

MARKBOROUGH PROPERTIES INC.

ANNUAL REPORT 1987





Markborough Properties Inc. is a real estate development corporation carrying on business primarily in Canada and the United States.

Markborough participates in two areas of the real estate industry; the development, ownership and management of income-producing properties and the development of land for residential, retail, office and industrial uses. Continued growth in both areas is the corporation's long term objective.

Markborough has total assets of over \$1.4 billion. Approximately 60% of its portfolio is located in Canada and the balance is located primarily in the United States (Texas, Arizona, Florida, California, Nevada, Colorado and Ohio). Markborough owns or has an interest in 67 completed income properties comprising 16.5 million square feet of leasable area in shopping centres, office buildings and industrial properties and land holdings of over 12,100 acres.

Markborough is a wholly-owned subsidiary of Hudson's Bay Company.

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**FINANCIAL HIGHLIGHTS**

(thousands of dollars except where noted)

	1987	1986
OPERATING RESULTS FOR THE YEAR		
Revenue from income properties	\$ 148,213	\$ 154,443
Revenue from land and housing operations	90,558	123,594
Income (loss) before taxes	(170,527)	59,176
Net income (loss)	(88,220)	47,896
Net income (loss) per common share (note)	(\$9.26)	\$5.03

**FINANCIAL POSITION AT THE YEAR END**

Income properties	\$ 907,289	\$ 855,746
Land and housing	387,601	534,931
Mortgages payable	993,646	871,844
Bank indebtedness	118,180	118,385
Due to affiliated companies	6,491	86,303
Share capital	145,989	145,989
Contributed surplus and retained earnings	107,192	204,444

**STATISTICAL AT THE YEAR END**

Common shares outstanding	9,528,295	9,780,914
Ratio of income properties to land and housing	2.3 to 1	1.6 to 1
Ratio of debt to equity	4.4 to 1	3.1 to 1

Note: The amounts per common share for 1986 have been restated to reflect the number of common shares outstanding as at January 31, 1988.



## 1987 ANNUAL REVIEW

In the year ending January 31, 1988, the corporation recorded a net loss of \$88.2 million after giving effect to the impact of an after tax write-down of \$101.7 million. Obviously this result was extremely disappointing.

Community land sales and profits were below expectations in nearly all our U.S. locations, and in some locations were seriously depressed. Texas and Denver continue to be the areas most affected not only for us, but for the industry as a whole. These areas suffer from relatively little demand and considerable oversupply.

In reaction to results and markets in Texas and elsewhere, we carried out a major review of asset values resulting in a write-down of \$196.6 million before tax and \$101.7 million after



Neil R. Wood

tax. The largest part of the write-down was a reduction of net realizable value of land assets. A portion of the write-down was reserves for doubtful mortgages receivable in Houston, Austin and Boca Raton and another part related to the required cost of sales adjustment for prior sales to reflect the new estimates for project revenues and development costs.

This write-down was of course substantial and had a significant impact on the book equity of the corporation. However, Markborough remains financially strong and its ability to carry on a healthy and growing business is not impaired. Management believes the equity of the corporation at market value to be in excess of \$600 million after provision for taxes. We believe the market value of our land portfolio as a whole is greater than its written down book value.

While community land development results in the United States were disappointing, we had a very good year in land development in Canada, specifically at our Meadowvale project in Mississauga and at our Woodbine project in Calgary.

Our portfolio of income producing properties also performed well during the past year, particularly shopping centres and industrial buildings. The exceptions were office buildings in Denver and Las Vegas, which are not profitable because of weak demand coupled with an oversupply of office space.

During the past year, management of the corporation was reorganized into three main product groups, each headed by a Senior Vice President. These groups are Shopping Centres, headed by George Schott; Urban Development, including office and industrial property, headed by David Burstow; and Community Development, for which the Senior Vice President is John Temple. All three of these Senior Vice Presidents, who have joined the corporation during the past year, have substantial experience at very senior management positions with other major companies in our industry. This reorganization and new management will enable us to bring stronger more effective direction to all of our business activity.

At our present book value, approximately 30% of our property assets are deployed in land development, and 70% in income properties. We consider this to be a healthy balance and we intend to maintain a position close to this ratio.



During the past year, notwithstanding unsatisfactory earnings, progress has been made. Expansions have been completed successfully in three shopping centres in which the corporation has substantial financial interests and expansions are under way in three others. The corporation purchased a regional shopping centre in the Vancouver area, Surrey Place, which will likely be expanded and re-merchandised. Plans are being formulated for expansion and renovation of a number of other malls owned or jointly owned by Markborough. Plans are also being formulated for new office and industrial developments, mainly in the Toronto area, and on a site owned by our parent company in London, England. Other markets are also being considered.

Our largest single undertaking is the development of approximately three acres of land in downtown Toronto in the area bounded by Adelaide, Richmond, Yonge and Bay Streets. This development is a joint venture with Trizec Corporation Ltd. Conceptual plans are substantially complete and we are in the process of negotiating approval of our plans with the City of Toronto. Subject to this approval, we expect to commence construction late in 1988, and complete the project in 1991. It will be an income property of the highest quality in one of North America's premier locations.

During the past year our joint venture office building in Washington, D.C. was sold. It is not our policy in general to sell income properties and in fact we wish to build up our portfolio of such properties. However at the price offered, it was not an attractive investment for us to hold. The buyer was a Japanese financial institution.

We have two broad objectives in the coming year. In the community development field, much attention will be given to strengthening our marketing activity and increasing our effectiveness in competitive market conditions. In both urban development and shopping centres we will be concentrating on new development opportunities. We are in the process of further enhancing our management team to achieve these objectives.

Mr. Donald F. Prowse, Executive Vice President, and one of our Directors, retired in October after a career of more than 21 years with the corporation. We acknowledge his important contribution to the growth of Markborough and shall miss him as a member of our senior management team. Mr. John A. Brough, Senior Vice President and Chief Financial Officer of the corporation replaced Mr. Prowse on the Board.

Also in the past year, personnel changes at Hudson's Bay Company led to the resignations from the Board of Messrs. D. W. Mahaffy and T. I. Ronald. Mr. Stuart S. Jardine also resigned from the Board, as he will no longer be resident in North America. To these former Directors we express our thanks for their contribution and counsel and wish them well in their future activities.

Mr. Gary J. Lukassen, Senior Vice President, Finance and Administration of Hudson's Bay Company has been elected a Director. The size of the Board is now ten, two less than it was a year ago.

Our employees are loyal and dedicated and have given excellent service to the corporation during the year. On behalf of the Board of Directors, I would like to express thanks to all of them.



Neil R. Wood  
Chairman, President and  
Chief Executive Officer



## SHOPPING CENTRES

In 1987 the Shopping Centre Division completed the expansion of three centres, acquired a major regional shopping centre, reorganized its management structure and commenced planning for seven other improvement projects.

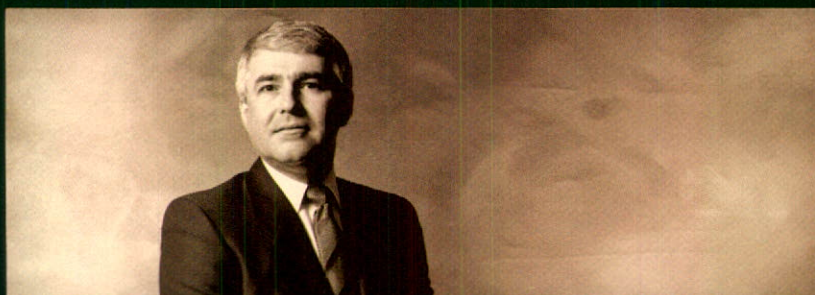
Operating profit for the year was \$78.3 million compared to \$78.1 million achieved in 1986 on a larger base of properties. Our asset disposal program was essentially completed in 1986 with the sale of six wholly owned centres and equity interests in three joint venture centres. Excluding results from these centres as well as new and expanded centres, 1987 operating profit increased 4.4% over the previous year on a property by property basis.

