

CENTREFUND

1999 annual report

C O R P O R A T E P R O F I L E

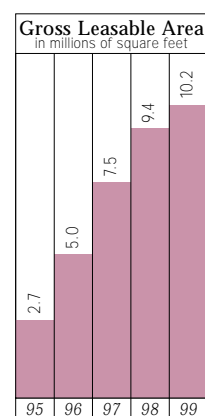
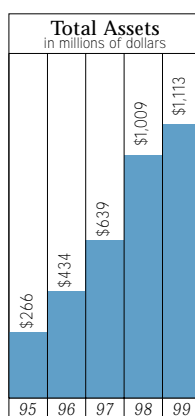
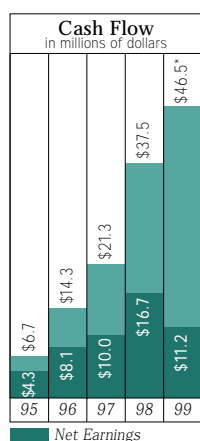


Centrefund Realty Corporation is a growth-oriented, publicly traded real estate investment company that focuses exclusively on the ownership of neighbourhood and community shopping centres in Canada and the United States. The Company's primary investment objective is the creation of value through the long-term maximization of cash flow and capital appreciation from its growing shopping centre portfolio. This objective is achieved by proactively managing Centrefund's existing shopping centre portfolio, by seeking appropriate, opportunistic acquisitions and by undertaking selective development activities. The Company is managed by experienced real estate professionals who, through entities related to them, have a significant equity investment in the Company. Centrefund completed its initial public offering of securities and commenced operations on March 29, 1994. The Company's common shares and convertible debentures trade on the Toronto Stock Exchange. The common shares are part of the real estate group of the TSE 300 composite index.



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FINANCIAL HIGHLIGHTS



*before provision for termination of advisory services

(in thousands of dollars, except per share amounts)	1999	1998	1997	1996	1995
Income Statement					
Gross rental income	\$ 137,097	\$ 112,827	\$ 71,798	\$ 47,477	\$ 30,098
Earnings (loss)	\$ 11,233	\$ 16,662	\$ 10,020	\$ 8,045	\$ 4,263
Per common share	\$ (0.17)	\$ 0.45	\$ 0.47	\$ 0.63	\$ 0.66
Cash flow before provision for termination of advisory services	\$ 46,451	\$ 37,453	\$ 21,311	\$ 14,291	\$ 6,676
Per common share	\$ 3.21	\$ 2.69	\$ 1.59	\$ 1.14	\$ 1.09
Per fully diluted common share	\$ 1.62	\$ 1.49	\$ 1.22	\$ 1.08	\$ 0.99
Cash flow from operations	\$ 19,601	\$ 37,453	\$ 21,311	\$ 14,291	\$ 6,676
Per common share	\$ 1.36	\$ 2.69	\$ 1.59	\$ 1.14	\$ 1.09
Per fully diluted common share	\$ 0.82	\$ 1.49	\$ 1.22	\$ 1.08	\$ 0.99
Dividends declared per common share	\$ 0.89	\$ 0.85	\$ 0.81	\$ 0.77	\$ 0.75
Balance Sheet					
Total assets	\$ 1,112,533	\$ 1,008,847	\$ 638,735	\$ 433,677	\$ 266,430
Total liabilities	\$ 690,995	\$ 575,806	\$ 422,463	\$ 275,040	\$ 192,913
Shareholders' equity	\$ 421,538	\$ 433,041	\$ 216,272	\$ 158,637	\$ 73,517
Common Shares					
Weighted average number outstanding	14,469,728	13,947,169	13,387,996	12,502,759	6,122,762
Outstanding at December 31	15,070,323	14,307,706	13,455,501	13,353,036	7,614,194



TO OUR
SHAREHOLDERS

The fundamentals of
our business remain sound



As in every previous Centrefund annual report, we can again report strong financial results, the expansion of our portfolio of quality shopping centres and the completion of value creation initiatives at a number of our existing properties.

We can also report that Centrefund Development Group, our development arm established in the fall of 1997, has more than a dozen projects under active development and has established a significant pipeline of new shopping centres that we anticipate will generate strong financial returns to augment our future growth.

In spite of our consistent performance, the trading price of our common shares has recently declined below our initial public offering price of \$10 per share and the trading prices of our convertible debentures have reacted accordingly. Our current share price seems to ignore the fact that our annual fully diluted cash flow, before the provision for the internalization of management, has grown at a compound annual rate of 18% and our quarterly dividend has grown by 28% since we first issued shares to the public in 1994. As a result, our common shares are one of the highest yielding stocks on the Toronto Stock Exchange.

Although the fundamentals of our business remain sound, there is no question that investment in publicly traded real estate securities is currently out of favour. The investing public appears often distracted by the technology sector and seems relatively unimpressed by the sustainable, growing cash flow that can be generated from quality real estate.

Nevertheless, we remain confident that our business will continue to generate growing cash flow which, over the long run, should be recognized in the trading value of our securities.

Our achievements to date, strategies for growth and outlook for the future are further outlined throughout the balance of this report where we share with you our vision for Centrefund.

FINANCIAL RESULTS

We are pleased to report that for the year ended December 31, 1999 cash flow from operations, the best measure of our financial performance, amounted to \$46.451 million or \$3.21 per common share before the provision for the termination of advisory services. This represents an increase of 24% above the \$37.453 million or \$2.69 per common share reported in 1998. On a fully diluted basis, assuming the conversion of all outstanding convertible debentures, cash flow before the aforementioned provision was \$1.62 per common share in 1999 as compared to \$1.49 per common share reported in 1998.

The provision for the termination of the advisory services, resulting from the internalization of management, as described in Note 13(b) to the consolidated financial statements, should be considered separately as a non-recurring charge when evaluating Centrefund's financial performance for 1999.

Net earnings and cash flow from operations in 1999 were reduced by a charge of \$26.850 million to reflect the aforesaid provision. Accordingly, cash flow from operations in 1999, after the provision, was \$19.601 million or \$1.36 per share and \$0.82 on a fully diluted basis. Net earnings for fiscal 1999, after the aforementioned provision, were \$11.233 million or a per share loss of \$0.17 as compared to \$16.662 million or earnings per share of \$0.45 for the year ended December 31, 1998.

In calculating earnings per share, reported earnings have been reduced by \$13.717 million in 1999, as compared to \$10.368 million in 1998, to reflect the interest and accretion on the equity component of the Company's outstanding convertible debentures.

These financial results were generated from gross rental income in fiscal 1999 of \$137.1 million, an increase of 21.5% over the \$112.8 million reported in 1998.

PORTFOLIO GROWTH

We remain confident that the disciplined expansion of our shopping centre portfolio will allow us to meet our overall strategic objective of generating strong, consistent growth in cash flow from operations per share. In addition to the acquisition and development of new properties, we focus on internal growth generated by pro-actively managing each and every one of our assets with a view to enhancing value. Our recent value enhancement activities are described in some detail in the Operational Review section of this report.

We continue to believe that the ownership of a large portfolio of pro-actively managed quality assets will not only generate sustainable, increasing cash flow, but will also enhance our platform for development and redevelopment activities which in turn should fuel further cash flow growth. In addition, a meaningfully sized portfolio should allow us to efficiently utilize the debt and when available, capital markets, to generate a lower cost of capital – a key ingredient in our overall financial success.

In 1999, we completed the acquisition of interests in eight new properties containing 633,000 square feet of gross leasable area. Our average initial annual yield on the cost of the properties acquired was just under 11%, excluding one property that represents a substantial redevelopment opportunity. The full impact of these acquisitions on operating results will begin to be felt in fiscal 2000, when operating results will reflect a full year of ownership.

Also in 1999, Centrefund Development Group contributed five new shopping centres to our overall portfolio, with an additional eight projects under construction and three projects under active development.

CAPITAL BASE

Our decision to return to the capital markets in 1998 with two \$100 million convertible debt issues was fortuitous. As previously mentioned, the capital markets have been very hard on the real estate sector over the past 18 months, which has resulted in declining prices for all real estate securities. Very few real estate entities have been able to raise new equity and those that have, have done so at discounts to net asset value.

At our current level of capital and in line with our policy of limiting overall mortgage financing to 60% of the fair market value of our assets, we have unused financial capacity. We intend to selectively utilize this capacity to create value for our shareholders by opportunistically expanding our portfolio of shopping centres, as well as taking advantage of the acquisition and development opportunities that the current market conditions are bound to create.

INTERNALIZATION OF MANAGEMENT

Since it was formed in March 1994 with an initial portfolio of five shopping centres, Centrefund has been managed pursuant to a long-term advisory agreement. This agreement called for the Advisor to be compensated for services based on the size of Centrefund's asset base and the level of acquisition and disposition activity. In addition, the Advisor is entitled to earn an incentive fee once the Company earns a cumulative priority return on the equity invested in the Company's real estate and related assets.

At a meeting held on January 18, 2000, shareholders of the Company approved a resolution by the Board of Directors to terminate the advisory fee component of the Advisory Agreement effective January 1, 2000 in consideration for a \$25 million termination payment to the advisor. In addition, the incentive fee component of the Advisory Agreement was revised in consideration for the future issue of warrants to purchase Centrefund common shares. The details of the transaction are included in Note 13(b) to the consolidated financial statements.

This transaction effectively internalizes the Company's management and from the investment community's perspective, more clearly aligns the interests of management with those of Centrefund shareholders. This fundamental change should benefit both our shareholders and our Management Team, as we continue to create value and generate strong returns, and as the market recognizes the real value of our common shares.

