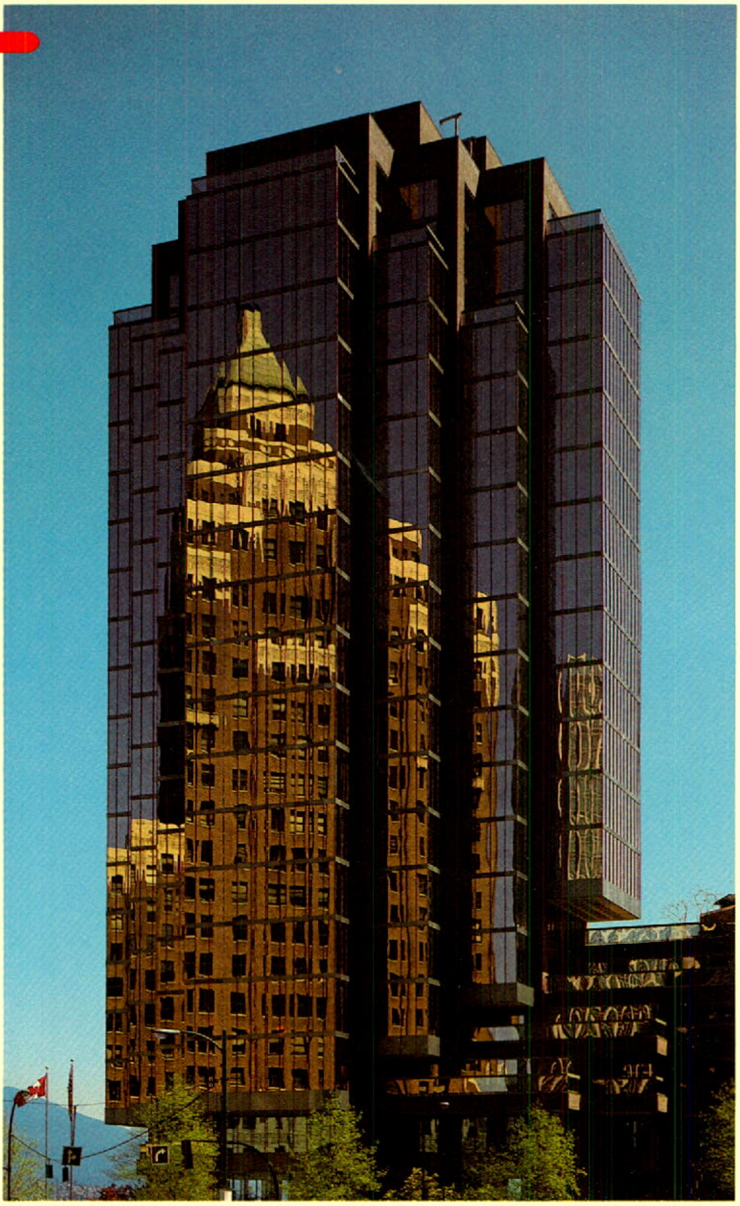
DAON DEVELOPMENT CORPORATION

ANNUAL REPORT 1983

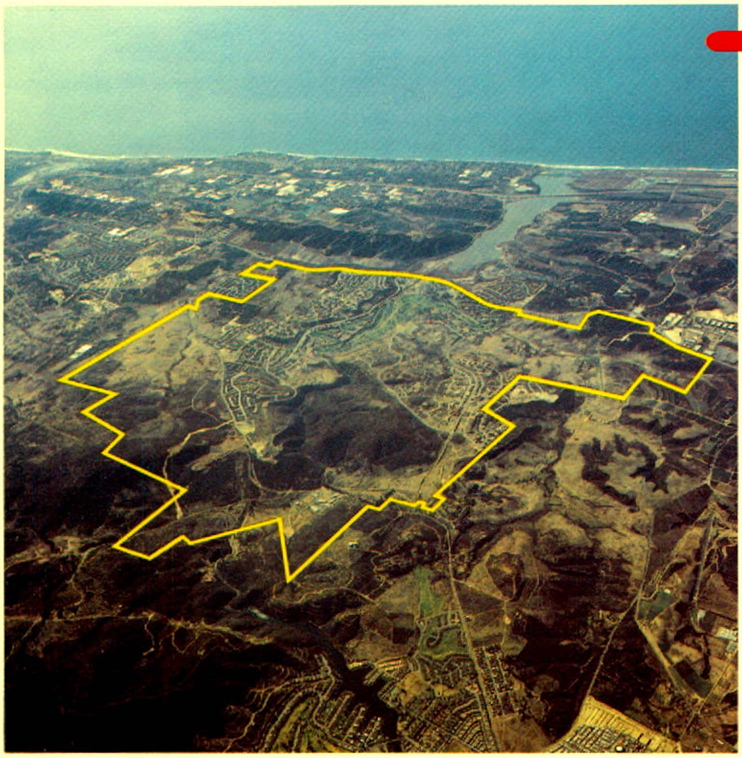
The largest non-governmental building in Washington, D.C., 1300 New York Avenue, will be completed in the Spring of 1984. A landmark design, this 12-storey, 835,000 square foot structure is located three blocks east of the White House. Dramatic interior design is shown below.

Daon Centre serves as the Company's corporate headquarters in Vancouver. Excellently located on the edge of Vancouver's harbour front, it is considered one of the city's most beautiful buildings.

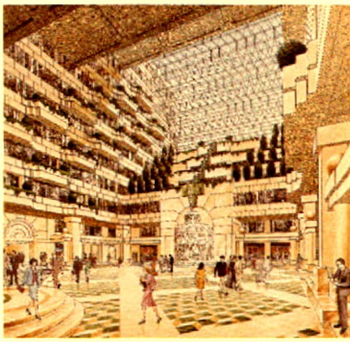


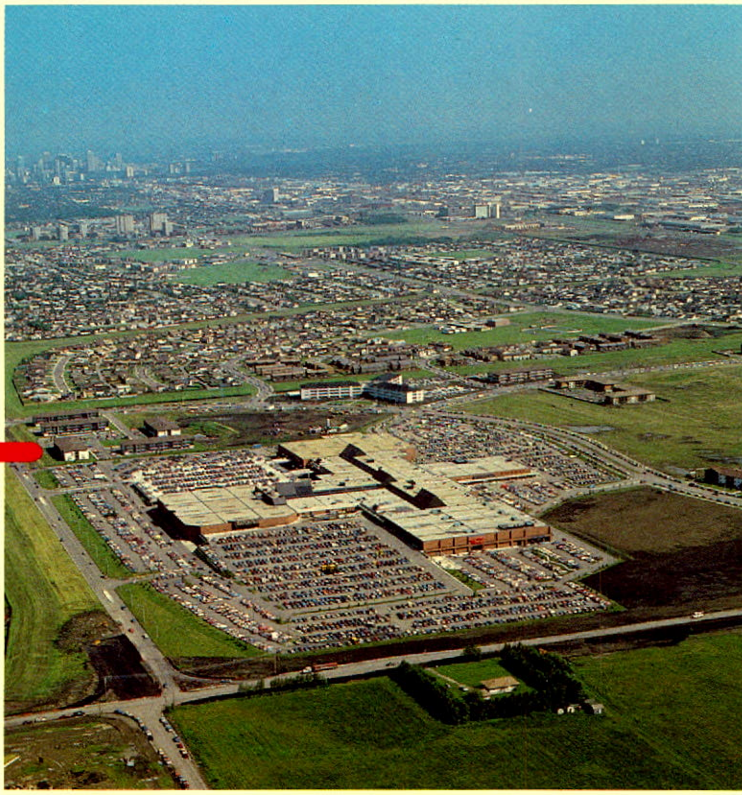
Among the Company's largest office towers is 1818 Market Street, in the primary business district of Philadelphia. This 40-storey, 900,000 square foot building was completed in 1975 and acquired by Daon in 1981.