Three major expansions were completed in 1987. A 63,000 square foot expansion of ancillary retail space in our dominant Place du Royaume Centre in Chicoutimi, Quebec was completed in the

year. Place Vertu in Montreal was also expanded through the addition of a Pascals hardware store and 20,000 square feet of ancillary retail space to the unanchored end of the mall. Together with the Bay, Sears and K-Mart this centre has a wide variety of merchandise and a well designed configuration which will further strengthen our position in the west Montreal market. Finally, at Market Mall, an entire renovation and expansion of the existing centre was finished, resulting in an addition of 85,000 square feet of ancillary retail space. A new merchandising layout was also introduced. Early sales results show that this mall is capturing additional market share in northwest Calgary. Later this year a new Brettons store will open and this should have a further positive impact on operating results.

Scheduled to open in 1988 as the first of three major ongoing expansions is a complete renovation of and 120,000 square foot addition to Calgary's Southcentre. As with Market Mall the centre has been completely refurbished with new flooring, skylights and a food court. The new selection and arrangement of retailers will help in maintaining the dominance of this centre in the face of new competition developing to the south.

A full sized hockey rink and amusements including a roller coaster and a miniature golf course form part of an expansion to Les Galeries de la Capitale in Quebec City which will open early in 1988. These features and the addition of 43,000 square feet of ancillary retail space are expected to repeat the experience at Woodbine Centre in Toronto and increase the draw of this centre across the city.



George S. Schott  
Senior Vice President,  
Shopping Centres





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A renovated and expanded Fairview Pointe Claire has continued to hold its position as the dominant regional shopping centre in West Montreal.



New Bay and Simpsons department stores at Fairview Mall in Toronto were opened in 1987 and the addition of 284,000 square feet of further retail space will open later in 1988. The improved merchandise selection and new decor will enable this centre to compete effectively in one of the most stable and affluent markets in North America.

In December 1987 the corporation acquired Surrey Place shopping centre in Surrey, British Columbia. Anchored by the Bay, Sears and Zellers this centre comprises 550,000 square feet of gross leasable area and is well located on the major highway in the fastest growing suburb of Vancouver. We expect to proceed with a first phase expansion of this centre later this year.

In 1987 the Shopping Centre Division was reorganized into four groups (development, operations and marketing, leasing, and design and construction) and where necessary, these groups were

strengthened with the addition of experienced personnel.

It is our intention in 1988 to employ the cash flow generated by our portfolio to more actively and aggressively pursue redevelopment schemes and acquisitions in an increasingly competitive market. In this regard, planning is presently underway for the joint redevelopment of our Richmond Centre in British Columbia and adjacent properties owned by others to create an expanded and renovated regional shopping centre of 750,000 square feet in which the corporation will have a substantial interest. Construction is expected to start late this year. In addition, work is progressing on expansion plans for seven other centres with expected construction starts in 1989 and 1990.







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Achieving active community involvement has been one of the primary objectives at Rutherford Mall in Nanaimo, British Columbia. The Rutherford Playhouse has been successful in attracting community organizations by providing warm, friendly and functional facilities. Shown opposite is Cloverdale Mall which has successfully adapted to changing community needs and tastes by providing current lifestyle fashion boutiques in a pleasant, convenient environment.



## URBAN DEVELOPMENT

The mandate of the Urban Development Division which was formed in 1987 is threefold, namely: the management of office, industrial, hotel and mixed-use assets, the development of new income properties in these categories and finally, the development and sale of industrial lands.

The Urban Development Division is responsible for the provision of property management services to a portfolio of properties located throughout North America (as well as a project in London, England) that includes 10 office/mixed-use properties, 22 industrial buildings, 2 residential apartment buildings and 1 hotel. We have a knowledgeable and experienced in-house property manage-

ment team that makes a fundamental contribution to our success not simply in terms of maximizing return and growth, but also in terms of planning future development projects. Being able to draw upon the prop-

erty managers' perspective in the planning stages of new developments helps to ensure our projects will be more marketable, competitive and manageable by reason of the use of cost efficient and advanced building technology.

Priority in coming years will be placed on the creation and retention of new income properties. Our efforts will be concentrated in a relatively small number of major markets having a track record of, and continued prospects for, stability and growth. Within these markets, premier locations that offer better than ordinary potential for additional increases in value will be targetted. The recently completed 189,000 square foot Royal Bank of Canada Centre (formerly Beaver House) located above the Mansion House subway station in the City of London and the approximately 1.9 million square foot Bay/Adelaide project (now at the approval stage) located in Toronto's financial core are illustrative locations. These are vibrant markets, along with Washington, D.C. among others, in which the corporation is studying future developments.

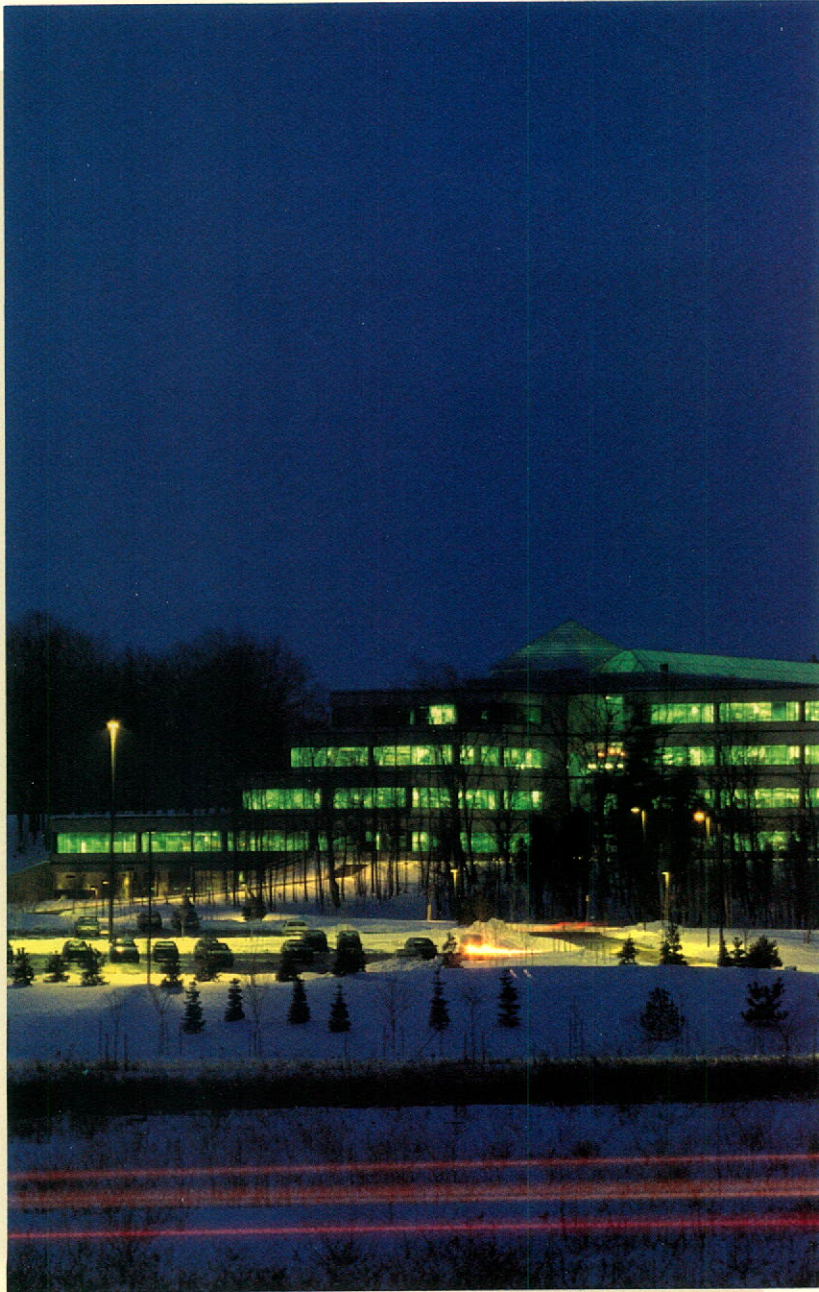
The market for space within the confines of the City of London has been particularly buoyant since the onset of deregulation in British financial circles and remains so. The corporation has in place, in London, management that has proven itself with the successful completion of the Royal Bank of Canada Centre project and studies are in hand relating to the development of the Bull Wharf freehold site located between the Thames River and Upper Thames Street within the City.