THE INTERNET AND "E-RETAILING"

There is little doubt that the Internet continues to provide us all with the ability to dramatically improve the flow of

information. It is also apparent that a growing number of business functions will be conducted electronically. However, we are confident that this emerging technology will not have a detrimental effect on the core of our business – the neighbourhood shopping centre. This is the place where you eat lunch or dinner, get a haircut, visit your dentist, and conveniently buy your groceries, drug store items and other basic necessities. This is because the most efficient and cost effective, and in many cases the only way, for consumers to purchase most of these types of goods and services is for them to go to their local neighbourhood shopping centre.

In the future, consumers who choose to order groceries and other products over the Internet may likely have them delivered from their conveniently located shopping centre.

We believe that shopping centres will effectively become the fulfillment centres for the Internet shopper

because their proximity to the customer will minimize the cost and time of delivery. In addition, by using existing store locations as fulfillment centres both during and after normal operating hours, the retailer can capture Internet-based sales without incurring the additional costs of new distribution centres and incremental inventory.

We foresee that the leading e-retailers will emerge from today's leading "bricks and mortar" retailers and that these leaders will integrate the new technology with their existing distribution assets, including their neighbourhood stores to create an efficient and cost effective delivery system. This should also augment and improve the customer's shopping experience, and enhance the value of well-located, properly designed and well-maintained neighbourhood shopping centres that house these retailers.

OUTLOOK

As we enter the new millennium, we face a dynamic environment within which to operate. Nevertheless, we believe our long established strategic plan remains sound.

We intend to continue to focus on running our business with a view to maximizing the net cash flow generated from our growing portfolio of shopping centres. We already have several value enhancement initiatives planned for 2000.

We will continue to selectively grow our portfolio when opportunistic acquisitions become available.

We may also seek to realize on some of the surplus value that has been created within our portfolio by selling interests in some of our mature properties to investors who appreciate the quality of the growing cash flow that these properties offer.

We will continue to expand our development business by creating quality shopping centres that offer attractive risk-adjusted rates of return. This part of our business truly has the potential to create a long-term franchise for Centrefund.

All of this activity will be carefully balanced against our

available financial capacity in light of the current state of the public real estate equities markets. We are,

after all, in a capital-intensive business that today must rely on its existing capital base to efficiently operate and grow.

We have always treated our capital as a scarce resource, so we remain confident that we will successfully adjust to the current constrained capital environment.

In closing, I would like to thank all of our fellow shareholders for the confidence they continue to demonstrate through their investment, as well as our Management Team and our Board of Directors for their tireless efforts and constant support.

We must all remember that real estate is a long-term investment; and consistently strong performance will be rewarded in the long term.

Sincerely,

[Peter F. Cohen]

Peter F. Cohen, C.A.
Chairman, President and Chief Executive Officer
March 21, 2000



CENTREFUND DEVELOPMENT GROUP

Our development business has
the potential to create a long-term
franchise for Centrefund



1999 was a successful year for Centrefund Development Group ("CDG"). We completed a number of developments, commenced construction on several projects, identified several new potential development opportunities and cultivated meaningful new relationships with anchor retailers, which should provide us with a significant pipeline for future development opportunities.

DEVELOPMENT ACTIVITY

Shopping centre developments were completed in Lethbridge, Alberta (Safeway, Home Hardware), London, Ontario (Sobeys), Longueuil, Quebec (Bank of Nova Scotia, Blockbuster, Moore's), Gainesville, Florida (Bed Bath & Beyond, Borders Books); and Palm Beach Gardens, Florida (Wilmington Trust, Morgan Stanley, Palm Beach National Bank).

Construction has started on centres being developed in Port St. Lucie, Florida (Albertsons), Cambridge, Ontario (Taco Bell, Wendy's, Country Style), and Pickering, Ontario (Sobeys).

Construction will commence later this year in Lachenaie, Quebec (Home Depot, Business Depot, and numerous fashion box retailers), Windsor, Ontario (Sobeys), Jupiter, Florida (Publix), Palm Beach Gardens, Florida (Albertsons), Plano, Texas (Office Max), and Dallas, Texas (Tom Thumb - Safeway).

CDG has a number of additional properties under conditional purchase agreements in Canada and the United States, providing the Company with a substantial pipeline for new development opportunities in the coming years.

In addition, in the past year, we made major strides in cultivating new relationships and strengthening existing relationships with many of our retailer clients. These include Loblaws, A&P, Sobeys, Albertsons, Safeway and Publix, the

dominant food retailers in their markets, as well as Home Depot, Bed Bath & Beyond, Borders Books, Eckerds, Canadian Tire, Shoppers Drug Mart, and others. Our goal is to continue to nurture these valued relationships, and to establish new ones, with a view to becoming the developer of choice for these and other expansion minded retailers.

TRENDS IN THE MARKETPLACE

There have been a number of trends occurring among retailers and in the financing markets that have impacted the development landscape, both positively and negatively. These have resulted from among other factors, mergers or acquisitions between a number of dominant retailers and changes in both the equity and mortgage markets.

The past two years have been a time of significant consolidation affecting a number of national and regional chains. Examples are Loblaws' purchase of Provigo, Sobeys' purchase of IGA, Albertsons' purchase of American Stores, and Safeway's purchase of Randalls. The purpose of consolidation is growth and the eventual realization of financial synergies. However, a by-product is generally a less competitive market.

Another trend has emerged as a result of consolidation and other factors. Until recently, many of our anchors traditionally had a preference for leasing their own premises. In many instances this has changed, and their preference and often their requirement is to own due to their current strong financial positions.

Certainly, our preference is to lease space to our anchors, but at the same time, we recognize the importance of attracting key anchor tenants in each of our developments. Accordingly, we expect that an increasing number of our projects will be co-developed with our major retailers.

In Canada, the construction, acquisition and long-term financial markets are becoming more challenging. The chartered banks, once the traditional source for construction and acquisition financing, have somewhat curtailed their lending activities as they increase their focus on the capital market and equity sides of their business. At the same time, there has been substantial consolidation among life insurers, who have been the traditional source of long-term financing for real estate projects. Some of these insurance companies have also gone public and as a result have become more focused on quarterly results than on matching investment returns to annuity payment requirements. This has resulted in the long-term mortgage becoming a somewhat less attractive investment for them. As a result, the life insurance companies that remain in the mortgage market are much more conservative and restricted in their lending practices.

Fortunately, our long-standing relationships with several financial institutions have somewhat insulated us from the changes that are occurring in the mortgage markets.

In the United States, the financing market has become more favourable to our business. The main reason for this is the maturing of the mortgage backed securities market (the conduit market). Conduit lenders are collaborating with Wall Street to raise substantial mortgage funds. This, in turn, has created a more competitive lending environment.

1999 saw a number of U.S. lenders and some Canadian chartered banks establish mortgage backed securities businesses in Canada. Given the current lending environment in Canada, we expect that the mortgage backed securities market will expand rapidly, providing significant competition to institutional lenders and resulting in a more developer-friendly mortgage market.

OUR MARKETS

CDG operates out of 10 regional offices, in Montreal, Toronto and Edmonton in Canada, and in Palm Beach Gardens, Orlando, Raleigh, Houston, Dallas, Phoenix and Denver in the United States.

We continue to nurture our valued tenant relationships

In Canada, our Ottawa and Vancouver offices were closed, as we felt that these markets could be more efficiently served from our Toronto and Edmonton offices. In the United States, the Newport Beach office was closed because we determined that land prices there were extremely high, development yields unappealing, and the development process exhausting. We concluded that this market is better suited to local players.

On the negative side, five of our offices to date have not contributed to an actual new development transaction. However, of these five offices, three presently have sites under option with executed purchase agreements in place. I expect that we will close on the purchase of all three of these properties in the near future.

MARKET CONDITIONS

Although market conditions are not perfect, they are, on balance, reasonably propitious. Current interest rates allow for positive leverage even though we believe that long-term interest rates are artificially high. Housing starts are almost at an all-time high. Retailers are expanding aggressively. All in all, we have certainly experienced more difficult times.

All of us at Centrefund Development Group are committed to building CDG into one of the most successful retail development companies in North America, one shopping centre at a time.

On behalf of my partners, I would like to take this opportunity to recognize the dedication and commitment of all of our CDG co-workers.

Sincerely,

[John W.S. Preston]

John W.S. Preston
Chairman, President and Chief Executive Officer
Centrefund Development Group
March 21, 2000

SHOPPING CENTRE DEVELOPMENT

COMPLETED PROJECTS

Name and Location	Gross Leasable Area Developed	Expansion Potential	Gross Leasable Area Upon Full Development	Major or Anchor Tenants
CANADIAN PROPERTIES				
West Lethbridge Towne Square, Lethbridge, Alberta	78,000	25,000	103,000	Safeway, Home Hardware
Commissioners Road Plaza, London, Ontario	36,000	35,000	71,000	Price Chopper (Sobeys)
Longueuil Centre, Longueuil, Quebec	35,000	9,000	44,000	Bank of Nova Scotia, Blockbuster
	149,000	69,000	218,000	
U.S. PROPERTIES				
Oaks Square, Gainesville, Florida ⁽¹⁾	119,000	–	119,000	Bed Bath & Beyond, Borders Books
City Centre, Palm Beach Gardens, Florida ⁽¹⁾	94,000	75,000	169,000	Wilmington Trust
	213,000	75,000	288,000	
TOTAL COMPLETED PROJECTS	362,000	144,000	506,000	

