accounts payable and accruals**

	1981 (in thousands of dollars)	1980
Accounts payable	<b>\$ 41,055</b>	\$ 48,339
Accrued liabilities	<b>44,527</b>	32,487
Deferred income and deposits	<b>13,493</b>	18,641
Costs to complete properties sold	<b>54,341</b>	40,277
Deferred foreign exchange gain	<b>9,778</b>	5,179
	<b>\$163,194</b>	<b>\$144,923</b>

**13. Income taxes**

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

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

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

	1981	1980
Expected Canadian income tax rate	<b>51.0%</b>	51.0%
Less adjustment to the expected income tax rate due to inclusion in pre-tax income of income taxed at reduced rates—		
(a) Jurisdictional rate differential on inter-company interest income	<b>(25.9)</b>	(4.4)
(b) Capital gains	<b>(12.4)</b>	(4.0)
(c) Dividend income	<b>(4.5)</b>	(0.3)
(d) Other	<b>1.2</b>	(0.7)
Actual income tax rate	<b>9.4%</b>	41.6%

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OCTOBER 31, 1981

## 14. Capital stock

Authorized—

80,000,000 Common Shares without par value

10,000,000 Preference Shares with a par value of \$10 each

issuable in series, of which 2,500,000 are designated as

8<sup>5</sup>/<sub>8</sub>% Cumulative Redeemable Preference Shares,Senior Series A and 1,500,000 are designated as 9<sup>1</sup>/<sub>2</sub>%

Cumulative Redeemable Preference Shares, Senior Series B

2,000,000 75¢ Class A Shares without par value

	1981 (in thousands of dollars)	1980
Issued and Outstanding—		
39,666,370 Common Shares (1980—39,583,738)	\$ 6,389	\$ 5,765
2,269,700 8 <sup>5</sup> / <sub>8</sub> % Cumulative Redeemable Preference Shares, Senior Series A (1980—2,371,600)	22,697	23,716
1,404,300 9 <sup>1</sup> / <sub>2</sub> % Cumulative Redeemable Preference Shares, Senior Series B (1980—1,465,900)	14,043	14,659
641,076 75¢ Class A Shares (redeemable at \$6.00 per share at any time) (1980—641,076)	1,044	1,044
	<b>\$ 44,173</b>	<b>\$ 45,184</b>

During the year ended October 31, 1981, 82,632 Common Shares were issued for a consideration of \$624,000 (1980—60,330 shares for \$434,000). Of the Common Shares issued during this period, 14,400 shares (1980—4,800) were issued for cash and 68,232 shares (1980—55,530) were issued in lieu of cash dividends on Common Shares and Preference Shares, Series B.

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

Under the special rights or restrictions attaching to the Preference Shares, Series A and B and, under the terms of the Trust Indenture providing for the issuance of the Daon Development Corporation debentures, the Company may not pay dividends unless certain prescribed requirements are met. In management's opinion, these restrictions will not affect the Company's present dividend policy.

Under the special rights or restrictions attaching to the Preference Shares, Series A and B, the Company is required during each quarter, subject to certain conditions, to purchase for cancellation in the market, 1% of the Preference Shares, Series A outstanding at March 31, 1979, and 1% of the Preference Shares, Series B outstanding at March 31, 1980. During the year ended October 31, 1981 the Company purchased in the open market, 101,900 Preference Shares, Series A for \$762,000 (1980—55,500 Preference Shares, Series A for \$464,000) and 61,600 Preference Shares, Series B for \$509,000 (1980—34,100 Preference Shares, Series B for \$308,000) pursuant to this requirement.