The Bay/Adelaide project will be the corporation's flagship development. This first class quality project will encompass development over two separate city blocks in the core area with the main portion of the development occurring in the south block where a planned tower of approximately 55 storeys will be located. Building plans calling for a uniform floor plate of 30,000 square feet (as well as a



David H. Burstow  
Senior Vice President,  
Urban Development





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The opening of General Electric Canada's award winning corporate headquarters in 1987 further established Meadowvale as one of North America's more prestigious business park locations.



double height 50,000 square foot trading floor) have prompted strong interest from prospective major tenants. The north block of the project will consist of low-rise office development with appropriate streetscape features designed to blend with and complement a refurbished exterior treatment for the south side of the Simpsons department store located on Richmond Street. There is provision as well for nearly 200,000 square feet of retail space. The project will be totally integrated underground and through connections with the Scotia Plaza development to the south and Simpsons to the north, will form an integral part of downtown Toronto's underground concourse system. This development is occurring on the last major piece of property remaining in the heart of the city's financial core and it will become a significant feature of downtown Toronto's skyline.

The third undertaking of the Urban Development Division is to develop and sell serviced industrial land. Our cornerstone project in this endeavour continues to be Meadowvale in Mississauga, Ontario. In 1987 approximately 78 acres were sold in this project for a value in excess of \$17 million. As well, the design/build group completed eight projects in the past year having a gross leasable area exceeding 265,000 square feet. Our inventory of serviced industrial lands in Meadowvale is now 40 acres, with approximately 367 acres yet to be serviced to complete this most successful trend setting development. Land sales and the design/build group generated record revenues and profits as land prices in the greater Toronto area continued to rise. Projects located in Brampton and Burlington, Ontario were

similarly beneficiaries of rising markets with sales of over 31 acres being generated and producing revenues in excess of \$3 million. Industrial land development and design/build efforts will con-



continue to be concentrated in the greater Toronto market area. Quality product will be the objective with individual development projects varying in size between 50 and 200 acres. Purchases of additional strategically located lands in Oakville and the Town of Vaughan are planned to complement our industry acknowledged leadership. It is our intention to expand our relatively modest portfolio of industrial buildings. There are presently no vacancies in the portfolio. As well it is our intention to construct and retain office sites within the Meadowvale Business Park.

In the year ahead, we face challenges with respect to oversupplied office markets in Denver and Las Vegas. However, our properties are competitive in these local markets and offer first class quality and good location. We have other development challenges and opportunities to be met and explored in various locations in North America and we approach these challenges with confidence thanks to capable people and committed financial resources.





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Her Majesty Queen Elizabeth officially opened the two buildings comprising the Royal Bank of Canada Centre in London, England on March 23, 1988 and is shown opposite signing the guest book in the banking hall. A prominent feature of the main building is the portico of the Beaver House building which had formerly stood on the site.



## COMMUNITY DEVELOPMENT

In June, 1987 Markborough Communities Inc. was formed and assumed management responsibility for the corporation's residential development assets and investments in eleven master-planned communities located in the United States and Canada. These master-planned communities are in various stages of planning and development, from inception to near build-out and represent one of the largest and most diversified portfolios of its type in North America.

An in depth valuation review of these assets located in the United States was undertaken by management in the latter part of 1987. New financial projections were made based upon current and future economic forecasts with special consideration being given to the major reversals that have occurred in recent years in energy dependent marketplaces. While our new communities are all well located and well planned, the underlying net realizable values of some, particularly in energy dependent areas, were less than their book value and write-downs were taken on these projects.

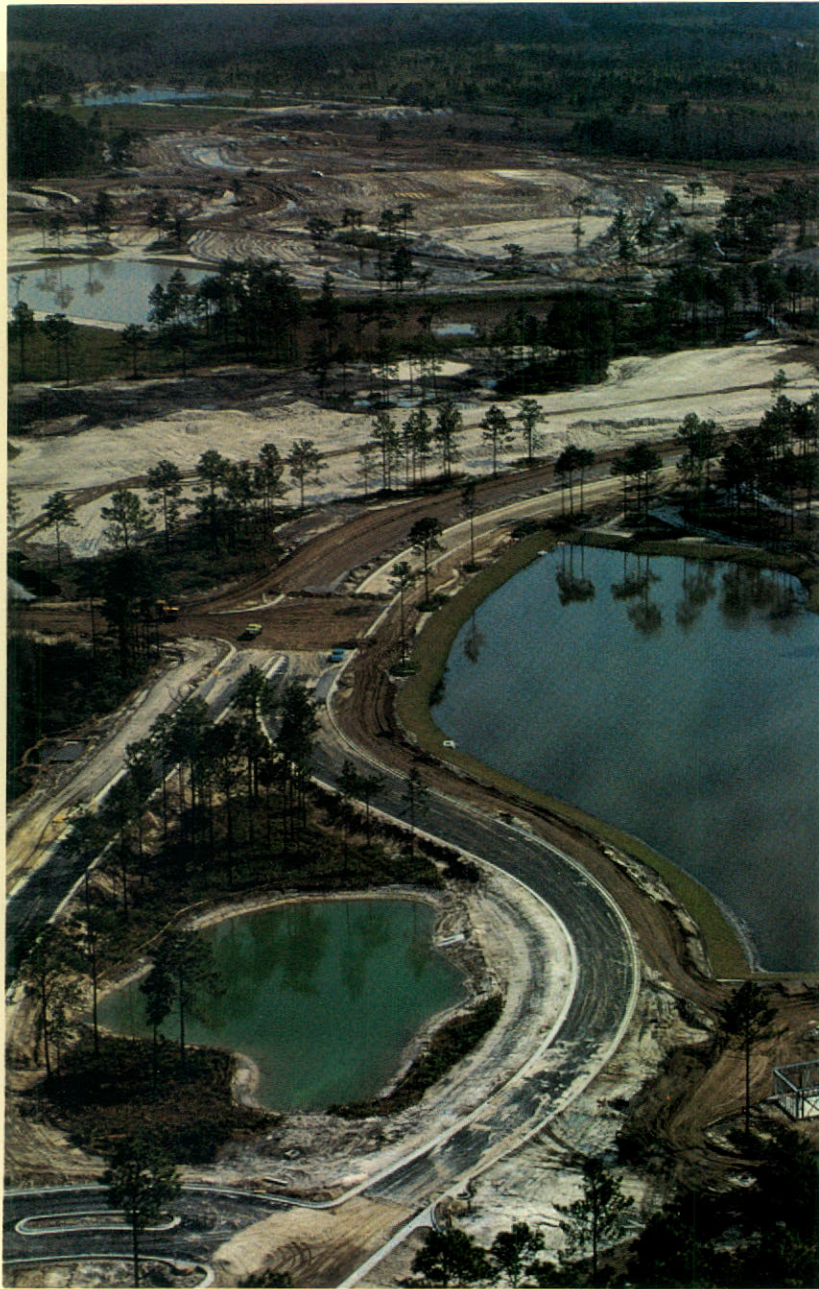


John W. Temple  
Senior Vice President,  
Community Development

Notwithstanding the accounting recognition of this loss in value, good progress was made on many of our communities in 1987. Boca Pointe led Florida in new home activity for the second consecutive year with over \$100 million in new home annual sales. Hunter's Green, our new 2,000 acre community in Tampa, broke ground and closed its first sales to builders this past year. The golf course at the Stonebriar Country Club in Dallas has been completed and the first lot sales to builders as well as residential sales to homeowners have also closed. Harris Branch in Austin broke ground and the city approved a \$700 million bond issue for a new airport four miles east of our development which is strategically located between downtown and this new facility. At Sunnymead Ranch in Riverside California, 565 new homes were sold making it the leading project in its marketplace. Finally, Woodbine in Calgary had its best sales year ever.