PROJECTS UNDER DEVELOPMENT

Name and Location	Gross Leasable Area Under Construction	Future Development	Total Project Gross Leasable Area	Major or Anchor Tenants
CANADIAN PROPERTIES				
Steeple Hill Shopping Centre, Pickering, Ontario	60,000	7,000	67,000	Price Chopper (Sobeys)
Huron Church & Todd Lane, Windsor, Ontario	–	75,000	75,000	Sobeys
Delta Centre, Cambridge, Ontario	24,000	67,000	91,000	Taco Bell, Wendy's, Country Style
Hwy 12 & Hwy 93, Midland, Ontario	–	200,000	200,000	
Lachenaie Power Centre, Repentigny, Quebec	–	362,000	362,000	Home Depot, Business Depot
	84,000	711,000	795,000	
U.S. PROPERTIES				
Cashmere Corners, Port St. Lucie, Florida	80,000	58,000	138,000	Albertsons
Abacoa Plaza, Jupiter, Florida ⁽¹⁾	62,000	37,000	99,000	Publix
Northmil Plaza, Palm Beach Gardens, Florida ⁽²⁾	81,000	9,000	90,000	Albertsons
Donald Ross & Central, Palm Beach Gardens, Florida ⁽²⁾	–	200,000	200,000	
Thornbridge Crossing, Dallas, Texas	–	92,000	92,000	Tom Thumb (Safeway)
Plano Parkway & Hwy 544, Plano, Texas	–	144,000	144,000	Walgreens, Office Max
	223,000	540,000	763,000	
TOTAL PROJECTS UNDER DEVELOPMENT	307,000	1,251,000	1,558,000	
TOTAL DEVELOPMENT PORTFOLIO	669,000	1,395,000	2,064,000*	

(1) 50% interest

(2) 50.1% interest

* Excludes 180,000 square feet of GLA owned by anchor tenants.

OPERATIONAL REVIEW



Centrefund's shopping centre portfolio consisted of 70 properties containing 10.2 million square feet of gross leasable area as at December 31, 1999, including those properties owned by Centrefund Development Group. Operations are directed in Canada from offices in Toronto and in the United States from offices located in Palm Beach Gardens, Florida. Regional operational offices are located in Edmonton, Ottawa, Montreal, Halifax, Dallas and Houston.

Centrefund's development activities are carried out through its 50.1% ownership interest in Centrefund Development Group ("CDG"). CDG is a distinct entity under the direction of John W.S. Preston, who together with his senior management team, own the remaining interest in CDG. Centrefund and CDG adhere to similar operating principles. A review of CDG's operations is detailed in a separate section of this annual report.

All aspects of the Company's operations are under the overall direction of a management committee, comprised of Peter F. Cohen, our Chairman, President and Chief Executive Officer, John W.S. Preston, the Chairman, President and Chief Executive Officer of Centrefund Development Group and Robert S. Green, the President of Centrecorp, our Property Manager. This management committee reports in detail to our Board of Directors no less than quarterly.

In managing its shopping centres, the Company focuses on securing retail tenants that provide consumers with basic necessities and amenities, as distinct from those which cater to more discretionary fashion demands. This tends to make the Company's shopping centre portfolio less susceptible to general economic swings, as even during economic downturns consumers continue to purchase necessities such as groceries, basic clothing and services.

The Company also seeks to lease a large portion of the gross leasable area of each of its properties on a long-term basis to successful national or regional anchor tenants, such as discount department stores, food supermarkets and promotional retailers. These tenants, in addition to creating a stable source of long-term rental income, generate customer traffic for the benefit of the smaller retail and service tenants. The nature and relationship of anchors to small shop tenants and the balance between national, regional and local tenants are key ingredients in establishing stable and sustainable revenue for each of Centrefund's properties.



CANADIAN OPERATIONS

In 1999, Centrefund continued to
acquire shopping centres with
attractive initial rates of return

Centrefund's Canadian shopping centre portfolio, excluding those properties owned by Centrefund Development Group, consisted of 36 properties containing approximately 6,091,000 square feet of gross leasable area as at December 31, 1999. The Company's Canadian shopping centres average 169,000 square feet in size (1998 - 175,000 square feet) and have an average net book value of \$91 per square foot (1998 - \$77 per square foot). As at December 31, the portfolio can be summarized as follows:

Province	1999		1998	
	Number of Properties	Square Footage (thousands)	Number of Properties	Square Footage (thousands)
Ontario	18	3,450	17	3,277
Western Canada	11	1,831	8	1,630
Quebec	4	558	4	558
Maritimes	3	252	3	252
Total	36	6,091	32	5,717

Acquisitions

During 1999 Centrefund completed the acquisition of interests in five new properties and increased its interest in one existing property in Canada. Three of the newly acquired properties are food supermarket-anchored neighbourhood shopping centres acquired at attractive initial rates of return. Two of these properties are located in Regina, Saskatchewan and are anchored by Safeway, and the remaining property is located in Waterloo, Ontario and is anchored by Sobeys.

The fourth acquisition in Canada is a shopping centre located in Red Deer, Alberta that is anchored by a number of mini box promotional retailers. This property offers value enhancement potential through the lease up of

currently vacant space. The final acquisition completed during the current year in Canada is a food supermarket-anchored 217,000-square-foot community centre located in Ajax, Ontario and anchored by a Food Basics (A&P) supermarket. This property presents a redevelopment opportunity that we are actively pursuing.

During 1999 the Company also acquired a 37% interest in a food supermarket-anchored shopping centre located in St. Hubert, Quebec, a suburb of Montreal, to increase its overall interest in the property to 71%.

Sales

During 1999 the Company completed the sale of a shopping centre located in Orillia, Ontario. The property was originally acquired with a view to creating value through an expansion of one of the existing tenants. As it turned out, the tenant wanted to expand to a size that would virtually eliminate the balance of the remaining leasable

area. As a result, it made sense both the Company and the tenant for the tenant to acquire the property.

A \$6 million sale was completed in the first quarter of 1999 to realize a net gain of \$1.5 million.



Redevelopment, renovation and remerchandising

During 1999 the Company completed a major redevelopment project at Cedarbrae Mall in Toronto. The property has been repositioned through the re-anchoring of the centre with the addition of Loblaws, Canadian Tire, Zellers and Toys 'R' Us. As part of the redevelopment, the balance of the existing mall was completely renovated and a food court was added. The Company was also able to add four

free-standing buildings to create an additional 32,000 square feet of highly desirable space. These new buildings have been leased to the Liquor Control Board of Ontario, the Beer Store, the Bank of Nova Scotia and Burger King.

These substantial improvements have created a very valuable institutional-grade retail asset that is generating a high-quality, sustainable and growing cash flow.

At South Park Village in Edmonton, the second phase of a three-phase expansion and redevelopment plan was completed in 1999 with the fall opening of a new 80,000-square-foot Canadian Tire store. The former Canadian Tire store is being demolished to allow for the construction of three new buildings. This new construction will accommodate



facilitate the expansion of one of the property's anchor tenants. In addition, efforts to date have already allowed the Company to accelerate the process of increasing the below-market rents on the property's small shop space.

The redevelopment plan for the Company's Northwood Mall project in Edmonton, Alberta was finalized in 1999. The two-level Zellers store was relocated to the former single-floor K-Mart store, and negotiations were finalized for a 23,000-square-foot expansion of the new Zellers scheduled to open in the spring of 2001. The demolition of the former Zellers store will allow for the construction of a new 55,000-square-foot Safeway food supermarket. Once the new supermarket is open, the existing Safeway store will be demolished to

We continued to add shareholder value through the strategic redevelopment of existing shopping centres

an expansion of the existing SportChek store, the addition of a Linens 'n Things store and up to 30,000 square feet of new retail space. As part of this program, a major renovation, including the addition of new store facades, new entranceways and pylon signs as well as increased landscaping, has been completed. On completion, this property will have been retooled for the future and will generate a significant return on the incremental capital invested.

In 1999 the reconfiguration of the Company's Stanley Park Mall project in Kitchener, Ontario was commenced. Several tenants have been relocated in order to accommodate expansions and some 12,000 square feet of small shop space has been demolished to eliminate a second mall corridor. This space will be replaced with a 10,000-square-foot free-standing building pre-leased on a long-term basis to the Liquor Control Board of Ontario. A minor renovation of the property, including new mall entrances, is also being undertaken. The reconfiguration of this project will replace mediocre space with highly desirable space and improve the parking area. This may in turn



make way for two or more new large-format retailers. To improve the project's curb appeal and in order to accommodate two or three new free-standing buildings, a portion of the existing parking deck no longer required will be demolished. Like many of the Company's previous major redevelopment projects, Northwood Mall continues to deliver an attractive cash flow yield while the planned repositioning is finalized and implemented. The redevelopment plan will enhance the Company's return on investment and also create a strong retail project properly positioned to better serve its trade area.

Leasing

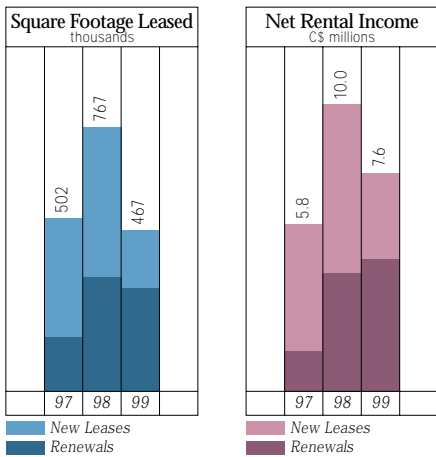
Leasing activity in Canada in 1999 resulted in the completion of agreements to lease covering more than 168,000 square feet of space, down from the 435,000 square feet leased in 1998. These new leases will generate annual net rental income of approximately \$3.0 million as compared to the \$5.9 million in annual net rent generated by 1998 leasing activities. In addition, lease renewals on 299,000 square

feet were completed in 1999, as compared to 332,000 square feet of space in 1998. The 1999 renewals will generate annual net rental income of almost \$4.6 million, representing an increase of 4.5% above the pre-renewal net annual rent as compared to \$4.1 million in income attributable to 1998 renewals, which represented a 6.2% increase over pre-renewal rental rates. The occupancy level of the Canadian portfolio, excluding projects currently under redevelopment, increased to 97% of total gross leasable area as at December 31, 1999.