444 Market Street is located in the heart of San Francisco's financial district. The 38-storey, 605,000 square foot tower has been fully leased almost from the moment of its completion in 1981.



Development is well underway at La Costa, 3,372 acres located 30 miles north of San Diego, California, and 1½ miles from the Pacific Ocean. A 15-year master plan anticipates 12,000 residential units.





Heritage Mall, in Edmonton, is the largest of three regional shopping centres that the Company built in Alberta in 1981. Others were Sunridge Mall in Calgary and Bower Place in Red Deer, and the three comprise the assets of Daon Shopping Centres, Alberta, a limited partnership in which the Company retains a 46.83% interest.

The pink granite of Park Place creates a special profile against the Vancouver sky. The city's largest office tower — 35 storeys and 605,000 square feet — Park Place will be ready to receive its first tenants in April of 1984.

DAON DEVELOPMENT CORPORATION

Five Year Financial Highlights

	1983	1982	1981	1980	1979
OPERATING RESULTS					
Total Revenue ($000)	483,134	821,640	696,126	697,961	531,236
Net Income (Loss) ($000)	(35,690)	(85,459)	17,224	51,340	42,203
Earnings (Loss) per Common Share ($)	(0.99)	(2.44)	0.37	1.28	1.07
Cash Flow (Deficit) ($000)	(71,599)	(120,466)	23,075	91,224	78,974
Cash Flow (Deficit) per Common Share ($)	(1.97)	(3.40)	0.53	2.35	2.08
FINANCIAL PERFORMANCE					
Total Assets ($000)	1,908,317	2,186,943	2,370,574	1,674,218	1,221,662
Income Properties ($000)	497,014	590,902	805,028	529,362	447,520
Shareholders' Equity: Historic Cost ($000)	49,887	84,388	171,881	164,362	127,223
COMMON SHARE DATA					
Price ($):					
High	2.95	6.20	13.62	12.50	10.37
Low	1.25	.70	3.85	4.80	2.69
Trading Volume:*					
Number of Shares (000)	19,324	9,769	7,033	13,073	10,346
Dollar Volume ($000)	39,681	24,616	72,927	99,627	62,987
Dividends Paid ($)	Nil	0.12**	0.155	0.12	0.07
Number of Shareholders at October 31	4,646	4,702	4,238	4,312	2,571

*Toronto stock exchange only.

**Of this amount, $0.08 was by a stock dividend aggregating 1,132,293 Common Shares.

DAON DEVELOPMENT CORPORATION

PRESIDENT'S REPORT

The year 1983 was a difficult one for Daon. Real estate markets generally remained sluggish, although we did experience an increase in activity in California during the last six months of fiscal 1983. From a management viewpoint, most of our energies were, of necessity, focused on formulating a plan to restructure all of the Company's debt and some of its equity. With the cooperation of all levels of Daon's lenders, the restructuring was completed on April 30 this year. This now allows us to concentrate full-time on the job of rebuilding Daon to a pre-eminent position in real estate development and management.

By giving the Company the option of satisfying interest on debt by issuing shares, the Financial Restructuring Plan provides us with an opportunity to participate in the gradual recovery of the North American economy in general and real estate markets in particular.

VALUATION OF ASSETS

A strong incentive for all parties to conclude the financial restructuring was the recognition, through independent appraisals, that there was an underlying differential of some $500 million between the "going concern" value and the liquidation value of our properties. It was crucial that we have a chance to realize that value for our securityholders.

The appraisals, which were done on all principal properties, assumed a fully operational company that could develop and retail its land and would complete its income properties. On that basis, appraisals established values $190 million in excess of book values.

NEW EQUITY ISSUE

Last fall we believed that the Company's balance sheet would benefit from an infusion of equity such as the contemplated rights offering in Canada and a placement of Common Shares in the United Kingdom and it was hoped to have this in place in November. The pressure of obtaining final approval of the Financial Restructuring Plan, however, made it impossible to complete the necessary documentation and, by mutual agreement with our underwriters, the offering did not proceed.

While we still believe that the new equity issue as proposed, would be desirable from a balance sheet point of view, we do not feel it is crucial to the recovery and future success of the Company, nor is there a particular urgency to make an offering in the immediate future. Other alternatives are being examined to strengthen the Company's equity base over the next three years and it may be that a different approach will be utilized involving less dilution for present shareholders.

Conversion of Debt to Common Shares

On November 4, 1983, holders of approximately $16 million of series debentures and $21 million of convertible debentures had delivered their election to convert into common shares; in the case of the series debentures at $5.00 per share and in the case of the convertible debentures at $5.75 per share. Of this total of approximately $37 million, only $20,000 have retracted to the original securities as of April 30, 1984.

Even though the Company may not proceed with a new equity issue it could be even more advantageous to the series and convertible debentureholders to convert into common shares because the existing net asset value per common share will be preserved.

Investment dealers have indicated that additional holders who missed the November 4th deadline would choose to convert if given the opportunity and the Company is exploring this matter to see if we can make a subsequent exchange offer based on the original Information Circular. We believe it is in the interests of all securityholders that a substantial part of the public debt be converted to equity.

Daon's Properties

When the Company made substantial property acquisitions in 1980 and 1981, we did so with the expectation that the properties would generate more than sufficient funds to service and pay off all of the debt and ultimately return a profit to Daon. The Company did not factor into its planning an economic downturn of the depth and duration that this continent experienced. We are satisfied that for the most part the location and quality of the properties were first class in terms of values and expectations at the time of purchase.

The Company is in a good position to respond to the recovery of the North American housing market, particularly in California, where we have large banks of truly outstanding residential land. In Southern California, Daon has about 13,000 acres which we plan to service and bring to market in appropriate stages over the next 15 to 20 years. We also own about 6,000 acres of prime land in Alberta. While not a product in demand today, we expect this to be a valuable source of earnings in the future.