There is no question but that properly located and executed master-planned communities provide a better quality of life than is found in conventional subdivisions. A master-planned community typically features a comprehensive land plan, environmental sensitivity, extensive landscaping, distinctive entryways, recreational amenities, appealing streets with underground utilities, attractive architecture, a wide variety of product types and styles, professional marketing techniques and homeowners' associations for management and maintenance. A master-planned community fosters camaraderie and lasting social relationships in a personal hometown environment. These community dynamics contribute to a perceived overall sense of community, a firm foundation for protection of property values and peace of mind for property owners. Hence, master-planned communi-





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The first sales to builders in the Hunter's Green community in Tampa, Florida closed in 1987. Having met stringent environmental guidelines, this development became only the second project to be given the Quality Development designation by the State of Florida.



ties have enjoyed and will continue to enjoy a disproportionate share of real estate market activity during both flush and lean times.

Markborough's community development strategy is straightforward: to create superior living and working environments and compete head-to-head with master-planned communities in each of its market areas. This will be done by combining the best consultants and outside resources available with experienced in-house teams of development and marketing professionals. Markborough's emphasis will be on the qualitative aspects of how communities are put together and how they work, rather than simply satisfying a checklist of criteria for a master-planned community. Through creativity and product excellence, Markborough is and intends to remain one of the premier developers of master-planned communities in North America.

The corporation has the financial resources and corporate integrity to undertake long-term development projects and to make and keep development and operating commitments to residents, governmental agencies and neighbouring landowners. This provides a distinct competitive advantage in the marketplace. Also, since the corporation operates in widely separated geographical areas (presently in 5 states and 2 provinces), its community development organizational structure is decentralized and entrepreneurially-oriented, with a small corporate staff which oversees strategic considerations, business and financial planning and company policy. With this business approach and management style, the corporation can maintain a global perspective while reacting to shifts in local marketplaces and responding decisively to new business opportunities.

Our action plan recognizes that the U.S. economy may weaken or even experience a recession in late 1988 or in 1989, perhaps preceded by somewhat higher inflation and interest rates. This



possible combination of economic factors does not bode well for the real estate industry over the short term, particularly in states dependent upon the oil industry. Our overall strategy is to strengthen our marketing programs and give them a corporate identity. Our Harris Branch (Austin), New Territory (Houston) and Hunter's Green (Tampa) projects will be positioned and promoted as comprehensive planned master communities under the signature label "A Markborough Community". At the same time, to be able to contract quickly in the face of an economic downturn and not be over extended in capital investment and human resources, a disciplined approach will be applied to feasibility reviews and proposed capital expenditures. Investment decisions will be strictly related to cash requirements and availability, risk factors and acceptable returns.





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One of the reasons for the success of the Boca Pointe community in Boca Raton, Florida was the provision of amenities such as a championship golf course during the first phase of development. Shown opposite is the Daniel C. Gainey Estate Club, the focal point of social activities at Gainey Ranch in Scottsdale, Arizona.





- ◆ SHOPPING CENTRES
- OFFICE AND MIXED-USE PROPERTIES
- REGIONAL OFFICES
- ★ INDUSTRIAL BUILDINGS
- ◀ RESIDENTIAL AND HOTEL PROPERTIES
- ✕ LAND HELD FOR, AND UNDER DEVELOPMENT



# SHOPPING CENTRES

SHOPPING CENTRES	Year Opened	Number of Stores	Gross Leaseable Area (Square Feet)			Markborough's Interest	
			Total <sup>(1)</sup>	Anchors	Ancillary Stores	%	G.L.A.
REGIONAL SHOPPING CENTRES							
Les Galeries D'Anjou, Montreal, Quebec	1968	172	1,159,000	598,000	561,000	50%	597,500
Fairview Pointe Claire, Montreal, Quebec	1965	188	895,000	478,000	417,000	50%	447,500
Les Galeries de la Capitale, Quebec City, Quebec	1981	180	857,000	502,000	355,000	25%	214,250
Market Mall, Calgary, Alberta	1971	142	846,000	491,000	355,000	50%	423,000
Place Vertu, Montreal, Quebec	1975	179	813,000	443,000	370,000	25%	203,250
Southgate, Edmonton, Alberta	1970	135	780,000	563,000	217,000	40%	312,000
St. Vital, Winnipeg, Manitoba	1979	126	694,000	445,000	249,000	25%	173,500
Southcentre, Calgary, Alberta	1974	146	642,000	370,000	272,000	50%	321,000
Woodbine Centre, Toronto, Ontario	1985	180	610,000	314,000	296,000	40%	244,000
Fairview Mall, Toronto, Ontario	1970	130	576,000	294,000	282,000	50%	288,000
Surrey Place, Vancouver, British Columbia	1972	108	550,000	374,000	176,000	100%	550,000
MicMac Mall, Dartmouth, Nova Scotia	1973	154	530,000	259,000	271,000	100%	530,000
Unicity Mall, Winnipeg, Manitoba	1975	80	471,000	309,000	162,000	33 1/3%	157,000
Kildonan Place, Winnipeg, Manitoba	1980	86	449,000	280,000	169,000	40%	179,600
Oakville Place, Oakville, Ontario	1981	105	431,000	262,000	169,000	49%	211,190
Cataraqui Town Centre, Kingston, Ontario	1982	106	405,000	246,000	159,000	50%	202,500
COMMUNITY SHOPPING CENTRES							
Cloverdale Mall, Etobicoke, Ontario	1956	111	453,000	235,000	218,000	100%	453,000
Meadowvale Town Centre, Mississauga, Ontario	1978	98	369,000	184,000	185,000	100%	369,000
Mayflower Mall, Sydney, Nova Scotia	1980	70	366,000	242,000	124,000	50%	183,000
Rutherford Mall, Nanaimo, British Columbia	1980	79	358,000	226,000	132,000	100%	358,000
St. Albert Centre, St. Albert, Alberta	1980	66	325,000	238,000	87,000	100%	325,000
Woodside Square, Scarborough, Ontario	1977	71	282,000	158,000	124,000	50%	141,000
Place du Royaume, Chicoutimi, Quebec	75+ 1977	126	256,000	83,000	173,000	25%	64,000
West End Mall, Halifax, Nova Scotia	1975	49	238,000	116,000	122,000	50%	119,000
Richmond Centre, Richmond, British Columbia	1973	65	223,000	113,000	110,000	100%	223,000
Lloydmall, Lloydminster, Alberta	1974	48	190,000	120,000	70,000	100%	190,000
Champlain Mall, Vancouver, British Columbia	1973	44	185,000	118,000	67,000	100%	185,000
Carrefour Gaspé, Gaspé, Quebec	1980	31	135,000	84,000	51,000	10%	13,500
Thunderbird Mall, Port Hardy, British Columbia	1981	39	90,000	54,000	36,000	100%	90,000
NEIGHBOURHOOD SHOPPING CENTRES							
3 Centres in various provinces		129	243,000	55,000	188,000	50-100%	187,500
		3,243	14,421,000	8,254,000	6,167,000		7,955,290
EXPANSIONS UNDER CONSTRUCTION							
Fairview Mall, Toronto, Ontario		140	284,000		284,000	50%	142,000
Southcentre, Calgary, Alberta		78	120,000		120,000	50%	60,000
Les Galeries de la Capitale, Quebec City, Quebec		31	43,000		43,000	25%	10,750
		249	447,000		447,000		212,750

<sup>1</sup>Includes 94,000 square feet of office space in Market Mall.