Anchor Tenant Sales

Anchor tenant sales performance is a good barometer of the quality and success of the Company's shopping centres. Not only is it indicative of the quality and sustainability of the anchor tenants' rent but it is also a reliable measure of customer traffic which benefits the shopping centre's ancillary tenants. In addition, the majority of the Company's anchor tenant leases include a percentage rent clause which entitles the Company to participate in the tenants' sales success above a predetermined level of sales. The following chart summarizes average comparable anchor tenant sales per square foot for reporting tenants by major use category for the Company's Canadian portfolio:



	1999	1998
Junior department stores	\$205	\$197
Food supermarkets	\$523	\$504

For the year ended December 31, 1999 the Company earned \$830 thousand (1998 - \$733 thousand) in percentage rent from its anchor tenants in Canada.

U. S. OPERATIONS

Centrefund will continue to generate strong operational results in 2000 and beyond

Centrefund's U.S. shopping centre portfolio, excluding those properties owned by Centrefund Development Group, consisted of 29 properties containing approximately 3,709,000 square feet of gross leasable area as at December 31, 1999. The Company's American shopping centres average 128,000 square feet in size (1998 - 133,000 square feet) and have an average net book value of U.S.\$69 per square foot (1998 - U.S.\$65 per square foot). As at December 31, the portfolio can be summarized as follows:

State	1999		1998	
	Number of Properties	Square Footage (thousands)	Number of Properties	Square Footage (thousands)
Florida	12	1,284	12	1,284
Texas	17	2,425	15	2,303
Total	29	3,709	27	3,587

Acquisitions

In Texas, two food supermarket-anchored shopping centres containing an aggregate of approximately 122,000 square feet were acquired during 1999. In Dallas, a 59,000-square-foot property was acquired and redeveloped to accommodate Minyards, a regional food supermarket operator. In

San Antonio, a 63,000-square-foot centre anchored by Albertsons that offers further upside through the rollover of below-market rents was acquired on attractive terms.

Redevelopment, renovation and remerchandising

In Palm Beach Gardens, Florida, the redevelopment of the Company's Oakbrook Square property was substantially completed, which has resulted in a significant increase in

the market rental rates for the property. The benefit of this improvement in rental rates will be enjoyed on the lease up of existing vacancies and the renewal of existing tenancies.



Municipal approval has recently been received to allow for the expansion of the existing Publix supermarket by 10,000 square feet.

In the longer term, the Company will also look to take advantage of the potential to develop two six-storey office buildings on the site.

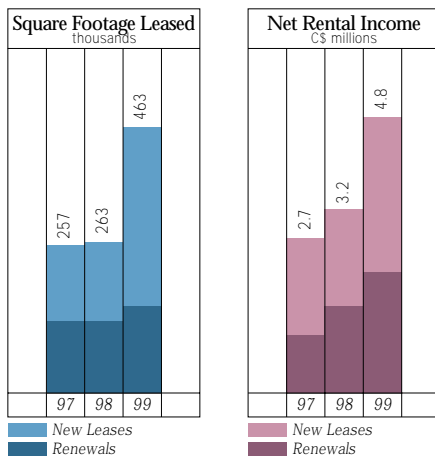
In Texas, the repositioning and remerchandizing of the Company's Plymouth Park project in Irving, a suburb of Dallas, continued. This four-centre project comprises a total of approximately 741,000 square feet of gross leasable area situated on 60 acres of land in a mature residential community.

The initial phase of the renovation program, which entailed the addition of two free-standing buildings, the re-cladding of a number of existing buildings and the addition of new signage, paving and landscaping, has been completed. The results are very encouraging. Returns on incremental capital invested in this program are exceeding 25% based on leases signed to date. Negotiations to add additional new anchor tenants to the complex are also underway.

The low cost base of this asset allows the Company to be the "low-cost provider" of basic retail space in this market. Market research indicates that the project's rents still are 30% - 40% below market for comparable space. This has been confirmed by rents achieved on renewals to date. Without spending a substantial amount of capital to redevelop the site, returns have been significantly enhanced as the available space is leased.

Leasing

Leasing activity in the United States was strong in 1999 with the completion of agreements to lease covering approximately 313,000 square feet of space, up from the 139,000 square feet leased in 1998. These new leases will generate annual net rental income of U.S.\$2.7 million as compared to the U.S.\$1.7 million coming from 1998 leasing activities. In addition lease renewals covering 150,000 square feet in 1999 have been completed, up from 124,000 square feet in 1998. The 1999 renewals will generate annual net rental income of U.S.\$2.1 million, representing a 13.7% increase over the pre-renewal annual net rent, as compared to a 2.1% increase on U.S.\$1.5 million of renewals completed in 1998. Occupancy levels, excluding projects under redevelopment, decreased to 92% of total gross leasable area as at December 31, 1999 as compared to 94% occupancy at the end of 1998.



Anchor Tenant Sales

As detailed above under Canadian Operations, anchor tenant sales performance is a good barometer of the quality and success of the Company's shopping centres. In the United States many of the Company's anchor leases were created more than 10 years ago and as a result many of these anchor tenants have surpassed the break-through point of annual sales revenue. Accordingly the Company is directly benefiting from these tenants' sales success through the receipt of percentage rent payments. The following chart summarizes average comparable anchor tenant sales per square foot for reporting tenants by major use category for the Company's U.S. portfolio:

	1999	1998
Department stores	U.S.\$264	U.S.\$246
Food supermarkets	U.S.\$417	U.S.\$379
Drug stores	U.S.\$494	U.S.\$461

For the year ended December 31, 1999 the Company earned U.S.\$947 thousand (1998 – U.S.\$923 thousand) in percentage rent from its anchor tenants in the United States.

We are pleased with the Company's operational results for the past year. During this period, strong individual property occupancy levels throughout our portfolio were maintained and remerchandising and redevelopment activities were commenced and completed at a number of our existing projects. All of this is a function of the high quality of the Company's retail portfolio and the hard work of our motivated operational team. We remain confident that Centrefund will continue to generate strong operational results in 2000 and beyond.

Sincerely,

[Peter F. Cohen], [Robert S. Green], [John W.S. Preston]

Peter F. Cohen, Robert S. Green, John W.S. Preston
 Members of the Management Committee
 March 21, 2000

SHOPPING CENTRE PORTFOLIO

CANADIAN PROPERTIES


Name and Location	Gross Leasable Area	Anchor-Owned	Net Leasable Area	Major or Anchor Tenants
ONTARIO				
Cedarbrae Mall, Toronto, Ontario	478,000	–	478,000	Zellers, Loblaws, Canadian Tire, Toys 'R' Us
Fairview Mall, St. Catharines, Ontario	432,000	78,000	354,000	Zellers, Zehrs, Cineplex, A&P, Chapters, Future Shop, Mark's Work Wearhouse
Brantford Mall, Brantford, Ontario	299,000	–	299,000	Wal-Mart, Zehrs, Cineplex
Tillsonburg Town Centre, Tillsonburg, Ontario	244,000	–	244,000	Zellers, Valu-Mart, Canadian Tire
Zellers Festival Marketplace, Stratford, Ontario	225,000	99,000	126,000	Zellers, Sears, Canadian Tire
Harwood Place Mall, Ajax, Ontario	217,000	–	217,000	Food Basics (A&P), Shoppers Drug Mart
Zellers Plaza, Waterloo, Ontario	215,000	–	215,000	Zellers, Sobeys
Stanley Park Mall, Kitchener, Ontario	190,000	–	190,000	Zellers, Zehrs, LCBO
Stoney Creek Plaza, Hamilton, Ontario	173,000	–	173,000	Zellers, Office Place, Mark's Work Wearhouse
Parkway Centre, Peterborough, Ontario	172,000	–	172,000	Zellers, IGA
Zellers Plaza at Sheridan Mall, Toronto, Ontario	170,000	–	170,000	Zellers, Food Basics (A&P)
Ambassador Plaza, Windsor, Ontario	137,000	–	137,000	Zellers, LCBO
Thickson Place, Whitby, Ontario	134,000	49,000	85,000	A&P, Toys 'R' Us
Orleans Gardens, Ottawa, Ontario ⁽¹⁾	111,000	–	111,000	Loblaws
Orleans Place, Ottawa, Ontario	90,000	60,000	30,000	Loblaws
Eagleson Place, Ottawa, Ontario	75,000	–	75,000	Loblaws
Northfield Centre, Waterloo, Ontario	52,000	–	52,000	Sobeys, Pharma Plus
Office Place, St. Catharines, Ontario	36,000	–	36,000	Office Place
	3,450,000	286,000	3,164,000	
WESTERN CANADA				
Northwood Mall, Edmonton, Alberta	542,000	–	542,000	Zellers, Safeway
South Park Village, Edmonton, Alberta	429,000	48,000	381,000	Zellers, Canadian Tire, Toys 'R' Us, Office Depot
Sherwood Towne Square, Sherwood Park, Alberta	135,000	–	135,000	Zellers, Staples
Leduc Towne Square, Edmonton, Alberta	127,000	83,000	44,000	Safeway, Canadian Tire
Village Market, Sherwood Park, Alberta	119,000	–	119,000	Safeway, London Drugs
Red Deer Village, Red Deer, Alberta	109,000	–	109,000	Mark's Work Wearhouse, Sportmart
Gateway Village, St. Albert, Alberta	105,000	–	105,000	Safeway
Sherwood Centre, Sherwood Park, Alberta	102,000	–	102,000	CIBC, Rogers Video
London Place West, Calgary, Alberta	71,000	–	71,000	London Drugs
Regent Park Shopping Centre, Regina, Saskatchewan	66,000	–	66,000	Safeway
Registan Shopping Centre, Regina, Saskatchewan	26,000	–	26,000	Safeway
	1,831,000	131,000	1,700,000	
QUEBEC				
La Porte de Gatineau, Gatineau, Quebec	194,000	44,000	150,000	Loblaws, Toys 'R' Us, Future Shop
Zellers Plaza, Chateauguay, Quebec	134,000	–	134,000	Zellers
Les Galeries de Repentigny, Repentigny, Quebec	119,000	–	119,000	Metro Richelieu, Pharmaprix
Les Promenades du Parc, St. Hubert, Quebec ⁽²⁾	111,000	55,000	56,000	IGA, Canadian Tire
	558,000	99,000	459,000	
MARITIMES				
Cole Harbour Shopping Centre, Dartmouth, Nova Scotia	149,000	106,000	43,000	Sobeys, Canadian Tire
Ropewalk Lane, St. John's, Newfoundland	90,000	35,000	55,000	Loblaws
Highfield Park, Dartmouth, Nova Scotia	13,000	–	13,000	Tim Horton's, Ultramart
	252,000	141,000	111,000	
TOTAL CANADA	6,091,000	657,000	5,434,000	