It is the commercial income property side of our operations that provides the greatest potential for future income and asset value growth. Our shopping centres, mainly located in Alberta, have done extremely well despite the recession. Most or all of our office properties — both existing and under development — will become excellent revenue producers with any worthwhile and sustained economic upturn. We feel especially good about our office building currently under development in Vancouver, Park Place, which will become a landmark in the city. We have other valuable office property interests in Montreal, San Francisco, Philadelphia, Washington, D.C., and Riverside, California, as well as our

President's Report (continued)

corporate headquarters building in Vancouver.

In addition, the Company has acquired an option to develop Metrotown, a project which could well be the single most important urban development opportunity in Canada for this entire decade and one that should make a very strong contribution to Daon's future net worth.

Metrotown is a multi-phase retail, office, residential and hotel development totalling 4.7 million square feet to be built on 22 acres of land in the heart of Burnaby, British Columbia, in the geographic centre of Metropolitan Vancouver. Metrotown will be developed over the next 10 to 20 years, forming the core of what will become downtown Burnaby. This development, strongly supported by the Municipality of Burnaby and the Province of British Columbia, is immediately adjacent to the new Advanced Light Rapid Transit system scheduled to open in 1986. The Metrotown station, one of the most important stops on the system, will be physically connected to our development. The Company proposes to enter into a partnership arrangement with one or more financial institutions to finance the land acquisition and the initial phase of development.

Phase I of Metrotown should open in 1987 and will include over one million square feet of space including three full-line department stores, a major food store, 180 mall stores, 50,000 square feet of office space and on-site parking for 3,000 vehicles.

Future Strategy

The Company will focus principally on two activities:

First, the development and marketing of currently-owned land, paying off the debt on this land and subsequently the debt that ranks junior to that. There is no intention of acquiring additional land, except perhaps strategic sections contiguous to land already held, the purchase of which could enhance the total holding.

Second, the acquisition, development and improvement of commercial income properties.

Outlook

The outlook for 1984, particularly in the United States, is encouraging; it should be one of the continent's better real estate years, buoyed by the presidential election in the United States. Pent-up demand for new housing is growing, and we have the type and location of land that will respond to the homebuilders' needs. Properties that have been reducing in value over the past few years can recover their value just as rapidly. Given this scenario, we would expect increased U.S. land sales, faster reduction of debt and ultimately — profits.

The demand for quality commercial income properties is growing faster than the supply, and pension funds and insurance companies are returning to the market to join the off-shore investors and syndicators in a quest for property to acquire or finance. Yields on these properties are under downward pressure and values are increasing. The year 1984 should afford us a good opportunity to convert some of our short term income property financing to long term and/or to realize a higher sales value.

Daon's bankers and public securityholders have given the Company significant concessions and a total of more than four years of staying power to enhance the value of our properties. Management approaches this rebuilding task with cautious optimism and a dedication to the objective of maximizing the long term value for our shareholders. We expect that 1984 will be a turnaround year for your Company.

On Behalf of the Board,

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

May 1, 1984.

DAON DEVELOPMENT CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED OCTOBER 31, 1983, AFTER GIVING EFFECT TO THE FINANCIAL RESTRUCTURING

	Note Reference	1983	1982
		(in thousands of dollars)	
REVENUE			
Real estate sales	18	$358,833	$661,895
Rental		88,573	102,034
Other	19	35,728	57,711
Total revenue		483,134	821,640
EXPENSES			
Cost of real estate sales		392,613	714,662
Rental operating costs		45,028	54,341
Interest	20	72,475	139,108
General and administrative		16,245	16,891
Depreciation and amortization		5,025	7,399
Other		28,804	18,695
Total expenses		560,190	951,096
LOSS BEFORE RECOVERY OF INCOME TAXES		(77,056)	(129,456)
Recovery of income taxes		41,366	43,997
NET LOSS		$(35,690)	$(85,459)
LOSS PER COMMON SHARE		$ (0.99)	$ (2.44)

DAON DEVELOPMENT CORPORATION

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED OCTOBER 31, 1983, AFTER GIVING EFFECT TO THE FINANCIAL RESTRUCTURING

	1983	1982
	(in thousands of dollars)	
Retained earnings, beginning of year	$ 37,961	$130,472
Net loss	(35,690)	(85,459)
	2,271	45,013
Dividends		
Common Shares	—	4,270
Preference Shares	—	2,422
75¢ Class A Shares	—	360
	—	7,052
RETAINED EARNINGS, END OF YEAR	$ 2,271	$ 37,961

DAON DEVELOPMENT CORPORATION

CONSOLIDATED BALANCE SHEET

OCTOBER 31, 1983, AFTER GIVING EFFECT TO THE FINANCIAL RESTRUCTURING

	Note Reference	1983	1982
		(in thousands of dollars)	
ASSETS			
Properties:			
Commercial	3	$ 623,494	$ 596,335
Land	4	776,724	793,545
Residential	5	168,071	295,260
Cash and term deposits	6	54,758	112,555
Amounts receivable	7	265,651	360,941
Other assets	8	19,619	28,307
		$1,908,317	$2,186,943
LIABILITIES			
Debt on properties:	9		
Commercial		$ 564,265	$ 507,076
Land		583,535	572,670
Residential		77,498	196,150
Bank indebtedness	10	223,975	227,488
Debentures payable	11	149,988	199,742
Other secured liabilities	9	137,972	227,032
Accounts payable and accruals	12	82,265	92,099
Deferred income taxes	13	38,932	80,298
		1,858,430	2,102,555
CONTINGENT LIABILITIES AND COMMITMENTS	2,17		
SHAREHOLDERS' EQUITY			
Capital stock	14	46,473	46,473
Retained earnings		2,271	37,961
Deferred gain on foreign exchange	15	14,027	12,838
		62,771	97,272
Shares held by subsidiary	16	12,884	12,884
		49,887	84,388
		$1,908,317	$2,186,943

Approved by the Directors:

G. R. Dawson, *Director*

J. W. Poole, *Director*

DAON DEVELOPMENT CORPORATION

CONSOLIDATED STATEMENT OF CASH DEFICIT FROM OPERATIONS

FOR THE YEAR ENDED OCTOBER 31, 1983, AFTER GIVING EFFECT TO THE FINANCIAL RESTRUCTURING

	1983	1982
	(in thousands of dollars)	
Net loss	$(35,690)	$ (85,459)
Items not involving a current outlay (receipt) of cash:		
Deferred income taxes	(41,366)	(42,000)
Depreciation and amortization	5,025	7,399
Other	432	(406)
CASH DEFICIT FROM OPERATIONS	$(71,599)	$(120,466)
CASH DEFICIT PER COMMON SHARE	$ (1.97)	$ (3.40)

DAON DEVELOPMENT CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED OCTOBER 31, 1983, AFTER GIVING EFFECT TO THE FINANCIAL RESTRUCTURING