OFFICE AND MIXED-USE PROPERTIES

	Year Opened	Net Leaseable Area (Square Feet)	Markborough's Interest % N.L.A.	
CANADA				
Toronto, Ontario				
Markborough Place	1979	134,000	100%	134,000
Meadowvale				
Professional Centre	1981	33,000	100%	33,000
Other (3)	Various	30,000	100%	30,000
Edmonton, Alberta				
Principal Plaza	1980	420,000	25%	105,000
UNITED STATES				
Denver, Colorado				
Hudson's Bay Centre	1984	167,000	100%	167,000
Las Vegas, Nevada				
Greystone	1982	131,000	100%	131,000
Greystone, Phase 2	1986	68,000	100%	68,000
UNITED KINGDOM				
London, England				
Royal Bank of Canada Centre	1987	189,000	50%	94,500
			1,172,000	762,500

INDUSTRIAL BUILDINGS		Leaseable Area (Square Feet)	
WHOLLY-OWNED BUILDINGS		Net	Markborough's Interest
Toronto, Ontario (8 buildings)		376,500	376,500
Phoenix, Arizona (3 buildings)		141,900	141,900
		518,400	518,400
JOINTLY-OWNED BUILDINGS (50%)			
Toronto, Ontario (11 buildings)		485,000	242,500
		1,003,400	760,900

RESIDENTIAL AND HOTEL PROPERTIES

APARTMENT BUILDINGS	
(Markborough's Interest is 50%)	
Number of Rental Units	
49 Thorncliffe Park, Toronto	
53 Thorncliffe Park, Toronto	
HOTELS	
(Markborough's Interest is 100%)	
Number of Rooms	
Delta Meadowvale Inn, Mississauga	

LAND HELD FOR AND UNDER DEVELOPMENT

	Year(s) of Acquisition	Original Acreage	Total Remaining Acreage	Markborough's Interest % Total Remaining Acreage	
CANADA					
Ontario					
Meadowvale	1972/85	2,905	790	100%	790
Other	Various		591	100%	591
Alberta					
Woodbine	1976	634	139	100%	139
Other	1984		307	100%	307
Other	Various		52	100%	52
			1,879		1,879
UNITED STATES					
Arizona					
Gainey Ranch	1980	562	360	100%	360
Other	Various		19	100%	19
California					
Sunnymead Ranch	1980	1,366	193	100%	193
Other	Various		156	100%	156
Colorado					
Hunter's Glen	1986	325	273	80%	218
Trailside	1986	150	150	80%	120
Florida					
Hunter's Green	1985	1,980	1,881	100%	1,881
Boca Pointe	1979	1,019	200	100%	200
Texas					
New Territory	1984	3,082	2,994	80%	2,395
Harris Branch	1986	2,153	2,153	80%	1,722
Stonebriar	1986	836	766	50%	383
Northchase	1980	487	263	82%	216
Vicksburg	1982	411	215	80%	172
Hardy Plaza	1985	128	128	80%	102
Harvest Bend	1977	599	40	80%	32
Other	Various		481	80%	385
Other	Various		15	100%	15
			10,287		8,569
			12,166		10,448



## FINANCIAL COMMENTARY

### FINANCIAL HIGHLIGHTS

Results for the year ended January 31, 1988 reflect management's decision to take substantial write-downs in the corporation's land and related assets in the United States, particularly those located in Texas. These write-downs, which amounted to \$196.6 million before tax and \$101.7 million after tax, had the effect of reducing net income from \$13.5 million before this provision to a net loss of \$88.2 million.

As a result of depressed markets in certain areas of the United States, particularly in Texas, management carried out a detailed review of the corporation's entire United States land portfolio in the third quarter, supported where necessary by independent real estate market analyses. The evaluations were done generally using a discounted cash flow

approach, which considers the expected timing of the development and sale of residential lots and commercial acres and discounts the resulting cash flow from these projected revenues and costs using an anticipated cost of debt. In addition, certain portions of our Texas land holdings were valued on an "as-is" basis as they may be sold undeveloped in an orderly fashion over the next few years. Where the resulting net realizable value was found to be less than the current book value, a provision was made for loss in value. The evaluations included land held as security for mortgage receivables. While the majority of the provision relates to property in Texas, certain land assets in Florida, Arizona, California and Colorado were also impacted. Our substantial income property portfolio of primarily Canadian shopping centres and commercial buildings, as well as our Canadian land holdings, were not affected by this provision for loss in value.

Management believes that the values established as a result of these write-downs represent a realistic base from which profitability can be restored to the corporation's land development operations in the United States. The projections are based upon a realization of values through orderly development and sale. Immediate disposal of the partially developed or undeveloped land and other assets at current market prices, which are generally depressed, would not necessarily result in the same realization of values. Management considers, however, that the aggregate current market value of the corporation's Canadian and U.S. land properties are greater than their written-down book value.

These provisions for loss in value result in a reduction of the corporation's book equity to slightly over \$250 million as at January 31, 1988. Management estimates, however, that based on income property appraisals as at January 31, 1987 (the most current appraisals presently available), the value of the current income property portfolio would be over \$450 million in excess of its book value, before any tax on this unrealized excess, and over \$350 million after tax.



John A. Brough  
Senior Vice President and  
Chief Financial Officer



## OPERATING RESULTS

Income before tax and write-downs was \$26.1 million and consisted of a \$7.4 million gain from sale of income properties and \$18.7 million from operations, compared to \$67.3 million from income property sales and \$7.6 million from operations in 1986. This \$11.1 million improvement in income from operations is due in part to the continuing growth in net earnings after interest from the corporation's income property portfolio, despite the disposal of 14 properties in the last quarter of 1986. In addition, earnings from land operations recovered somewhat from 1986, when the disposal of the corporation's interest in a 3,000 acre project resulted in a substantial loss.

Cash flow from operations excluding the effect of the provision for loss in value and the cash flow generated from the sale of income properties was \$30.0 million in 1987 compared to \$20.6 million in 1986. Cash flow generated from the sale of income properties, since it is not derived from a regular part of the activities of the corporation, is excluded from the determination of cash flow from operations. Total operating activities generated cash of \$125.4 million. In addition, income property sales produced \$62.4 million in cash resulting in \$187.8 million of total cash available for reinvestment.

Operating profit from the income property portfolio was up marginally to \$93.3 million from \$93.1 million in 1986. However, the sale of income properties, particularly in late 1986, had the effect of reducing operating profit compared to last year by \$9.4 million. New or expanded properties accounted for a \$6.1 million increase while the existing portfolio's operating profit increased by \$3.5 million (4.6%) over last year. This was a particularly positive result given the dislocation costs incurred during major expansions at three regional centres in which the corporation has interests. These expansions, together with the inherent growth from lease renewals and percentage rents in the shopping centre portfolio, are expected to result in further improvement in operating profits in 1988. In addition, a full year's operations from our successful office building in London, England will increase operating results from this source. Shopping centres generated over 80% of the income property portfolio profits.