U.S. PROPERTIES

Name and Location	Gross Leasable Area	Anchor-Owned	Net Leasable Area	Major or Anchor Tenants
FLORIDA				
Oakbrook Square, Palm Beach Gardens, Florida	216,000	–	216,000	Jacobson's, Publix, Eckerd
Bluffs Square Shoppes, Jupiter, Florida	129,000	–	129,000	Publix, Walgreens
Prosperity Center, Palm Beach Gardens, Florida	122,000	–	122,000	Office Depot, T.J. Maxx, Barnes & Noble, Bed Bath & Beyond
Harbour Financial Center, Palm Beach Gardens, Florida	121,000	–	121,000	Fidelity, Comerica, Prudential
Marco Town Center, Marco Island, Florida	109,000	–	109,000	Publix
Sawgrass Promenade, Deerfield Beach, Florida	107,000	–	107,000	Publix, Walgreens, Blockbuster
Boynton Plaza, Boynton Beach, Florida	98,000	–	98,000	Publix, Eckerd
Boca Village Square, Boca Raton, Florida	93,000	–	93,000	Publix, Eckerd
Kirkman Shoppes, Orlando, Florida	89,000	–	89,000	Eckerd
Ross Plaza, Tampa, Florida	86,000	–	86,000	Ross Dress for Less, Walgreens
The Shoppes of Jonathan's Landing, Jupiter, Florida	81,000	54,000	27,000	Albertsons
The Shoppes at Westbury, Miami, Florida	33,000	–	33,000	Pizza Hut
	1,284,000	54,000	1,230,000	
TEXAS				
Plymouth Park North, Dallas, Texas	441,000	–	441,000	Fazio's, U.S. Post Office
Kingwood Center, Houston, Texas	257,000	–	257,000	Randalls Food Market
Benbrook Square, Fort Worth, Texas	247,000	–	247,000	Under redevelopment
Townsend Square, Desoto, Texas	199,000	50,000	149,000	Albertsons, Beall's
Plymouth Park West, Dallas, Texas	182,000	–	182,000	Under redevelopment
Copperfield Crossing, Houston, Texas	159,000	–	159,000	Gerland's Food Fair
Mission Bend Center, Houston, Texas	129,000	–	129,000	Randalls Food Market
Grogan's Mill Center, Houston, Texas	118,000	–	118,000	Randalls Food Market
Steeplechase Center, Houston, Texas	104,000	–	104,000	Randalls Food Market
Village By The Parks, Dallas, Texas	99,000	54,000	45,000	Toys 'R' Us, Pier 1 Imports
Woodforest Center, Houston, Texas	94,000	–	94,000	Randalls Food Market
Beechcrest Center, Houston, Texas	91,000	–	91,000	Randalls Food Market, Walgreens
Sterling Plaza, Dallas, Texas	65,000	–	65,000	Bank One, Warehouse Music
Wurzbach Center, San Antonio, Texas	63,000	–	63,000	Albertsons
Eckerd Plaza, Dallas, Texas	62,000	13,000	49,000	Eckerd
Minyards Center, Garland, Texas	59,000	–	59,000	Minyards
Kroger Plaza, Dallas, Texas	56,000	–	56,000	Kroger
	2,425,000	117,000	2,308,000	
TOTAL UNITED STATES	3,709,000	171,000	3,538,000	
TOTAL COMPANY PORTFOLIO	9,800,000	828,000	8,972,000	
CENTREFUND DEVELOPMENT GROUP COMPLETED PROJECTS	362,000	–	362,000	
TOTAL PORTFOLIO	10,162,000	828,000	9,334,000	

(1) 50% interest

(2) 71% interest



MANAGEMENT'S DISCUSSION & ANALYSIS

The Company has expanded
its portfolio of shopping centres
in each year of its existence

BUSINESS OVERVIEW

Centrefund Realty Corporation was incorporated under the laws of the Province of Ontario by articles of incorporation dated November 10, 1993. The Company, directly and through subsidiaries, operates exclusively in the shopping centre segment of the real estate industry in Canada and the United States. Centrefund is engaged in the business of owning and operating a growing portfolio of neighbourhood and community-sized shopping centres with the objective of maximizing operating cash flow and generating long-term capital appreciation.

Since its formation, the affairs of the Company have been managed by an experienced, financially committed Management Team comprised of an Advisor and a Property Manager, subject to the overall supervision of the Board of Directors. On January 18, 2000 shareholders of the Company approved a transaction to terminate the advisory fee component and revise the incentive fee component of the Advisory Agreement effective January 1, 2000. As part of the transaction, employees of the Advisor were retained directly by the Company, thus internalizing management.

The Company has experienced significant growth through the acquisition of additional shopping centres. Since the commencement of operations on March 29, 1994 the Company has expanded its initial portfolio of five shopping centres containing approximately 933,000 square feet of gross leasable area to 70 properties containing approximately 10.2 million square feet as at December 31, 1999. This growth has been substantially financed with three issues of common stock, five issues of convertible debentures and the issue of both common stock and convertible debentures or equivalents on the acquisition of the Company's wholly-owned U.S. subsidiary in 1994.

In 1997, the Company entered into an exclusive partnership arrangement for the development of neighbourhood and community shopping centres in Canada and the United States. The partnership is carrying on business under the name Centrefund Development Group ("CDG"). As detailed in a separate section of this annual report, CDG has completed the development of five properties, has eight shopping

centres under active development and holds options to acquire a number of additional sites.

FINANCIAL GUIDELINES

Centrefund is dedicated to creating significant growth and value for its shareholders and adheres to sound, conservative financial and operating practices which should allow it to operate effectively, notwithstanding volatility which may occur in the economic and retail environment. These practices are based on operating within the following guidelines:

- ◇ mortgage debt will be limited to 60% of the fair market value of total assets with not more than 33% of such debt bearing interest at floating rates.
- ◇ debt will be managed to attempt to ensure that maturities occurring in any six-month period do not exceed 15% of the fair market value of total assets.
- ◇ the Company will not engage in speculative development activities and will only undertake shopping centre development and expansion once appropriate zoning and an acceptable level of pre-leasing is in place.

Centrefund seeks to exploit selective acquisition and development opportunities that meet its defined investment criteria, including the expectation of appropriate risk-adjusted rates of return. These criteria are designed to maximize returns through development, redevelopment, remerchandising, renovation and expansion and to minimize risk, principally by completing substantial pre-leasing programs and utilizing fixed-price construction contracts.

RESULTS OF OPERATIONS

Since mid-1996, the Company has raised \$360 million in capital through the issue of four series of convertible debentures. As a result, as detailed below under the caption "Earnings and Cash Flow Per Share," there are a substantial number of common shares attached to the conversion rights of the Company's outstanding convertible debentures. Accordingly, it is important when assessing the financial performance of the Company to review the fully diluted per share data.

The Company believes that for public real estate companies cash flow from operations is a commonly accepted and more meaningful indicator of financial performance than net income. This is because cash flow from operations does not recognize depreciation and amortization as operating expenses or recognize deferred income taxes until they are actually paid. Management believes that reductions for these charges are not meaningful in evaluating income-producing real estate, which has historically not depreciated.

Cash flow before provision for the termination of advisory services amounted to \$46.451 million or \$3.21 per common share for fiscal 1999, a 24% increase over the \$37.453 million or \$2.69 per common share generated for 1998. On a fully diluted basis cash flow before the aforementioned provision for the year ended December 31, 1999 was \$1.62 per common share as compared to \$1.49 per common share in fiscal 1998.

In 1999, net earnings and cash flow from operations were reduced by the provision for the termination of advisory services in the amount of \$26.85 million. Accordingly, cash flow from operations in 1999, after the provision, was \$19.601 million or \$1.36 per share, or \$0.82 per share on a fully diluted basis. Net earnings for the year ended December 31, 1999, after the aforementioned provision, were \$11.233 million as compared to \$16.662 million in 1998.

The Company believes that the provision for the termination of advisory services that is described in Note 13(b) to the consolidated financial statements, should be considered separately in the evaluation of the Company's financial operating performance in 1999. This provision represents the cost of restructuring the manner in which the Company is managed and evaluating it separately will allow for meaningful comparisons of relative financial performance.