	1983	1982
	(in thousands of dollars)	
OPERATIONAL ACTIVITIES		
Cash deficit from operations	$(71,599)	$(120,466)
Cash recovered through sales of properties:		
recovery of real estate costs	392,613	714,662
less debt discharged on properties sold	242,098	438,488
	150,515	276,174
Gross cash flow from operations	78,916	155,708
Cash applied to properties:		
commercial	122,742	254,240
land	111,893	155,481
residential	37,208	127,513
	271,843	537,234
less net proceeds from property debt	186,392	310,234
	85,451	227,000
NET CASH APPLIED TO OPERATIONAL ACTIVITIES	(6,535)	(71,292)
OTHER ACTIVITIES		
Net decrease in other assets	6,258	16,693
Cash dividends paid	—	(4,028)
NET CASH PROVIDED FROM OTHER ACTIVITIES	6,258	12,665
CORPORATE FINANCING ACTIVITIES		
Net decrease in amounts receivable	97,017	37,843
Net (decrease) increase in bank indebtedness	(4,466)	107,512
Net (decrease) increase in debentures payable	(50,146)	861
Net decrease in other secured liabilities	(90,054)	(6,265)
Net decrease in accounts payable and accruals	(10,213)	(51,349)
Net increase in deferred gain on foreign exchange	1,189	3,060
Translation adjustment	(847)	(16,417)
Shares purchased and redeemed	—	(546)
NET CASH (APPLIED TO) PROVIDED FROM CORPORATE FINANCING	(57,520)	74,699
(DECREASE) INCREASE IN CASH AND TERM DEPOSITS	$(57,797)	$ 16,072

DAON DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

OCTOBER 31, 1983, AFTER GIVING EFFECT TO THE FINANCIAL RESTRUCTURING

1. Summary of Significant Accounting Policies

A. General

The Company is a member of the Canadian Institute of Public Real Estate Companies. The Company's accounting policies and its standards of financial disclosure are in accordance with the recommendations of that Institute.

B. Consolidation

The consolidated financial statements of the Company include:

(i) The accounts of Daon Development Corporation and its subsidiaries.

(ii) The accounts of incorporated and unincorporated joint ventures and partnerships, to the extent of the Company's interest in their respective assets, liabilities, revenues and expenses.

C. 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 residential properties
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 operations 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.

D. Properties

(i) 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.

(ii) 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.

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

(iv) 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.

E. Investments

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

F. Deferred charge for interest

The accrued liability for interest on specified debt to be satisfied by the issuance of Common Shares is adjusted by a deferred charge reflecting the difference between the agreed upon value of the shares to be paid in consideration of the liability and the market value of the shares on November 3, 1983, the date the Daon Canada Plan was approved by the Supreme Court of British Columbia. Interest expense for the year is adjusted accordingly.

DAON
DEVELOPMENT
CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OCTOBER 31, 1983, AFTER GIVING EFFECT TO THE FINANCIAL RESTRUCTURING

1. Summary of Significant Accounting Policies (continued)

G. 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 payments applied.

H. 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 and long-term monetary items are included in the consolidated statement of operations. The gains and losses from exchange translations on the Company's investment in foreign operations are deferred and included as part of Shareholders' Equity. Gains or losses from exchange translations on long-term monetary items are deferred and amortized until repayment becomes imminent, at which time they are included in the consolidated statement of operations.

2. Financial Restructuring

As of October 31, 1982, the Company was in default on the terms of a majority of its debt, including failure to meet its interest and principal payments on its Debentures. Since then, the Company has held meetings with the lenders holding a majority of its debt and has developed a plan of financial restructuring (Financial Restructuring). The Financial Restructuring, as described in an information circular dated September 21, 1983, was approved by the holders of Series Debentures, Convertible Subordinated Debentures, Preference Shares, Series A and B, 75¢ Class A Shares and Common Shares.

On April 2, 1984, the Company released consolidated financial statements which contained no adjustments for provisions under the Financial Restructuring. As disclosed in Note 25, the conditions for the effectiveness of the Financial Restructuring were satisfied on April 30, 1984 and these consolidated financial statements have been adjusted to reflect the terms of the Financial Restructuring.

The Financial Restructuring consists of the following: (a) a Daon Canada Plan for the generally secured and unsecured debt in Canada, (b) a Daon U.S. Plan for the unsecured debt in the United States, and (c) project debt modifications.

On November 3, 1983, the Daon Canada Plan was approved by an order of the Supreme Court of British Columbia as a plan of arrangement pursuant to the Companies' Creditors Arrangement Act (Canada) and the Company Act (British Columbia). On April 30, 1984, the conditions for the effectiveness of the Daon Canada and Daon U.S. Plans were satisfied. The Daon Canada and Daon U.S. Plans extend the maturity dates of the debt and allow the Company to satisfy interest obligations until October 31, 1986, on debt covered in the Plans, by issuing Common Shares of the Company.

The Company has negotiated modifications of the terms of a substantial portion of the project debt on a project by project basis.

The terms of the Financial Restructuring contain covenants which restrict expenditures, borrowings and sales, and prohibit the declaration or payment of dividends on Common Shares or redemption of Preference Shares, Series A or B or 75¢ Class A Shares.

3. Commercial

	1983	1982
	(in thousands of dollars)	
Income producing properties	$388,843	$404,700
Accumulated depreciation	6,653	2,975
	382,190	401,725
Properties under development	205,204	143,191
Properties held for future development	36,100	51,419
	$623,494	$596,335

The Company's commercial properties consist of office buildings, shopping centres and industrial buildings, which are completed or under construction, and sites held for future development.

4. Land

	1983	1982
	(in thousands of dollars)	
Properties under development	$130,086	$149,714
Properties held for future development	646,638	643,831
	$776,724	$793,545

The Company's land properties consist of completed lots, land subdivisions for sale and large parcels of undeveloped land held for future development.

5. Residential

	1983	1982
	(in thousands of dollars)	
Income producing properties	$117,288	$191,702
Accumulated depreciation	2,464	2,525
	114,824	189,177
Properties under development	53,247	100,821
Properties held for future development	—	5,262
	$168,071	$295,260

The Company's residential properties consist of 2,228 units (1982 — 3,581 units) completed or under construction.

6. Cash and Term Deposits

On October 31, 1982, $46,531,000 of the cash and term deposits were lodged with a Canadian chartered bank in support of various liabilities of the Company to that bank. On November 3, 1982, the Company paid this amount to that bank on account of these liabilities. Included in the cash and term deposits at October 31, 1983 are $28,375,000 of restricted amounts, which can only be applied to specific liabilities or which will become available to the Company in future periods.

7. Amounts Receivable

	1983	1982
	(in thousands of dollars)	
Mortgages and agreements for sale	$245,877	$330,795
Rents and other tenant charges	4,654	4,311
Secured advances due from joint venture partners	9,424	10,734
Amounts receivable from employees pursuant to stock purchase plans and house mortgage loans, including $149,000 due from certain directors and officers (1982 — $199,000)	149	357
Sundry	5,547	14,744
	$265,651	$360,941

The mortgages and agreements for sale yield a weighted average interest rate of 11.8% per annum (1982 — 11.7%).