We have pursued a rationalization policy over the last three years and have sold income properties that did not meet our investment criteria. In 1986, the corporation disposed of 14 income properties for a pre-tax gain of \$67.3 million. The rationalization process is now complete and this year interests in only two income properties were sold to third parties, an office building in Washington, D.C. and a community shopping centre in Saskatchewan. The \$10.0 million gain on these sales was offset partially by a \$2.6 million expected loss on the sale of the corporation's interest in an office building in Edmonton which we have agreed to sell and which will close in 1988.

Although many of our land operations were negatively impacted by poor sales due to market conditions as well as some cost increases, certain land operations produced very good results in 1987. Meadowvale industrial land sales and profits reached record highs, while the first sales in our new community project in Tampa occurred. In addition, both sales and profits in Woodbine, our almost completed Calgary community development, significantly exceeded last year's results.



## FINANCIAL POSITION

The corporation's investment in income properties continued to grow through the acquisition and development of new properties and the expansion of existing properties. In spite of disposals having a cost of \$55.0 million, the net book value of the income property portfolio increased to \$907.3 million from \$855.7 million in the previous year. Included in income properties are completed buildings, buildings under construction and sites on which the corporation is planning to develop income producing properties for retention in its portfolio.

The significant decline in land under and held for development, from \$534.9 million to \$387.6 million, is primarily the result of the \$162.0 million write-down recorded against these assets in the third quarter. The remainder of the \$196.6 million write-down, or \$34.6 million, was a provision against loss in value of mortgages receivable secured by land. In response to poor market conditions in certain areas, acquisition and development activity has also been curtailed.

Based on book value, 70% of the corporation's total property assets are in income properties, while 30% are in land, compared to 62% and 38% respectively last year. Based on market values, the income property percentage would increase to almost 80%.

Of total indebtedness of \$1,118.3 million as at January 31, 1988, fixed rate debt amounted to \$621.3 million (56% of the total) compared to floating rate debt of \$497.0 million. Fixed rate debt represented 64% of the total at the end of the previous year. The decline in the proportion of fixed rate indebtedness reflects partly the repayment of \$79.8 million of 13.5% fixed rate indebtedness to the parent company. In 1986 the corporation took advantage of favourable capital markets to extend the term on its debt at relatively low, fixed rates of interest. However, due to increases in long-term interest rates during much of 1987, management decided to defer further fixed rate financing. Rates have declined in recent months, however, and the corporation is currently proceeding with fixed rate financings on income properties, consisting of mortgages, bonds, secured debentures as well as bank term loans coupled with various interest rate exchange agreements. The corporation also maintains extensive credit lines with its bankers, of which a significant portion is undrawn, in order to provide short-term financial resources for new projects as well as for general operating purposes.



## CONSOLIDATED STATEMENT OF OPERATIONS

Year ended January 31, 1988

	This Year	Last Year
	(000's)	(000's)
Revenue from income properties	\$ 148,213	\$154,443
Less:		
Operating expenses	34,888	39,099
Realty taxes	20,046	22,286
Operating profit from income properties	93,279	93,058
Revenue from land operations	82,197	107,149
Less:		
Cost of sales	76,068	112,428
Provision for loss in value (Note 2)	196,600	15,691
Loss from land operations	(190,471)	(20,970)
Revenue from housing operations	8,361	16,445
Less cost of sales	8,070	14,757
Profit from housing operations	291	1,688
Interest and other income	13,667	17,978
Gain on sale of income properties	7,439	67,304
Income (loss) before the undernoted items	(75,795)	159,058
Interest expense (Note 3)	60,047	66,098
Depreciation on income properties	13,109	13,339
General and administrative expenses	21,576	20,445
Income (loss) before income taxes	(170,527)	59,176
Provision for (recovery of) income taxes (Note 4):		
Current	1,700	344
Deferred	(84,007)	10,936
	(82,307)	11,280
Net income (loss) for the year	\$ (88,220)	\$ 47,896
Earnings (loss) per share (Note 5)	\$ (9.26)	\$5.03

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended January 31, 1988

	This Year	Last Year
	(000's)	(000's)
Retained earnings at beginning of the year	\$ 56,006	\$ 178,382
Net income (loss) for the year	(88,220)	47,896
Premium on repurchase of common shares	—	(102,246)
Dividends paid on common shares	(16,764)	(68,026)
Transfer from contributed surplus (Note 11)	48,978	—
Retained earnings at end of the year	\$ —	\$ 56,006



# CONSOLIDATED BALANCE SHEET

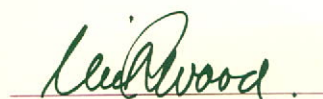
January 31, 1988

ASSETS	This Year	Last Year
	(000's)	(000's)
Income properties (Note 6)	\$ 907,289	\$ 855,746
Land and housing under development	235,287	263,877
Land held for development	152,314	271,054
Accounts receivable	37,553	40,473
Mortgages and other secured receivables (Note 7)	120,691	180,013
Prepaid expenses and other assets	28,837	21,973
	<b>\$1,481,971</b>	<b>\$1,633,136</b>

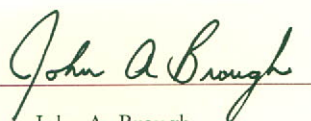
## LIABILITIES AND SHAREHOLDER'S EQUITY

Mortgages payable (Note 8)	\$ 993,646	\$ 871,844
Bank indebtedness (Note 8)	118,180	118,385
Due to affiliated companies (Note 8)	6,491	86,303
Accounts payable and accrued liabilities (Note 9)	70,238	75,998
Deferred income taxes	40,235	130,173
	<b>1,228,790</b>	<b>1,282,703</b>
Capital stock (Note 10)	145,989	145,989
Contributed surplus (Note 11)	107,192	148,438
Retained earnings	—	56,006
	<b>253,181</b>	<b>350,433</b>
	<b>\$1,481,971</b>	<b>\$1,633,136</b>

Approved by the Board:



Neil R. Wood,  
Director



John A. Brough,  
Director

## AUDITORS' REPORT

To the Shareholder of Markborough Properties Inc.:

We have examined the consolidated balance sheet of Markborough Properties Inc. as at January 31, 1988 and the consolidated statements of operations, retained earnings and changes in financial position for the year 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, these consolidated financial statements present fairly the financial position of the Company as at January 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants

March 11, 1988



# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended January 31, 1988

	This Year	Last Year
	(000's)	(000's)
Cash provided from operating activities:		
Net income (loss) for the year	\$ (88,220)	\$ 47,896
Add (deduct):		
Depreciation	13,109	13,339
Provision for (recovery of) deferred income taxes	(84,007)	10,936
Non-cash portion of provision for loss in value	173,714	5,670
Gain on sale of income properties	(7,439)	(67,304)
Cash flow from operations	7,157	10,537
Cash portion of provision for loss in value	22,886	10,021
Costs recovered through land and housing sales	84,138	127,185
Other assets and liabilities, net	11,209	1,289
	125,390	149,032
Cash applied to investing activities:		
Income properties		
Acquisition	43,074	44,911
Construction	69,696	61,784
Proceeds from sales of income properties including sites	(62,401)	(250,076)
Carrying and pre-development charges on sites	6,231	8,495
Land and housing		
Acquisition	6,766	112,547
Development and related costs	67,048	76,978
Carrying charges	38,819	38,379
Housing construction	5,900	12,850
	175,133	105,868
Dividends paid on common shares	16,764	68,026
	191,897	173,894
	\$ 66,507	\$ 24,862
Cash provided from (applied to) financing activities:		
Mortgages on income properties, net	\$141,432	\$ 9,584
Mortgages on land, net	(19,630)	47,207
Mortgages and other secured receivables, net	24,722	3,167
Repayment of advances from affiliated companies	(79,812)	(43,310)
Increase (decrease) in bank indebtedness	(205)	8,214
Repurchase of common shares	(3,771)	(121,257)
Contribution of capital by parent company	3,771	121,257
	\$ 66,507	\$ 24,862



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 1988

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company is an associate member of the Canadian Institute of Public Real Estate Companies. The Company's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of that Institute. The Company's significant accounting policies are as follows:

### (a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned, together with the Company's share of the assets, liabilities, revenues and expenses of the incorporated and unincorporated joint ventures in which it participates.