In calculating earnings per share, in accordance with Generally Accepted Accounting Principles, reported earnings have been reduced by \$13.717 million in 1999, as compared to \$10.368 million in 1998, to reflect the interest and accretion on the equity component of

the Company's outstanding convertible debentures. This resulted in the Company reporting a per share loss of \$0.17 per common share for the year ended December 31, 1999 as compared to earnings of \$0.45 per common share for the year ended December 31, 1998.

These financial results were generated from gross rental income of \$137.1 million in 1999, which represents a 21.5% increase above the \$112.8 million in gross rental income reported in 1998.

Net income in 1998 was reduced by a one-time charge in the amount of \$7.447 million related to the settlement of the 1994 Convertible Participating Debentures. As more fully described in Note 14 to the consolidated financial statements, this one-time payment eliminated the future participation component of these securities and accordingly, should not be considered in the evaluation of the Company's overall financial performance for 1998. In determining reported cash flow from operations for the year this charge was eliminated.

Gross Rental Income

A substantial portion of the Company's growth can be attributed to the acquisition of additional shopping centres. The following chart summarizes the sources of the Company's growth and the impact on gross rental income over the past five years, in thousands of dollars.

	1999	1998	1997	1996	1995
1994 Acquisitions	\$ 38,804	\$ 36,666	\$ 32,249	\$ 30,861	\$ 28,710
1995 Acquisitions	13,522	11,253	9,401	7,496	1,388
1996 Acquisitions	27,323	25,620	22,753	9,120	-
1997 Acquisitions	28,977	27,860	7,395	-	-
1998 Acquisitions	25,364	11,428	-	-	-
Developments	591	-	-	-	-
1999 Acquisitions	1,601	-	-	-	-
Developments	915	-	-	-	-
Annual gross rental income	\$ 137,097	\$ 112,827	\$ 71,798	\$ 47,477	\$ 30,098
Number of shopping centres:					
acquired during year	8	14	18	10	5
developed during year	4	1	-	-	-

The Company has expanded its portfolio in each year of its existence. As the growth in the size of the Company's shopping centre portfolio occurs throughout the year, the full impact

of these acquisitions and developments is only fully reflected in the years after the properties are acquired or completed.

The shopping centres developed represent those properties developed by Centrefund Development Group.

The Company's business involves the redevelopment and remerchandizing of retail space. As a result, it is common for the Company to generate income from payments received from tenants as compensation for the cancellation of leases. In 1999, the Company received net lease cancellation payments of \$2.7 million as compared to \$2.5 million in 1998. In each year, these payments were received from several different tenants and were included in gross rental income.

Interest Expense on Mortgages

The increase of \$8.538 million in interest on mortgages incurred in 1999 as compared to 1998 is substantially as a result of an increase in the level of borrowing by the Company. In addition to the \$105.7 million increase in borrowing during 1999, the Company incurred a full year's interest on the increase in mortgage financing in 1998. The average interest rate on the Company's mortgage borrowings, as detailed on page 23 under the caption Mortgages Payable, declined from 7.61% in 1998 to 7.44% in 1999. This reduction resulted from the fact that new borrowings, either initiated by the Company or assumed with property acquisitions, bear interest at mortgage rates lower than the Company's average interest rate. The average interest rate remains relatively constant due to the fact that a substantial portion of these outstanding liabilities bear interest at fixed interest rates.

Depreciation and Amortization

Depreciation and amortization for the years ended December 31, expressed in thousands of dollars, is summarized as follows:

	1999	1998
Depreciation	\$ 6,608	\$ 5,168
Amortization	3,980	2,376
Total	\$ 10,588	\$ 7,544

The \$1.440 million dollar increase in depreciation substantially results from additions to the book value of shopping centres due to new acquisitions and redevelopments. The \$1.604 million increase in amortization results from increases in the level of leasing and financing costs incurred in connection with the increase in the Company's leasing and financing activities.

Interest and Other Income

Interest and other income, expressed in thousands of dollars, comprises the following:

	1999	1998
Interest and other income	\$ 6,238	\$ 5,894
Gains on sale	1,906	–
Dividend income	750	–
Non-recoverable pre-development costs	(442)	(286)
Total	\$ 8,452	\$ 5,608

The Company earns interest income from funds invested in three types of investments: short-term bankers' acceptances, advances made to the Company's development partner and an investment in a portfolio of short-term mortgages, and other receivables including a note due from a municipality. These three types of investments contributed approximately equal amounts to the interest income earned by the Company in 1999. The increase in interest income in 1999 over the level earned in 1998 results from a decrease in the level of investment in lower interest rate bankers' acceptances and an increase in the level of investment in higher yielding interest-bearing investments.

The gains on sale represent gains generated on the sale of a parcel of land and a shopping centre held for redevelopment to anchor tenants. Although the Company's business is not focused on the sale of assets, on occasion, the most efficient way to satisfy a tenant's space requirements, and at the same time create and realize value, involves the sale of all or a portion of one of the Company's shopping centre sites.

Dividend income represents semi-annual dividends earned by the Company on its investment in the common shares of Revenue Properties Company Limited, a Toronto Stock

Exchange listed company involved in the ownership of shopping centres in Canada and the United States.

Non-recoverable pre-development costs represent the Company's share of such costs incurred by Centrefund Development Group.

Corporate Expenses

Advisory fees expensed, which vary with the magnitude of the Company's asset base, increased in 1999 by \$1.118 million above the level expensed in 1998 as a result of asset growth. In 1999, \$930 thousand of the advisory fees incurred were capitalized to shopping centres under redevelopment and land held for development as compared to \$852 thousand in 1998. The Company determines the portion of the advisory fees to be capitalized from time to time based on the book value of the assets under redevelopment or development. The increase in the level of capitalization in 1999 reflects an increase in redevelopment and development activity undertaken.

Capital taxes, net of recoveries from tenants, increased by \$242 thousand above the level incurred in 1998 as a result of an increase in the size of the Company's capital base deployed in the provinces of Ontario and Quebec.

General and administrative costs incurred in 1999 exceeded the level incurred in 1998 by \$179 thousand as a result of increases in the size of the Company's operations. Additional professional fees were also incurred in connection with potential acquisitions and the Company's growing activities in the United States.

Interest on Debentures

Interest on the Company's outstanding debentures, expressed in thousands of dollars, comprises the following:

	1999	1998
Interest on convertible debentures	\$ 6,614	\$ 7,342
Interest on debentures	3,430	5,183
Total	\$ 10,044	\$ 12,525

Interest on convertible debentures declined in 1999 as compared to the level incurred in 1998 as a result of the

reduction in the average liability component of the Company's outstanding convertible debentures.

Interest incurred on debentures was \$1.753 million lower in 1999 than the level incurred in 1998. This was due to the fact that in 1998 interest included participating interest on the 1994 Participating Debentures incurred at the rate of 12% per annum until November 30, 1998, the date on which these debentures were settled and replaced by the 7.5% Debentures.

Income and Other Taxes

Current taxes, expressed in thousands of dollars, comprise the following:

	1999	1998
Canadian federal Large Corporations Tax	\$ 1,170	\$ 1,075
United States withholding taxes	475	490
Federal, state and provincial minimum taxes	1,650	1,305
Total	\$ 3,295	\$ 2,870

The increase in the Canadian federal Large Corporations Tax results from the increase in the size of the Company's asset base.

The United States withholding taxes represent taxes paid to the Internal Revenue Service on interest paid by the Company's U.S. subsidiary to one of the Company's Canadian subsidiaries. These taxes were fully credited against taxes otherwise due on this income in Canada. The U.S. federal minimum taxes paid increased in the current year as a result of the increase in net income reported for 1999.

Earnings and Cash Flow Per Share

Earnings and cash flow per share are calculated based on the weighted average number of outstanding common shares during a reporting period. Basic per share information has been calculated for the year ended December 31, 1999 based on a weighted average of 14,469,728 common shares outstanding (1998 - 13,947,169 common shares). Fully diluted per share calculations reflect the conversion by the holders of the Company's outstanding convertible debentures and the exercise of the outstanding common share purchase warrants and options, and amount to a weighted average of 33,541,412 common shares outstanding (1998 - 30,717,772 common shares).

In accordance with the recommendations of the Canadian Institute of Chartered Accountants relating to the presentation and disclosure of convertible debentures in calculating earnings per share, earnings have been reduced by \$13.717 million (1998 – \$10.368 million), representing interest and accretion on the equity component of the convertible debentures.

Quarterly Results

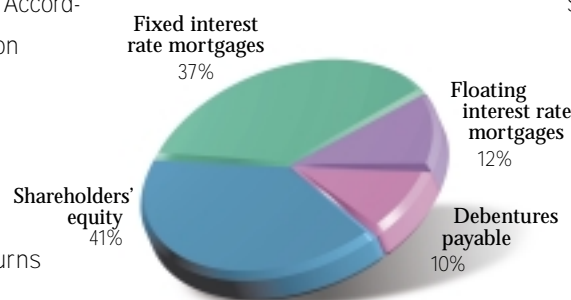
The growth experienced in the Company's shopping centre portfolio makes a review of the Company's quarterly results meaningful in relation to expected future financial performance. The following chart summarizes the Company's unaudited quarterly results:

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total 1999	Total 1998
Gross rental income	\$ 34,585	\$ 31,931	\$ 33,634	\$ 36,947	\$ 137,097	\$ 112,827
Interest and other income	\$ 2,601	\$ 1,908	\$ 2,199	\$ 1,744	\$ 8,452	\$ 5,608
Real estate operating income before depreciation	\$ 14,466	\$ 11,451	\$ 11,833	\$ 11,996	\$ 49,746	\$ 40,323
Net earnings (loss)	\$ 8,046 ⁽¹⁾	\$ 6,526	\$ 6,538	\$ (9,877) ⁽²⁾	\$ 11,233 ⁽¹⁾⁽²⁾	\$ 16,662 ⁽³⁾
Cash flow before provision for termination of advisory services	\$ 13,276 ⁽¹⁾	\$ 10,561	\$ 11,283	\$ 11,331	\$ 46,451 ⁽¹⁾	\$ 37,453
Cash flow from operations	\$ 13,276 ⁽¹⁾	\$ 10,561	\$ 11,283	\$ (15,519) ⁽²⁾	\$ 19,601 ⁽¹⁾⁽²⁾	\$ 37,453

- (1) During the first quarter the Company received a net lease cancellation payment of \$1.7 million and completed the sale of a property to an anchor tenant to realize a net gain of \$1.5 million.
- (2) Net earnings and cash flow from operations includes a provision for the termination of advisory services in the amount of \$26.850 million (see Note 13(b) to the consolidated financial statements).
- (3) Net earnings in 1998 include a non-recurring charge in the amount of \$7.447 million related to the settlement of the 1994 Convertible Participating Debentures (see Note 14 to the consolidated financial statements).