The due dates of the amounts receivable are as follows:

	(in thousands of dollars)
Years ending October 31, 1984	$ 64,447
1985	59,455
1986	25,942
1987	40,970
1988	6,715
Subsequent to 1988	68,122
	$265,651

DAON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OCTOBER 31, 1983, AFTER GIVING EFFECT TO THE FINANCIAL RESTRUCTURING

8. Other Assets

	1983 (in thousands of dollars)	1982
Marketable securities acquired for long-term investment, having a quoted market value of $3,038,000 (1982 — $2,052,000)	$ 4,150	$ 4,149
Prepaid expenses	6,352	8,747
Equipment and sundry assets, at cost less accumulated depreciation of $6,233,000 (1982 — $6,215,000)	4,938	10,801
Debenture financing and issue expenses, net of accumulated amortization of $2,286,000 (1982 — $1,852,000)	4,179	4,610
	$ 19,619	$ 28,307

9. Project Debt

	1983 (in thousands of dollars)					1982
		Recourse				
	Limited and Non-Recourse	Debt Serviced By Sub-Ordinated Project Lender	Debt Serviced By Anticipated Project Cash Flow	Other	Total	Total
Commercial	$382,363	$15,272	$156,322	$10,308	$ 564,265	$ 507,076
Land	369,349	60,688	109,692	43,806	583,535	572,670
Residential	28,204	—	13,656	35,638	77,498	196,150
Amounts receivable	64,836	—	66,730	3,583	135,149	216,575
Other assets	—	—	—	2,823	2,823	10,457
	$844,752	$75,960	$346,400	$96,158	$1,363,270	$1,502,928

The limited and non-recourse project debt is secured by individual assets, mainly properties. The terms of repayment of the majority of this debt have been modified. The effect of the modified terms is generally as follows:

(a) The project debt is serviced only from cash generated by the individual asset securing the debt.

(b) The term of the debt is extended to recognize the time frame required for the property to be developed and/or sold in the normal course of business.

(c) Recourse to the Company is limited in one of the following ways: (i) in return for the project lender agreeing to make the debt non-recourse, the Company has granted the project lender a profit participation in the asset generally to a maximum of 30%; (ii) any principal or interest outstanding on October 31, 1986 that is not satisfied by the asset securing the project debt, will be satisfied by the issuance of a maximum of 4.5 million Common Shares. These shares will be issued after October 31, 1986 and before February 28, 1987; (iii) in return for the Company agreeing to deed the asset to the project lender by a future date, the project lender will forgive any interest and principal not satisfied by the asset.

(d) Additional future financing will be provided by the project lender to service any prior ranking debt, and where the Company and the project lender deem appropriate, to fund the planning, development and marketing costs required to complete the development and/or sale of the asset.

The recourse project debt, for which the terms of some have also been modified, generally falls into one of the following categories:

(a) Recourse project debt to be serviced by subordinated project lender — This debt, with terms of up to 30 years, will be serviced as it becomes due by the subordinated project lender.

(b) Recourse project debt serviced by anticipated project cash flow — The original term of this debt either extends beyond the term of the Daon Canada and Daon U.S. Plans or has been extended in the normal course of business.

(c) Other recourse project debt — This debt is owed to lenders who have not agreed to any modifications under the Financial Restructuring. Of this debt, $18,956,000 is in default, and the Company is currently attempting to settle with the respective lenders. The balance is in good standing.

10. Bank Indebtedness

	1983	1982
	(in thousands of dollars)	
Principal	$216,854	$217,357
Accrued interest	34,192	10,131
Deferred charge	(27,071)	—
	$223,975	$227,488

The terms of this bank indebtedness were modified under the Daon Canada and Daon U.S. Plans as follows (see Note 2):

(a) The bank indebtedness will continue to bear interest at contract rates. However, accrued interest (from August 1, 1982 to October 31, 1986) will be satisfied by the issuance of Common Shares on the basis of one Common Share for $8.00 of accrued interest. Interest resulting from the applicable rate exceeding 10½% per annum will be satisfied by Warrants on the same basis as amounts are satisfied by Common Shares. Each Warrant entitles the holder to purchase one Common Share at $8.00 until March 31, 1992.

(b) The principal amount of the bank indebtedness will be repaid as follows:

	(in thousands of dollars)
Years ending October 31, 1984	$ 21,533
1985	26,808
1986	32,512
1987	27,215
1988	27,215
Subsequent to 1988	81,571
	$216,854

The terms of the Daon Canada Plan require Daon Development Corporation to apply the net proceeds from the sale of certain assets to the payment of additional principal of the Canadian bank indebtedness.

(c) The bank indebtedness of Daon Development Corporation is secured by fixed charges against certain properties and by a floating charge against all other properties other than shares and indebtedness of subsidiaries. The bank indebtedness of Daon Corporation is secured by a fixed charge on substantially all of the real and personal property of Daon Corporation.

11. Debentures payable

	1983	1982
	(in thousands of dollars)	
Daon Development Corporation		
Series Debentures		
9¾% Debentures, Series C	$ 6,974	$ 6,780
11½% Debentures, Series E	14,301	13,776
11¼% Debentures, Series F	17,154	16,386
11% Debentures, Series G	14,218	13,540
11¼% Debentures, Series H	13,842	13,649
Floating Rate Debenture, Series I	8,875	8,875
Floating Rate Debenture, Series K	7,833	7,500
Payments held by National Trust Company, Limited on behalf of the Series Debentureholders	(366)	—
	82,831	80,506
10¾% Convertible Subordinated Debentures	50,000	50,000
Daon Corporation		
Floating Rate Subordinated Debenture, Series A (1983 — U.S. $11,357,000; 1982 — U.S. $48,000,000)	13,994	58,776
Total principal	146,825	189,282
Accrued interest:		
Series Debentures, Series C to K	11,806	5,131
10¾% Convertible Subordinated Debentures	6,730	1,344
Floating Rate Subordinated Debenture, Series A	4,238	3,985
Deferred charge	(19,611)	—
	$149,988	$199,742

DAON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OCTOBER 31, 1983, AFTER GIVING EFFECT TO THE FINANCIAL RESTRUCTURING

11. Debentures payable (continued)

The terms of the Debentures were modified under the Daon Canada and Daon U.S. Plans as follows (see Note 2):

(a) The Debentures will continue to bear interest at contract rates. However, accrued interest will be satisfied by the issuance of Common Shares on the basis of one Common Share for the following:

(i) $12.00 of accrued interest on the Series Debentures and the Floating Rate Subordinated Debenture from August 1, 1982 to October 31, 1986.

(ii) $14.00 of accrued interest on the Convertible Subordinated Debentures from August 1, 1982 to October 31,1988.