### (b) Land held for and under development and housing

Land and housing are carried at the lower of cost or net realizable value at the estimated time of sale.

The cost of land includes pre-development expenses, interest, realty taxes and other directly related expenses.

Allocated costs are charged to saleable acreage on the basis of anticipated revenues.

### (c) Income properties

Income properties completed and under construction and sites are carried at cost. Cost includes interest, realty taxes and other carrying charges incurred in the pre-development and construction periods and initial leasing costs.

Revenue is recorded as income at the earlier of the date when 70% of the property is leased or when a period has elapsed subsequent to substantial completion deemed under the circumstances to be reasonable for leasing. Operating results prior to this date are capitalized.

Buildings are generally being depreciated on the sinking fund basis at rates ranging between 3% and 5% over terms of 35 to 50 years. Equipment is being depreciated on a straight-line basis over the estimated useful life of the asset.

### (d) Interest allocation

Interest on specific debt secured by land, sites and income properties under construction is capitalized to such assets.

Interest on other borrowing is pooled. Interest is capitalized to income properties under construction and land when their cost is lower than net realizable value at the weighted average rate for that portion of projects not financed by specific debt. The remaining unallocated interest is expensed.

## 2. PROVISION FOR LOSS IN VALUE

As a result of depressed market conditions and of the over supply of competitive real estate product in certain of the Company's markets in the United States, particularly in Texas, a situation which management believes will not recover in the near term, the Company undertook, in the third quarter of 1987, in-depth evaluations of its entire United States land portfolio and related secured receivables arising from sales thereof. Most of the United States properties represent large land assemblies to be developed over a number of years.

The evaluations were done generally using a discounted cash flow approach which considered the expected timing of the development and sale of lots and the resulting revenues and development and other costs or the orderly disposition in the short term of major portions of certain properties.

The evaluation process pertaining to the determination of net realizable value is inherently uncertain since it involves estimates as to future events and conditions. The ultimate amounts realized may be greater or less than the amounts used in the estimates of net realizable values. The evaluations have resulted in provisions against the following assets to reduce their carrying value to estimated net realizable value:

	<b>This Year</b>	Last Year
	(000's)	(000's)
Land under development	<b>\$107,700</b>	\$ 5,033
Land held for development	<b>54,300</b>	10,658
Mortgages and other secured receivables	<b>34,600</b>	—
	<b>\$196,600</b>	\$15,691



### 3. INTEREST

Interest incurred during the year has been allocated as follows:

	<b>This Year</b>	Last Year
	<b>(000's)</b>	(000's)
Capitalized		
Income properties under construction and sites	<b>\$ 10,782</b>	\$ 19,729
Land and housing	<b>13,882</b>	24,494
	<b>24,664</b>	44,223
Expensed		
Provision for loss in value	<b>22,886</b>	10,021
Interest expense	<b>60,047</b>	66,098
	<b>\$107,597</b>	\$120,342

### 4. INCOME TAXES

The Company's effective income tax rate is explained as follows:

	<b>This Year</b>	Last Year
Combined Canadian federal and provincial income tax rates	<b>51.5%</b>	52.2%
Decrease in income tax rate resulting from:		
Foreign rates	<b>(2.3)</b>	(1.3)
Lower effective rate on capital gains	<b>(0.2)</b>	(31.8)
Other	<b>(0.7)</b>	—
Effective income tax rate	<b>48.3%</b>	19.1%

### 5. EARNINGS PER SHARE

Loss per share for the current year has been calculated using the number of shares outstanding at January 31, 1988, reflecting the consolidation of shares which effectively took place as the result of the transactions described in Note 10. Earnings per share for the prior year has also been restated using the number of shares outstanding at January 31, 1988.

### 6. INCOME PROPERTIES

Income properties consist of:

	<b>This Year</b>	Last Year
	<b>(000's)</b>	(000's)
Income producing		
Land	<b>\$105,083</b>	\$ 92,849
Buildings	<b>745,146</b>	654,343
Equipment	<b>7,866</b>	7,449
	<b>858,095</b>	754,641
Less accumulated depreciation	<b>74,968</b>	63,588
	<b>783,127</b>	691,053
Construction in progress		
Land	<b>1,943</b>	14,626
Buildings	<b>34,927</b>	68,065
	<b>36,870</b>	82,691
Sites	<b>87,292</b>	82,002
	<b>\$907,289</b>	\$855,746

The Company's share of the estimated cost to complete construction of four projects in progress is \$29,831,000. Specific project financing and operating lines of credit are available to fund the construction of these projects.



## 7. MORTGAGES AND OTHER SECURED RECEIVABLES

Mortgages and other secured receivables, which arise from sales of real property, bear interest at an average year-end rate of 9.5% and mature as follows:

	(000's)
Fiscal year ending January 31, 1989	\$ 51,566
1990	44,646
1991	6,964
1992	4,053
1993	12,249
Subsequent to January 31, 1993	1,213
	<b>\$120,691</b>

Under certain conditions, the amounts due may be paid prior to maturity.

## 8. DEBT

Debt of the Company by category and by interest obligation is as follows:

	This Year	Last Year
	(000's)	(000's)
By category		
Mortgages payable	\$ 993,646	\$ 871,844
Bank indebtedness	118,180	118,385
Due to affiliated companies	6,491	86,303
	<b>\$1,118,317</b>	<b>\$1,076,532</b>
By interest obligation		
Floating rate at an average year-end interest rate of 8.8% (last year - 8.3%)	\$ 496,978	\$ 391,715
Fixed rate at an average year-end interest rate of 10.9% (last year - 11.0%)	621,339	684,817
	<b>\$1,118,317</b>	<b>\$1,076,532</b>

Included in fixed rate obligations is U.S. \$100,000,000 and U.K. £12,600,000 (Canadian equivalent \$127,000,000 and \$28,300,000 respectively) of bank indebtedness and mortgages payable on which the interest rates have been fixed for an average remaining period of approximately 7 years at an average effective rate of 9.7% by way of various interest exchange agreements.

Mortgages payable comprise the following:

	This Year	Last Year
	(000's)	(000's)
On income property permanent financing, at an average year-end interest rate of 11.4% (last year - 11.6%) and maturing by 2008.	\$443,005	\$413,666
On income property interim financing, at an average year-end interest rate of 9.1% (last year - 7.8%) and maturing by 1992.	253,683	141,590
On land at an average year-end interest rate of 9.2% (last year - 8.4%) and maturing by 1993.	296,958	316,588
	<b>\$993,646</b>	<b>\$871,844</b>



Principal repayments of mortgages payable are due as follows:

	(000's)
Fiscal year ending January 31, 1989	\$311,347
1990	107,269
1991	92,503
1992	65,185
1993	48,860
Subsequent to January 31, 1993	368,482
	<b>\$993,646</b>

Included in mortgages payable is debt in the amount of U.S. \$287,918,000 (Canadian equivalent \$365,656,000) attributable to assets in the United States.

Bank indebtedness is payable on demand and is composed of amounts which are outstanding under various operating lines of credit. Included in bank indebtedness is an amount denominated in United States dollars of U.S. \$83,382,000 (Canadian equivalent \$105,895,000). Certain land under development has been pledged as security for \$12,201,000 of the bank indebtedness.