CAPITAL STRUCTURE

The real estate business is capital-intensive by nature, requiring Centrefund to focus on its capital structure to maintain stability and finance growth. Possessing a stable capital structure can also create a competitive advantage in the acquisition arena. Prudent financial leverage is a key ingredient in generating competitive rates of return on equity in the real estate industry. Accordingly, Centrefund concentrates on maintaining a proper blend of debt, convertible debt and equity in its capital base in order to minimize income taxes and to generate acceptable equity returns



without risking the stability of the long-term prospects of the Company. The chart at the bottom of the page illustrates Centrefund's capital structure.

Mortgages Payable

The Company currently maintains a policy of restricting total mortgages payable to 60% of the fair market value of its assets. As at December 31, 1999, total mortgages payable represented 46.8% of the total book value of the Company's assets, excluding future income tax assets, as compared to 40.3% in 1998. Management believes that the fair market value of the Company's assets is in excess of book value as outlined in the section of this report entitled

"Estimated Current Value." As a result, the Company has significant unused mortgage capacity which, together with the Company's cash resources, is available to fund the future growth of the Company's shopping centre portfolio.

In Canada, the Company had fixed rate mortgages outstanding as at December 31, 1999 in the aggregate amount of \$262.2 million bearing interest at an average interest rate of 7.5% as compared to \$205.7 million in outstanding mortgages with an average interest rate of 7.6% at the end of 1998. The increase in the outstanding balance is the net result of \$33.0 million in repayments and \$89.5 million in new financing related to the acquisition of additional properties and refinancing.

In Canada the Company maintains revolving credit facilities in the aggregate amount of \$58.2 million (1998 – \$48.2 million) which are secured by first mortgages on eight of the Company's Canadian shopping centres. As at December 31, 1999, \$15.8 million (1998 – \$32.8 million) remained undrawn under these facilities.

The Company's U.S. shopping centre portfolio is financed, in part, by U.S. dollar denominated mortgages. The debt service requirements of these mortgages are fully funded by the cash flow generated by the Company's U.S. operations, substantially mitigating the Company's exposure to fluctuations in foreign currency exchange rates. As at December 31, 1999 the outstanding principal balances of the mortgages were \$204.2 million (U.S.\$141.5 million) bearing interest at an average interest rate of 7.3%, as compared to \$172.1 million (U.S.\$112.2 million) bearing interest at an average interest rate of 7.6% in 1998.

The increase in outstanding balance of mortgages resulted from the net effect of \$16.9 million (U.S.\$11.6 million) in repayments and the assumption of \$59.1 million (U.S.\$40.9 million) in mortgages related to the acquisition of additional shopping centres and refinancings.

In the United States, the Company maintains revolving credit facilities in the aggregate amount of \$134.6 million or U.S.\$93.3 million (1998 – \$76.6 million or U.S.\$50 million). These facilities are secured by first mortgages on twelve of the Company's U.S. shopping centres, bear interest at a floating rate linked to the London Inter-Bank Rate (LIBOR) and mature in 2003. As at December 31, 1999 and 1998 the full amount had been drawn under this facility. The Company has entered into an interest rate swap arrangement covering \$62.5 million (U.S.\$43.3 million) of this facility and as such has fixed the interest rate until 2001.

Centrefund's policy of restricting floating rate debt to 33% of the total amount of mortgages payable outstanding from time to time minimizes the impact of volatility in the interest rate markets. In addition to the Company's revolving credit facilities, floating rate financings are utilized to finance projects that are in the process of being expanded, renovated, or developed. Centrefund does not speculate on interest rates and attempts to fix interest rates once a project is at a stage of completion making it suitable for long-term mortgage financing. As at December 31, 1999, 23.7% (1998 – 24.6%) of the Company's total mortgage debt included floating interest rates.

The Company also attempts to manage its long-term debt by staggering maturity dates in order to mitigate against

short-term volatility in the debt markets. At December 31, 1999 the Company had mortgages aggregating \$54.4 million maturing in 2000 and \$32.1 million maturing in 2001. The average interest rate on the mortgages maturing in each of these years is 7.5%. The Company is in the midst of negotiating early renewals on these mortgages and anticipates no difficulty in replacing these mortgages at current interest rates, which are about 50 basis points higher than the existing mortgage rates.

The net cash flow generated by each shopping centre owned by the Company is more than sufficient to support refinancing any outstanding mortgage liability on any such project.

Debentures Payable

During 1999 the 7.5% U.S. Dollar Denominated Debentures were repaid in full and the holders of these debentures utilized the proceeds of the repayment to exercise their warrants to purchase common shares of the Company.

As a result, as at December 31, 1999 the 7.5% Debentures (formerly the 1994 Convertible Participating Debentures) are the only remaining issue of outstanding debentures that are not convertible into common stock of the Company. These debentures are direct subordinated obligations of the Company that are secured by a floating charge on four of the Company's shopping centres and mature on December 1, 2003.

Convertible Debentures

Centrefund believes that the use of long-term convertible debentures as a source of capital is a tax-effective method of financing a portion of the equity component of its expanding shopping centre portfolio.

Accordingly, a large portion of the Company's capital is in the form of convertible debentures that mature between 2006 and 2008. The debentures require interest payable semi-annually at rates ranging from 7% to 8.5%. In addition to being convertible at the holders' option at common share prices that range from \$11 to \$25.25 per share the Company has the option on redemption or maturity of repaying the debentures through the issue of common stock.

It is anticipated that the holders of these debentures will exercise their rights to convert them into an aggregate of

18,231,444 common shares on or before maturity. If the holders of the debentures do not exercise their conversion rights, the Company has the option of repaying the debentures on maturity by way of the issue of common shares at 95% of the then trading price of the Company's common stock. Accordingly, the Company views these convertible debentures as equity instruments issued on a tax-effective basis and at a premium to the trading price of the Company's common stock when issued.

The two \$100 million issues of 7.0% and 7.25% debentures completed in 1998 also provide the Company with the option, subject to regulatory approval, to pay semi-annual interest through the issue of common stock.

In 1996, the Company retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to the presentation and disclosure of financial instruments. In accordance with these recommendations, each series of the Company's convertible debentures is presented in its debt and equity component parts, measured at its respective issue dates, as more thoroughly detailed in Note 1(g) to the Company's 1999 consolidated financial statements. The details of the Company's outstanding convertible debentures are summarized in Note 7 to the Company's 1999 consolidated financial statements.

Shareholders' Equity

Shareholders' equity amounted to \$421.538 million as at December 31, 1999 as compared to \$433.041 million at the end of 1998. This decrease resulted from changes in each of the component parts of shareholders' equity.

Shareholders' equity as at December 31, 1999 includes \$294.119 million (1998 - \$286.208 million) which represents the equity component of convertible debentures as discussed above.

As at December 31, 1999 the Company had 15,070,323 (1998 - 14,307,706) issued and outstanding common shares with a stated capital of \$150.293 million (1998 - \$141.581 million). During 1999, 943,525 common shares (1998 - 651,952 common shares) were issued in connection with the exercise of warrants and the conversion of convertible debentures. The issue of these shares added \$11.284 million (1998 - \$8.826 million) to stated capital.

Also during 1999, 275,774 common shares (1998 - 200,253 common shares) were issued pursuant to the Dividend and Interest Reinvestment Plan initiated in 1995. The issue of these shares added \$3.654 million (1998 - \$3.338 million) to the Company's stated capital. During 1999 the Company terminated the Dividend and Interest Reinvestment Plan because it was no longer in the best interests of the Company to issue shares trading at a significant discount to estimated net asset value per share. In addition, in 1999 the Company purchased and cancelled 456,682 common shares pursuant to its Normal Course Issuer Bid that gave rise to a charge of \$6.226 million to stated capital.

Shareholders' equity as at December 31, 1999 also includes \$2 million representing the proceeds to be received by the Company for the warrants to be issued as part of the consideration for amendments made to the Advisory Agreement detailed in Note 13(b) to the 1999 consolidated financial statements.

Shareholders' equity as at December 31, 1999 includes a cumulative, unrealized currency translation adjustment in the amount of \$2.473 million (1998 - \$17.169 million). This amount represents the difference between the U.S. dollar exchange rate in effect at the date of the acquisition of the Company's U.S. net assets, and the U.S. dollar exchange rate, as at December 31, 1999 and 1998 respectively. The significant reduction to shareholders' equity from this source during 1999 resulted from the fact that the U.S. dollar exchange rate in effect at December 31, 1999 had dropped to U.S.\$1.00 = \$1.44 from U.S.\$1.00 = \$1.53 as at December 31, 1998.