Interest on the Floating Rate Debentures resulting from the applicable rate exceeding 10½% per annum will be satisfied by Warrants on the same basis as amounts are satisfied by Common Shares. Each Warrant entitles the holder to purchase one Common Share at $8.00 until March 31,1992.

(b) The principal amount of the Debentures will be repaid as follows:

		(in thousands of dollars)
Years ending October 31,	1984	$ 4,320
	1985	2,148
	1986	2,606
	1987	1,050
	1988	1,050
Subsequent to 1988		135,651
		$146,825

(c) The Series Debentures are secured by a fixed charge against certain properties and by the shares and indebtedness of substantially all subsidiaries of Daon Development Corporation and a floating charge against the remaining properties. The Convertible Subordinated Debentures are secured by a fixed charge against certain properties of Daon Development Corporation. The Floating Rate Subordinated Debenture, Series A is secured by a fixed charge, which is subordinated to bank indebtedness, on substantially all the real and personal property of Daon Corporation.

12. Accounts Payable and Accruals

	1983	1982
	(in thousands of dollars)	
Accounts payable	$ 23,918	$ 20,270
Accrued liabilities	25,175	20,029
Deferred income and deposits	3,270	3,656
Costs to complete properties sold	29,902	48,144
	$ 82,265	$ 92,099

13. Income Taxes

The Company follows the tax allocation method of accounting for income taxes. Deferred income taxes arise primarily from:

(a) The capitalization of certain development and carrying costs for book purposes, which are deducted currently for tax purposes.

(b) Income from partnerships recorded currently for book purposes which are taxable in later periods.

(c) Income recorded currently for book purposes which are 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.

The income tax recovery is determined after adjusting the net loss before taxes of each legal entity included in the consolidation for items which give rise to different treatments for tax and accounting purposes. These items include capital gains, dividend income, intercompany interest, deferred charges and operating losses of Daon Corporation. Daon Corporation has accumulated operating losses of $87,634,000 which may be applied against future income, the benefit of which has not been recorded in these consolidated financial statements.

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 8⅝% Cumulative Redeemable Preference Shares, Senior Series A and 1,500,000 are designated as 9½% Cumulative Redeemable Preference Shares, Senior Series B. These shares are non-voting.
2,000,000	75¢ Class A Shares, non-voting, without par value

		1983	1982
		(in thousands of dollars)	
Issued and Outstanding —			
40,846,988	Common Shares	$ 9,755	$ 9,755
2,202,800	8⅝% Cumulative Redeemable Preference Shares, Senior Series A	22,028	22,028
1,364,600	9½% Cumulative Redeemable Preference Shares, Senior Series B	13,646	13,646
641,076	75¢ Class A Shares	1,044	1,044
		$ 46,473	$ 46,473

No shares were issued during the year ended October 31, 1983. During the year ended October 31, 1982, 1,180,618 Common Shares were issued for a consideration of $3,366,000 in lieu of cash dividends on Common Shares and Preference Shares, Series B.

The Company has cumulative dividends in arrears (based on the stated rate) on its Preference Shares, Series A and B of $3,995,000 (1982 — $799,000) and on its 75¢ Class A Shares of $598,000 (1982 — $120,000).

Under the Financial Restructuring, the dividend rights of the Preference Shares, Series A and B and the 75¢ Class A Shares were modified such that dividends will be paid in the form of stock dividends of Common Shares, which will satisfy the cumulative dividends on these shares on the basis of one Common Share for the following:

(a) $14.50 of dividends (based on the stated rate) on the Preference Shares, Series A and B from July 31, 1982, the date dividends were last paid, to October 31, 1991.

(b) $15.00 of dividends (based on the stated rate) on the 75¢ Class A Shares from July 25, 1982, the date dividends were last paid, to October 31, 1992.

The Daon Canada and Daon U.S. Plans prohibit the declaration or payment of dividends on Common Shares until the later of October 31, 1986 or the date the bank indebtedness is paid.

	Number of Shares
Common Shares were reserved at October 31, 1983 as follows:	
For conversion of the 10¾% Convertible Subordinated Debentures on a conversion basis of 66⅔ Common Shares for each $1,000 principal amount of 10¾% Debentures adjusted for stock dividends declared.	3,428,736
For issuance as stock dividends payable in lieu of cash dividends on the 9½% Cumulative Redeemable Preference Shares, Senior Series B and on the Common Shares of the Company.	570,720
Under a stock option plan, options are outstanding to directors, officers and employees to purchase 426,667 Common Shares at a price of $1.2495 per Common Share and 393,333 Common Shares at a price of $1.47 per Common Share. A further 1,180,000 Common Shares are reserved and the Shareholders have approved up to 1,000,000 of these Common Shares to be issued to senior employees of the Company as compensation for services performed by them since August, 1981. The prior stock option plan was cancelled in April, 1983.	2,000,000
	5,999,456

DAON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OCTOBER 31, 1983, AFTER GIVING EFFECT TO THE FINANCIAL RESTRUCTURING

15. Change in Accounting Policy

During 1983 the Company retroactively adopted the policy of classifying the deferred gain from exchange translations on the Company's investment in foreign operations as part of Shareholders' Equity. Previously, the deferred gain had been classified as part of Accounts Payable and Accruals. The reclassification has resulted in an increase of Shareholders' Equity as of October 31, 1982 of $12,838,000 over that previously reported.

16. Shares Held by Subsidiary

During the year ended October 31, 1982 a subsidiary received as stock dividends 121,379 Common Shares valued at $342,000. The subsidiary now holds 4,362,379 Common Shares of the Company at a cost of $12,884,000.

17. Contingent Liabilities and Commitments

(a) The Company is contingently liable for obligations of certain joint ventures and partnerships amounting to $140,674,000 (1982 — $214,055,000). However, in management's opinion, 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 88 years (1982 — 99 years). The maximum annual rental payments required are $3,927,000 (1982 — $5,645,000). The Company has also guaranteed annual payments to a maximum of $15,663,000 (1982 — $16,314,000) in connection with the sale of certain assets. The Company has entered into leases or subleases which largely offset the maximum annual rental payments required.

(c) The Company has contracted costs to complete income properties under development amounting to $62,729,000 (1982 — $129,698,000). The Company has finance commitments for $61,552,000 (1982 — $129,456,000) of these costs.

(d) The estimated cost to complete residential properties under development and land under development amounts to $86,965,000 (1982 — $72,679,000). The major part of these costs is interest on debt secured by these properties. Under the terms of the agreements with project lenders covering the majority of the project debt, this interest will only be paid out of proceeds from the sale of these properties (see Notes 2 and 9).

(e) The Company has been named as a defendant in numerous lawsuits alleging actual and punitive damages, the total of which are substantial. However, after reviewing the merits of these lawsuits with counsel, it is management's opinion that the ultimate costs of settlement will not materially affect the Company's financial position.

(f) The Company has no unfunded pension liabilities.

18. Real Estate Sales

Real estate sales for the year ended October 31, 1983 includes $92,945,000 of sales made to lenders in settlement of obligations to those lenders.