Common shares were reserved at October 31, 1981 as follows:

	Number of Shares
For conversion of the 10 <sup>3</sup> / <sub>4</sub> % Convertible Subordinated Debentures on a conversion basis of 66 <sup>2</sup> / <sub>3</sub> common shares for each \$1,000 principal amount of 10 <sup>3</sup> / <sub>4</sub> % Debentures.	3,333,333
Under a stock option plan, options are outstanding to directors, officers and employees to purchase 730,000 common shares (845,000 at October 31, 1980) at a price of \$7.77 per common share and 30,000 common shares (none at October 31, 1980) at a price of \$9.45 per common share. 85,000 common shares are reserved but unallocated (none at October 31, 1980).	845,000
	<b>4,178,333</b>

## 15. Shares held by subsidiary

During the year ended October 31, 1981 the Company purchased in the open market, through a subsidiary, 301,000 Common Shares for \$3,539,000 (1980—540,000 Common Shares for \$4,407,000), pursuant to its policy of expending in each fiscal year, under certain conditions, approximately 10% of its consolidated net income for the prior fiscal year to purchase Common Shares of the Company. The subsidiary now holds 4,241,000 Common Shares of the Company at a cost of \$12,542,000 (1980—3,940,000 Common Shares at a cost of \$9,003,000). These Common Shares are lodged with a Canadian chartered bank in support of various liabilities of the Company to that bank.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OCTOBER 31, 1981

**16. Contingent liabilities and commitments**

- (a) The Company is contingently liable for obligations of certain joint ventures and partnerships amounting to \$324,637,000 (1980—\$180,297,000). However, the assets of each joint venture or partnership are available and adequate to satisfy the individual obligations of the joint venture or partnership.
- (b) The Company has entered into lease agreements for terms of up to 99 years (1980—99 years). The maximum annual rental payments required are \$7,340,000 (1980—\$4,853,000). The Company has also guaranteed annual payments to a maximum of \$2,496,000 (1980—\$6,487,000) in connection with the sale of certain assets; in most instances, the Company has been successful in obtaining leases or subleases that will largely offset the cost of these guarantees.
- (c) The Company has contracted costs to complete income properties under development amounting to \$245,648,000 (1980—\$143,433,000). The Company has finance commitments for \$211,503,000 (1980—\$136,516,000) of these costs.
- (d) The estimated cost to complete homes for sale and land under development for sale amounts to \$153,525,000 (1980—\$138,567,000). These costs will be financed through the proceeds of sale of these properties or by drawing on finance commitments of \$60,347,000 (1980—\$75,626,000).
- (e) The earnings of foreign subsidiaries may be subject to withholding taxes when they are distributed, however these taxes have not been provided for as the subsidiaries have no intention of declaring a dividend at this time.
- (f) The Company has no unfunded pension liabilities.

**17. Other revenue**

	1981 (in thousands of dollars)	1980
Interest and other income	\$ 41,137	\$ 29,139
Net gain on sales of marketable securities and investments	965	13,453
Management fee income	198	774
Dividend income	1,664	544
	<b>\$ 43,964</b>	<b>\$ 43,910</b>

**18. Interest**

	1981 (in thousands of dollars)	1980
Interest charges were incurred from:		
Debt on properties	\$206,167	\$128,482
Debentures	26,215	18,227
Bank indebtedness and other secured debt	44,547	16,394
	276,929	163,103
Less—Interest directly capitalized or allocated to properties under development and held for future development	164,945	110,699
Interest expense	<b>\$111,984</b>	<b>\$ 52,404</b>

**19. Joint ventures and partnerships**

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

	1981 (in thousands of dollars)	1980
Assets	\$542,742	\$365,703
Liabilities	334,326	291,342
Revenue	91,589	80,164
Expenses	98,831	70,820

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OCTOBER 31, 1981

## 20. Segmented information

The business of the Company is the investment in and development of real estate in Canada and the United States. The operations of the Company can be divided into three segments within this industry; the development, rental and sale of commercial properties, including office buildings, shopping centres and industrial/commercial buildings; the acquisition, development, rental and resale of residential income properties (primarily as condominium or co-operative units); and the acquisition, development and sale of land. The following summarizes the Company's operations both by product type and on a geographic basis:

<b>Divisional Segments</b> (in thousands of dollars)	<b>1981</b>	<b>%</b>	<b>1980</b>	<b>%</b>
<b>SEGMENTED REVENUE:</b>				
Commercial				
Real estate sales	\$ 228,641	35	\$ 96,493	15
Rental	52,519	8	24,891	4
	281,160	43	121,384	19
Residential				
Real estate sales	184,241	28	322,552	49
Rental	26,476	4	20,212	3
	210,717	32	342,764	52
Land				
Real estate sales	160,285	25	189,903	29
Consolidated real estate sales and rental revenue	\$ 652,162	100	\$ 654,051	100
<b>SEGMENTED OPERATING PROFIT:</b>				
Commercial				
Real estate sales	\$ 81,701	69	\$ 19,671	17
Rental	26,031	22	13,605	11
	107,732	91	33,276	28
Residential				
Real estate sales	(45,742)	(38)	25,696	21
Rental	11,100	9	8,327	7
	(34,642)	(29)	34,023	28
Land				
Real estate sales	45,691	38	53,676	44
Consolidated operating profit	118,781	100	120,975	100
Unallocated corporate items (net)	(101,557)		(69,635)	
Consolidated net income	\$ 17,224		\$ 51,340	
<b>SEGMENTED ASSETS:</b>				
Commercial	\$ 541,589	23	\$ 313,060	19
Residential	447,094	19	463,841	28
Land	835,282	35	421,801	25
Other	546,609	23	475,516	28
	\$2,370,574	100	\$1,674,218	100

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OCTOBER 31, 1981

## 20. Segmented information (continued)

Geographic Segments (in thousands of dollars)	1981	%	1980	%
SEGMENTED REVENUE:				
Canada				
Real estate sales	\$ 281,586	43	\$ 162,512	25
Rental	36,093	6	27,313	4
	317,679	49	189,825	29
United States				
Real estate sales	291,581	44	446,436	68
Rental	42,902	7	17,790	3
	334,483	51	464,226	71
Consolidated real estate sales and rental revenue	\$ 652,162	100	\$ 654,051	100
SEGMENTED OPERATING PROFIT:				
Canada				
Real estate sales	\$ 117,758	99	\$ 37,771	31
Rental	20,534	17	14,707	12
	138,292	116	52,478	43
United States				
Real estate sales	(36,108)	(30)	61,272	51
Rental	16,597	14	7,225	6
	(19,511)	(16)	68,497	57
Consolidated operating profit	118,781	100	120,975	100
Unallocated corporate items (net)	(101,557)		(69,635)	
Consolidated net income	\$ 17,224		\$ 51,340	
SEGMENTED ASSETS:				
Real estate assets				
Canada	\$ 556,317	31	\$ 440,506	37
United States	1,267,648	69	758,196	63
	1,823,965	100	1,198,702	100
Corporate assets	546,609		475,516	
Consolidated assets	\$2,370,574		\$1,674,218	

## 21. Remuneration of directors and senior officers

The aggregate remuneration for the year paid or payable by the Company and its subsidiaries to the directors and senior officers of the Company amounted to \$2,002,000 (1980—\$2,291,000).

## 22. Related Party Transactions

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

## CORPORATE DIRECTORY

## Directors and Officers

## Directors

William J. Corcoran,  
*Vice-President*  
McLeod Young Weir Limited, Toronto

Graham R. Dawson,  
*Chairman and Chief Executive Officer*  
Dawson Construction Limited,  
Vancouver

Roderick M. Hungerford,  
*President*  
Flex-Lox Industries Ltd., Vancouver

Edgar F. Kaiser, Jr.,  
*Chairman and Chief Executive Officer*  
Kaiser Resources Ltd., Vancouver

William B. Laurie,  
*Vice-Chairman, Chief Financial Officer  
and Secretary*  
Dawson Construction Limited,  
Vancouver

William H. Levine,  
*Executive Vice-President*  
Daon Development Corporation,  
Vancouver