At January 31, 1988, \$6,491,000 is due to an affiliated company. This amount is due on demand, non-interest bearing and unsecured.

#### 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	This Year	Last Year
	(000's)	(000's)
Trade accounts payable and accrued liabilities	\$70,238	\$62,863
Partner's minority interest in joint venture	—	13,135
	<b>\$70,238</b>	<b>\$75,998</b>

#### 10. CAPITAL STOCK

The authorized capital stock of the Company consists of an unlimited number of common shares and an unlimited number of Class A and Class B preference shares, all without par value.

The following summarizes the changes in issued and outstanding capital stock during the year ended January 31, 1988:

	Number	Amount
		(000's)
Common shares		
Beginning of the year	9,780,914	\$145,989
Reacquisition of shares	252,619	(3,771)
Transfer from contributed surplus	—	3,771
End of the year	9,528,295	<b>\$145,989</b>

On April 29, 1987 the Company sold a shopping centre and a leasehold interest in an office building to affiliates in return for a reduction of amounts due to affiliated companies. As part of this transaction, the Company reacquired and cancelled 252,619 of its issued and outstanding common shares. The net impact of these transactions was to record them at their book values and to record an additional contribution of capital by the parent company of \$3,771,000 as contributed surplus. On the same date, an amount equal to the book value of the shares repurchased was transferred from contributed surplus pursuant to a shareholder's resolution.

#### 11. CONTRIBUTED SURPLUS

As described in Note 13, the purchase and re-sale of investments from affiliated companies during the year resulted in a reduction of \$7,732,000 in the Company's deferred income tax liabilities. This amount has been recorded as contributed surplus.



As described in Note 10, an additional contribution of capital of \$3,771,000 was recorded as contributed surplus and then transferred by way of a shareholder's resolution to capital stock.

Pursuant to a shareholder's resolution, the Company transferred \$48,978,000 from contributed surplus, in order to eliminate a deficit in retained earnings, effective January 31, 1988.

## 12. JOINT VENTURE OPERATIONS

The Company's share of its joint venture operations is summarized as follows:

ASSETS	This Year	Last Year
	(000's)	(000's)
Income properties	\$578,647	\$539,803
Land and housing under development	69,540	62,331
Land held for development	122,304	198,132
Accounts receivable	20,808	17,793
Mortgages and other secured receivables	30,951	55,840
Prepaid expenses and other assets	10,015	9,453
	<b>\$832,265</b>	<b>\$883,352</b>
LIABILITIES AND EQUITY		
Mortgages payable	\$598,136	\$541,889
Accounts payable and accrued liabilities	28,262	31,123
Deferred income taxes	15,331	13,341
	<b>641,729</b>	<b>586,353</b>
Investment in joint ventures	190,536	296,999
	<b>\$832,265</b>	<b>\$883,352</b>
INCOME AND EXPENSES	This Year	Last Year
	(000's)	(000's)
Revenue from income properties	\$ 89,305	\$84,207
Less expenses	28,725	27,809
Operating profit from income properties	60,580	56,398
Revenue from land operations	5,813	20,097
Less:		
Cost of sales	7,261	19,909
Provision for loss in value	116,526	5,033
Loss from land operations	(117,974)	(4,845)
Revenue from housing operations	—	214
Less cost of sales	—	256
Loss from housing operations	—	(42)
Interest and other income	1,573	8,600
Gain on sale of income properties	8,648	—
Income (loss) before the undernoted items	(47,173)	60,111
Interest expense	40,430	34,689
Depreciation on income properties	8,512	7,371
General and administrative expenses	2,400	2,899
Income (loss) before income taxes	<b>\$ (98,515)</b>	<b>\$15,152</b>

The Company is contingently liable at January 31, 1988 for \$105,764,000, representing certain liabilities of its co-owners and partners in unincorporated joint ventures but against such liabilities the Company would have a claim upon the joint venture assets of its co-owners and partners. The value of the assets of each of these joint ventures exceeds the contingent liability.



### 13. RELATED PARTY TRANSACTIONS

In addition to the transactions referred to in Note 10, during the year the Company purchased investments from affiliates at their fair market values totalling \$101,146,000. These investments were subsequently sold to third parties at the same amounts. Under the provisions of the Income Tax Act, Canada the purchase price to the Company for tax purposes was deemed to be \$131,894,000. The benefit of the resulting loss carry forward for tax purposes of \$7,732,000 has been recorded as a reduction of deferred income taxes and an increase in contributed surplus.

In the normal course of business, the Company has also entered into other transactions with affiliated companies. Such transactions were negotiated as if the parties were dealing at arm's length.

### 14. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain prior year's amounts have been reclassified to conform with the current year's presentation.

### 15. CONTINGENCIES

At January 31, 1988, the Company is involved in litigation and claims which arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial statements of the Company.

### 16. SEGMENTED INFORMATION

Segmented information is summarized as follows (thousands of dollars):

	CANADA		UNITED STATES		TOTAL	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
<b>ASSETS</b>						
Income properties	<b>\$823,956</b>	\$746,062	<b>\$ 83,333</b>	\$ 109,684	<b>\$ 907,289</b>	\$ 855,746
Land	<b>30,304</b>	39,120	<b>353,032</b>	489,536	<b>383,336</b>	528,656
Housing	<b>—</b>	—	<b>4,265</b>	6,275	<b>4,265</b>	6,275
Other	<b>81,460</b>	87,378	<b>105,621</b>	155,081	<b>187,081</b>	242,459
	<b>\$935,720</b>	\$872,560	<b>\$ 546,251</b>	\$ 760,576	<b>\$1,481,971</b>	\$1,633,136
<b>REVENUE</b>						
Income properties	<b>\$140,718</b>	\$147,614	<b>\$ 7,495</b>	\$ 6,829	<b>\$ 148,213</b>	\$ 154,443
Land	<b>32,318</b>	44,346	<b>49,879</b>	62,803	<b>82,197</b>	107,149
Housing	<b>—</b>	—	<b>8,361</b>	16,445	<b>8,361</b>	16,445
	<b>\$173,036</b>	\$191,960	<b>\$ 65,735</b>	\$ 86,077	<b>\$ 238,771</b>	\$ 278,037
<b>PROFIT (LOSS)</b>						
Income properties	<b>\$ 90,138</b>	\$ 90,089	<b>\$ 3,141</b>	\$ 2,969	<b>\$ 93,279</b>	\$ 93,058
Land	<b>13,940</b>	5,203	<b>(204,411)</b>	(26,173)	<b>(190,471)</b>	(20,970)
Housing	<b>—</b>	—	<b>291</b>	1,688	<b>291</b>	1,688
	<b>104,078</b>	95,292	<b>(200,979)</b>	(21,516)	<b>(96,901)</b>	73,776
Interest and other income	<b>9,145</b>	7,151	<b>4,522</b>	10,827	<b>13,667</b>	17,978
Gain (loss) on sale of income properties	<b>(1,041)</b>	67,304	<b>8,480</b>	—	<b>7,439</b>	67,304
	<b>\$112,182</b>	\$169,747	<b>\$(187,977)</b>	\$ (10,689)	<b>(75,795)</b>	159,058
Interest expense					<b>60,047</b>	66,098
Depreciation on income properties					<b>13,109</b>	13,339
General and administrative expenses					<b>21,576</b>	20,445
Income (loss) before income taxes					<b>(170,527)</b>	59,176
Provision for (recovery of) income taxes					<b>(82,307)</b>	11,280
Net income (loss) for the year					<b>\$ (88,220)</b>	\$ 47,896

Included in Canada are \$60,624,000 of income property assets, \$4,489,000 of income property revenue and \$4,110,000 of profit from income properties (last year - \$45,208,000 of income property assets and a \$19,129,000 gain on sale of income property) relating to operations located in the United Kingdom.



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