19. Other Revenue

	1983	1982
	(in thousands of dollars)	
Interest and other income	$ 35,191	$ 55,661
Management fee income	537	1,575
Investment income	—	475
	$ 35,728	$ 57,711

20. Interest

	1983	1982
	(in thousands of dollars)	
Interest charges were incurred from:		
Project debt	$144,623	$214,424
Debentures	17,051	26,236
Bank indebtedness and other secured liabilities	48,575	71,445
	210,249	312,105
less interest directly capitalized or allocated to properties under development and held for future development	91,095	172,997
deferred charge	46,679	—
	$ 72,475	$139,108

The deferred charge adjustment recorded for the year ended October 31, 1983 includes $11,471,000 pertaining to interest accrued during the fourth quarter of fiscal 1982.

21. Capitalized Costs

During the year the Company capitalized the following indirect costs:

	1983	1982
	(in thousands of dollars)	
Interest	$ 91,095	$172,997
Property taxes	7,930	7,731
Other indirect costs	5,193	15,883
	$104,218	$196,611
These costs were capitalized to properties as follows:		
Commercial	$ 26,387	$ 44,908
Land	71,708	126,271
Residential	6,123	25,432
	$104,218	$196,611

22. 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:

	1983	1982
	(in thousands of dollars)	
Assets	$284,209	$362,018
Liabilities	228,820	273,817
Revenue	74,150	134,528
Expenses	77,827	155,727

23. Segmented Information

	1983	1982
	(in thousands of dollars)	
SEGMENTED REVENUE BY DIVISION:		
Commercial		
Real estate sales	$ 83,537	$335,967
Rental revenue	74,144	75,032
	157,681	410,999
Land		
Real estate sales	108,344	69,846
Residential		
Real estate sales	166,952	256,082
Rental revenue	14,429	27,002
	181,381	283,084
Total real estate sales and rental revenue	$447,406	$763,929

DAON DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

OCTOBER 31, 1983, AFTER GIVING EFFECT TO THE FINANCIAL RESTRUCTURING

23. Segmented Information (continued)

	1983	1982
	(in thousands of dollars)	
SEGMENTED OPERATING INCOME (LOSS) BY DIVISION:		
Commercial		
Real estate sales	$ (11,284)	$ 40,589
Rental revenue	38,068	36,819
	26,784	77,408
Land		
Real estate sales	(24,422)	(44,609)
Residential		
Real estate sales	1,926	(48,747)
Rental revenue	5,477	10,874
	7,403	(37,873)
Operating income (loss)	9,765	(5,074)
Unallocated corporate items (net)	(45,455)	(80,385)
Net loss	$ (35,690)	$ (85,459)
REVENUE BY GEOGRAPHICAL SEGMENTS:		
Canada		
Real estate sales	$ 37,881	$ 132,298
Rental revenue	39,963	41,455
	77,844	173,753
United States		
Real estate sales	320,952	529,597
Rental revenue	48,610	60,579
	369,562	590,176
Total real estate sales and rental revenue	$ 447,406	$ 763,929
OPERATING INCOME (LOSS) BY GEOGRAPHIC SEGMENTS:		
Canada		
Real estate sales	$ (14,160)	$ 6,404
Rental revenue	24,205	23,870
	10,045	30,274
United States		
Real estate sales	(19,620)	(59,171)
Rental revenue	19,340	23,823
	(280)	(35,348)
Operating income (loss)	9,765	(5,074)
Unallocated corporate items (net)	(45,455)	(80,385)
Net loss	$ (35,690)	$ (85,459)
ASSETS BY GEOGRAPHIC SEGMENTS:		
Real estate properties		
Canada	$ 561,214	$ 549,579
United States	1,007,075	1,135,561
	1,568,289	1,685,140
Corporate assets	340,028	501,803
Consolidated assets	$1,908,317	$2,186,943

24. Comparative Figures

Certain comparative figures have been reclassified to conform with the 1983 presentation. Loss and cash deficit per Common Share have been restated assuming Common Shares issued as stock dividends in fiscal 1982 have been outstanding since November 1, 1981.

25. Subsequent Events

(a) Approval of Financial Restructuring
On April 30, 1984, the conditions for the effectiveness of the Daon Canada and Daon U.S. Plans were satisfied. As substantially all the principal terms of the Financial Restructuring had been negotiated prior to October 31, 1983, subject to certain conditions to be satisfied, accounting adjustments resulting from the Financial Restructuring have been reflected in these consolidated financial statements as follows:

	Net Loss (in thousands of dollars)
Net loss as previously reported	$(90,742)
Recognition of effect of Financial Restructuring on interest expense (net of applicable income taxes)	55,052
Net loss as reported in these consolidated financial statements	$(35,690)

(b) The PUT Transactions
On March 29, 1984, Mr. Justice Meredith, of the Supreme Court of British Columbia, decided in legal proceedings brought by National Trust Company, Limited, that the security given by the Company for its obligation to purchase the Floating Rate Subordinated Debenture, Series A of Daon Corporation, (see Note 11), was in breach of the trust indenture under which the Series Debentures, Series C to K, were issued. The decision did not determine whether the money paid by the Company on account of its obligation to purchase the Debenture of Daon Corporation would be repayable by the Canadian chartered bank to which it was paid and if so, to whom. The chartered bank has appealed the decision. Until the matter is resolved, the Company will continue to treat the payment of $46,531,000 (U.S. $38,000,000) as a payment on account of its obligation to purchase the Debenture of Daon Corporation.

AUDITORS' REPORT

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, 1983 and 1982, and the related consolidated statements of operations, retained earnings, cash deficit from operations and changes in financial position for the years then ended, all after giving effect to the Financial Restructuring. Our examinations were 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, 1983 and 1982, and the results of their operations and changes in their financial position for the years then ended, all after giving effect to the Financial Restructuring, in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change (with which we concur) in the method of accounting for translation of investments in foreign operations as explained in Note 15 to the consolidated financial statements.

Arthur Andersen & Co.
Chartered Accountants

Vancouver, British Columbia
April 30, 1984

DAON DEVELOPMENT CORPORATION

CORPORATE DIRECTORY

Directors and Officers

Directors

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

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

Officers

Graham R. Dawson,
Chairman of the Board

James H. Findlay,
Senior Vice-President and Secretary

William H. Levine,
Executive Vice-President

Kenneth S. Pattenden,
Vice-President and Operations Controller

John W. Poole,
President and Chief Executive Officer

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

George C. Reifel,
Vice-President, Finance

June E. Vassos,
Assistant Secretary

Operating Management

Canada

Daon Development Corporation

James H. Findlay,
Senior Vice-President

Percy A. Ford,
Vice-President, Land (Northern Alberta)

H. Gordon MacKenzie,
Vice-President

Donald R. Milliken,
Vice-President, Shopping Centres

United States

Daon Corporation

Thomas J. Rielly,
Executive Vice-President

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

R. Chad Dreier,
Vice-President and Controller

Jonathan J. Feucht,
Vice-President, Residential Marketing

Daniel J. Liddiard,
Vice-President, Construction

William B. Seith,
Vice-President

T. Patrick Smith,
Vice-President, Commercial/Industrial

Corporate Offices

Daon Development Corporation

999 West Hastings Street
Vancouver, B.C. V6C 2W7

Branch offices in Calgary and Edmonton

Daon Corporation

#100 - 4350 Von Karman
Newport Beach
California 92660

Branch office in Seattle

Daon (Netherlands) B.V.