George B. McKeen,  
*Chairman*  
McKeen & Wilson Ltd., Vancouver

Russell A. L. Nunn,  
*Senior Vice-President*  
Daon Development Corporation, Calgary

John W. Poole,  
*President and Chief Executive Officer*  
Daon Development Corporation,  
Vancouver

## Officers

Richard C. Benmore,  
*Senior Vice-President*

Wolf Bergelt,  
*Vice-President and Controller*

Graham R. Dawson,  
*Chairman of the Board*

James H. Findlay,  
*Senior Vice-President, Administration  
and Secretary*

Mitchell H. Gropper,  
*Senior Vice-President*

William H. Levine,  
*Executive Vice-President*

Russell A. L. Nunn,  
*Senior Vice-President*

John W. Poole,  
*President and Chief Executive Officer*

Jonathan H. B. Rees,  
*Vice-President and Treasurer*

George C. Reifel,  
*Vice-President, Finance*

Rodney A. Schroeder,  
*Senior Vice-President, Finance*

June E. Vassos,  
*Assistant Secretary*

## Operating Management

## Vancouver

Richard F. Leland,  
*Vice-President, Land*

H. Gordon MacKenzie,  
*Senior Vice-President, Office Centres*

Alvin G. Poettcker,  
*Senior Vice-President, Shopping Centres*

## Calgary

Russell A. L. Nunn,  
*Senior Vice-President*

Donald J. Schweitzer,  
*Senior Vice-President, Office Development*

Brenton R. Siddons,  
*Senior Vice-President, Industrial*

James C. Whitehead,  
*Senior Vice-President, Land*

## Edmonton

Percy A. Ford,  
*Vice-President, Industrial*

Blaine A. Usenik,  
*Vice-President, Land*

## Costa Mesa

Thomas J. Rielly,  
*Executive Vice-President*

Warren A. Colton, III,  
*Senior Vice-President, Land*

Jack H. Corrigan,  
*Vice-President, Commercial/Industrial*

Jonathan J. Feucht,  
*Senior Vice-President,  
Residential Marketing*

Ellen L. Guccione,  
*Vice-President, Residential Finance*

Craig S. Kammerer,  
*Senior Vice-President,  
Commercial/Industrial*

Daniel J. Liddiard,  
*Vice-President, Commercial/Industrial*

Michael K. Ryan,  
*Vice-President, Land*

William B. Seith,  
*Senior Vice-President*

## Denver

Duane A. Strawn,  
*Vice-President, Land*

## Seattle

Howard C. Cornell,  
*Vice-President, Land*

Donald R. Milliken,  
*Senior Vice-President, Shopping Centres*

Laurence Sunderland,  
*Vice-President, Shopping Centres*

## Geneva

Francis C. Schoenborn,  
*Vice-President, International Finance*

## Corporate Offices

## Daon Development Corporation

999 West Hastings Street  
Vancouver, B.C. V6C 2W7  
*Branch offices in Calgary and Edmonton*

## Daon Corporation

3200 Park Center Drive  
Costa Mesa  
California 92626  
*Branch offices in Denver, San Francisco  
and Seattle*

## Daon (Netherlands) B.V.

530-534 Keizersgracht  
Amsterdam  
The Netherlands  
*Branch offices in Geneva and Fribourg*

## Auditors

Arthur Andersen & Co.

## Transfer Agents and Registrars

Common Shares and 75¢ Class A Shares  
National Trust Company, Limited  
858% Preference Shares, Senior Series A  
and  
9½% Preference Shares, Senior Series B  
The Canada Trust Company

## Trustees for Debentures

Daon Development Corporation  
National Trust Company, Limited  
Crown Trust Company  
Daon Corporation  
Crocker National Bank

## Stock Exchange Listings

Vancouver Stock Exchange  
The Toronto Stock Exchange  
Montreal Stock Exchange  
Alberta Stock Exchange  
The London Stock Exchange





D A O N   D E V E L O P M E N T   C O R P O R A T I O N

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