530 - 534 Keizersgracht
Amsterdam
The Netherlands

Auditors

Arthur Andersen & Co.

Transfer Agents and Registrars

Common Shares and 75¢ Class A Shares
National Trust Company, Limited

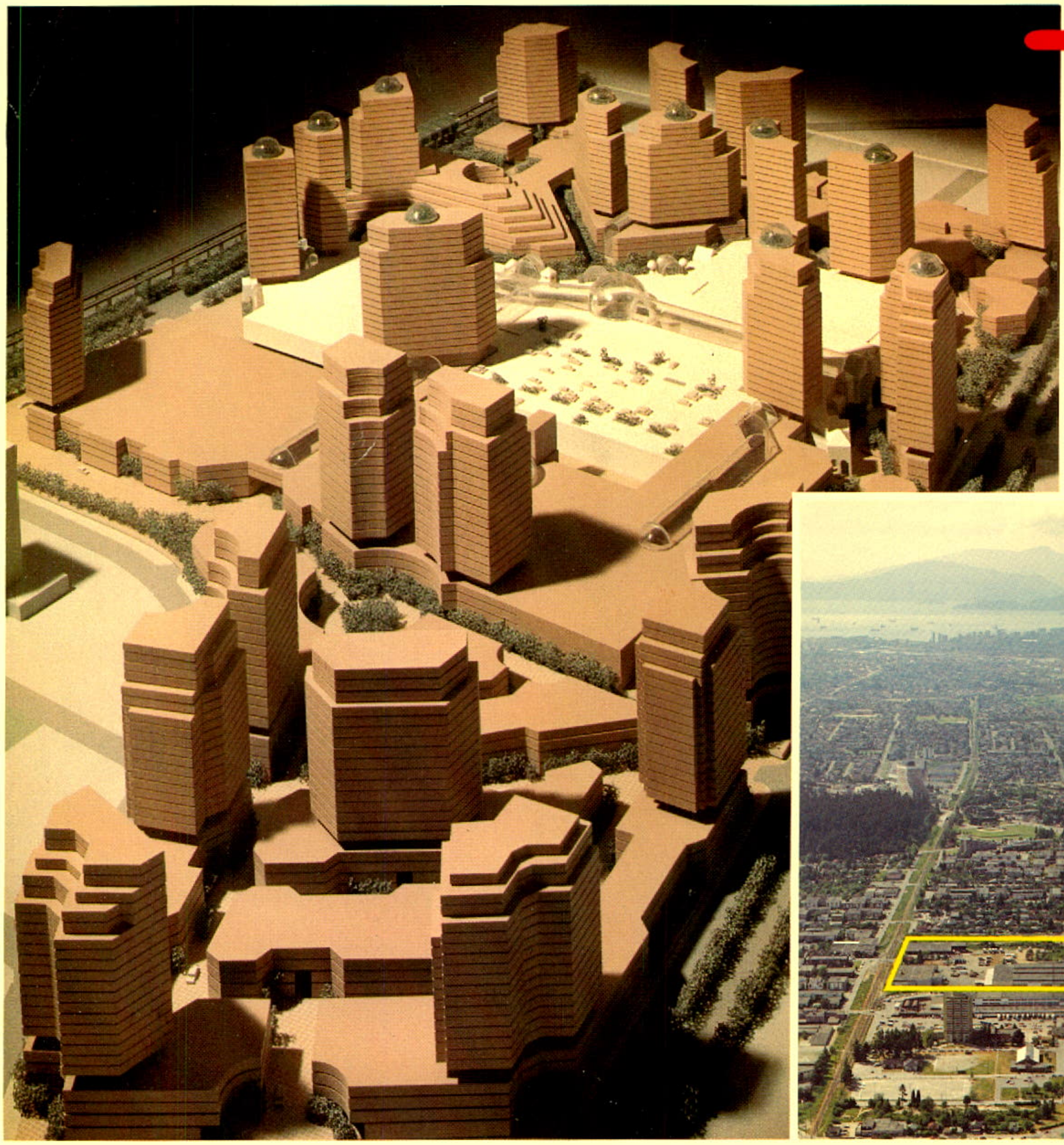
8⅝% Preference Shares, Senior Series A and 9½% Preference Shares, Senior Series B
The Canada Trust Company

Trustees for Debentures

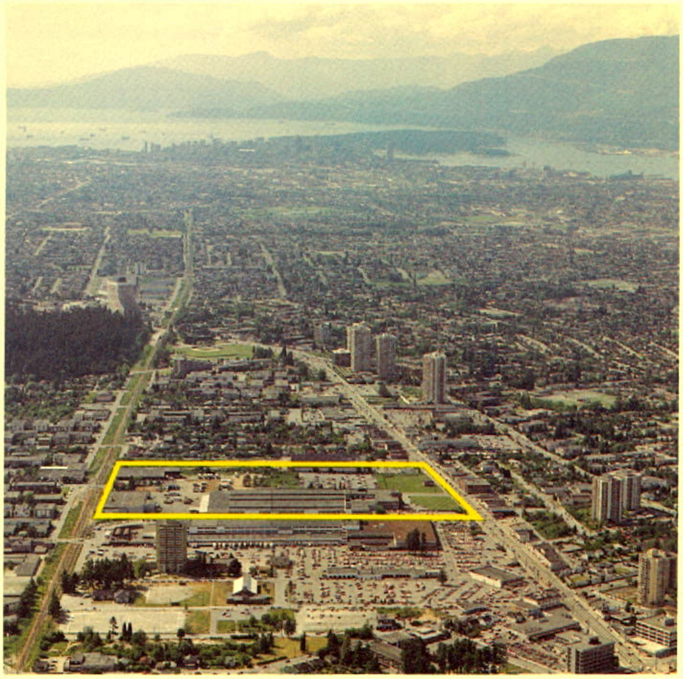
National Trust Company, Limited
Central Trust Company

Stock Exchange Listings

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



One of the Company's important current projects is Metrotown (model, left) a 4.7 million square foot commercial-residential development on 22 acres in the Vancouver suburb of Burnaby. The site (outlined below) is in the geographic centre of Metropolitan Vancouver.



Development is proceeding on Shadowridge, a 673-acre tract in north San Diego County, California. An 18-hole championship golf course is the focal point of the property, which the Company plans to develop over the next six years.

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