Shareholders' equity as at December 31, 1999 includes a deficit of \$27.347 million (1998 - \$11.917 million), which substantially arises as a result of the Company's policy of paying dividends on common shares by reference to cash flow from operations as opposed to net income. Centrefund considers this an appropriate policy as charges for depreciation are not meaningful in light of the fact that, historically, properly maintained income-producing real estate has not depreciated, and deferred income taxes only impact cash flow in the year they become currently payable. In addition net income for the current year was reduced by \$16 million, representing the after-income-tax impact of the provision

for the termination of advisory services resulting from the management restructuring as more fully described in Note 13(b) to the consolidated financial statements.

LIQUIDITY

The Management Team believes liquidity to be a key to Centrefund's vitality and an essential ingredient in the process of portfolio growth and the creation of significant long-term value. The Company considers liquidity to be comprised of cash flow from operations plus the amount of available undrawn credit facilities. Longer-term liquidity is positively impacted by the Company's capacity to incur long-term mortgage debt within the limits of the overall policy of restricting such debt to 60% of the fair market value of total assets.

Until recently, Centrefund's ability to access the capital markets, which it has successfully demonstrated in each year of its existence until 1999, also significantly bolstered its long-term liquidity and its capacity to expand its shopping centre portfolio. But the dramatic fall in the trading prices of all publicly traded real estate equities, Centrefund's included, since the beginning of 1999, has all but eliminated the opportunity for Centrefund to raise equity capital in a cost-effective manner. Accordingly, until the trading price of the Company's common stock improves to a level that recognizes net asset value, the capital markets will be all but shut off to the Company. In spite of the deterioration in the public real estate equity markets, Centrefund's policy of raising capital when it was available on favourable terms has left the Company with unused financial capacity.

Long-term liquidity can also be augmented through the sale of partial or full interests in shopping centres. To date Centrefund has not sold interests in any of its operating shopping centres. Over the course of the next year the Company intends to determine whether the sale of interests in mature properties is a course of action that should be considered to realize on value created and augment long-term liquidity.

The level of the Company's liquidity must be measured against its short and long-term requirements for cash. In

addition to meeting all property-related costs, including interest and regular amortization on mortgages, cash is required to fund interest payments due on the Company's various issues of outstanding debentures. After all such payments are made, Centrefund maintains a policy of paying regular quarterly dividends to the Company's common shareholders.

As at December 31, 1999, Centrefund had undrawn available credit facilities totaling \$15.8 million (1998 - \$32.8 million), and has the capacity to borrow in excess of \$100 million of additional borrowings and still remain in compliance with its maximum debt level policy. The actual level of future borrowings will be determined based upon the level of liquidity required and the prevailing interest rate and debt market conditions.

The financial guidelines that Centrefund follows have been established in order to assist the Company in maintaining a strong liquidity position. This in turn should continue to provide the Company with the necessary financial stability required to give it a competitive advantage in operating its business and in seeking to selectively expand its shopping centre portfolio.

DIVIDENDS

The Company has maintained a policy of paying regular quarterly dividends to common shareholders since it was formed in 1994. Dividends are set annually by the Board of Directors in November of each year, having regard to the Company's capital requirements and with due consideration to the Company's alternative sources of capital.

In 1999, the Company paid dividends of \$0.89 per common share. These dividends represented 55% of the \$1.62 the Company reported in fully diluted cash flow per share before the provision for the termination of advisory services. The Company is currently paying a quarterly dividend of \$0.23 per common share. To date, the annual dividend rate has grown at a compound rate of approximately 5% since the Company was formed in March 1994.

In 1995, the Company implemented a Dividend and Interest Reinvestment Plan to provide those stakeholders wishing to reinvest their Centrefund earnings in the Company

with an efficient way of doing so. The Plan allowed shareholders to elect to receive their dividends, and debentureholders to elect to receive their interest, in common shares of the Company issued at a 5% discount to the applicable market price. In 1999, 275,774 common shares were issued pursuant to the Plan (1998 – 200,253 common shares). The issue of these shares raised \$3.654 million (1998 – \$3.338 million) of additional capital for the Company.

However, as the trading price of the Company's common shares declined during 1999 to well below estimated net asset value, it was no longer in the interest of the Company to raise capital by issuing common shares pursuant to the Plan. Accordingly, the Plan was terminated in the second half of 1999.

MANAGEMENT STRUCTURE

Since the formation of the Company, the affairs of Centrefund have been managed by a Management Team comprised of an Advisor and a Property Manager. These arrangements are pursuant to five-year renewable contracts. Both the Advisor and the Property Manager have a major financial stake in the affairs of Centrefund by virtue of the significant shareholdings of related entities. As at December 31, 1999, entities related to the Management Team owned more than 15% of the outstanding common shares of the Company. This management structure has allowed Centrefund to use the extensive personnel resources of its Management Team, which includes more than 150 trained real estate professionals, whenever required, while only paying for those services provided, on an as needed basis. Centrefund pays an annual advisory fee based on the size of its asset base, and property management and leasing fees based on fair market rates.

In addition, the Management Team is entitled to earn an incentive fee of 20% of the amount by which the actual cash flow return, including any proceeds of sale, generated by the shopping centre portfolio exceeds a 10% annual return on the equity invested in the portfolio. On termination of the contract, the Management Team is also entitled to earn an incentive fee equal to 20% of the appreciation in value of the Company's shopping centre portfolio.

The Advisor has also been paid a fee on the successful completion of acquisitions, which substantially covers the cost of identifying and evaluating acquisition opportunities and the completion of all due diligence procedures.

These financial arrangements have allowed the Company to operate effectively, maintain a competitive administrative cost structure and provide its Management Team with an incentive for performance. The Company believes that this has historically been a cost-effective manner in which to grow a significant real estate portfolio.

In 1999, the Board of Directors of the Company determined that it would be in the best long-term interest of the Company to terminate the Advisory Agreement in order to internalize management of the Company. The internalization of management is expected to: (i) establish a management structure more typical of an operating real estate entity of comparable size and ensure that the goodwill created by the Company's success will accrue to the benefit of the Company; (ii) allow the Company to capture the efficiencies and cost savings resulting from the growth in the Company's asset base that previously accrued to the Advisor; (iii) better align the interests of the Company's management and its public shareholders as well as provide for continuity of management; (iv) render the Company's securities a more attractive investment, thus allowing the Company to broaden its shareholder base and in the long term assist the Company in raising capital on a cost-effective basis.

A Special Committee of the Board, with the assistance of numerous professionals, negotiated and recommended to the public shareholders of the Company a transaction for the termination of the advisory fee component and modifications to the terms of the incentive arrangements included in the Advisory Agreement. The recommendation of the Special Committee was approved by the public shareholders of the Company at a meeting called for such purpose on January 18, 2000. The transaction takes effect from January 1, 2000 and is scheduled to close during the second quarter of 2000.

RISK MANAGEMENT

Centrefund is exposed to numerous business risks in the normal course of its business that can impact both short- and long-term performance. It is the responsibility of the Management Team, under the supervision of the Board of Directors, to identify, and to the extent possible, mitigate or minimize the impact of all such business risks. The major categories of risk Centrefund encounters in conducting its business and the manner in which it takes actions to minimize their impact are outlined below:

Operating Risk

The most significant operating risk affecting Centrefund's performance is the potential for reductions in revenue resulting from the Company's inability to maintain acceptable levels of occupancy and stable or increasing rental rates. Centrefund focuses on securing retail tenants that provide consumers with basic necessities and amenities as distinct from those which cater to more discretionary fashion demands. This makes the Company's shopping centre portfolio less susceptible to general economic swings, as even during economic downturns, consumers continue to purchase necessities such as groceries and basic clothing. This type of retail property is less vulnerable and more adaptable to changes in retail format, such as the advent of the large-format or big-box retailer. In fact, these large-format or big-box retailers have become excellent additional anchors for some of Centrefund's larger shopping centres.

The financial success of Centrefund's tenants, operating in well located, properly maintained and successfully merchandised and positioned properties, will minimize the impact of this risk on the Company. Centrefund seeks out tenants that are well-capitalized, and who offer the consumer goods and services at fair prices. Centrefund's lease arrangements with many of its tenants provide for income protection and growth through rent escalations and through a participation in the tenants' sales success in the form of percentage rents which are payable in addition to minimum rents. Centrefund's

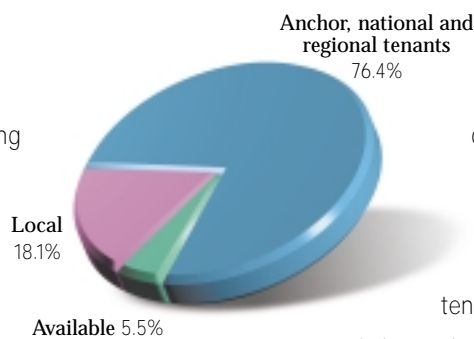
leases also require tenants to be responsible for the payment of realty taxes and the costs of operating and managing the property within which they are located. As such, these leases are considered to be net leases to the Company.

Nature of Tenancies

Centrefund seeks to lease a large portion of the gross leasable area of each of its properties on a long-term basis to successful anchor tenants such as discount department

stores, food supermarkets and promotional retailers. These tenants, in addition to creating a stable source of long-term rental income, generate customer traffic for the benefit of smaller retail and service tenants. The nature and relationship

of the anchors to small shop tenants and the balance between national and local retailers is a key ingredient in establishing stable, sustainable revenue from each of Centrefund's properties. As the adjacent chart illustrates, more than 76% of Centrefund's total gross leasable area is occupied by anchor and national retail tenants.



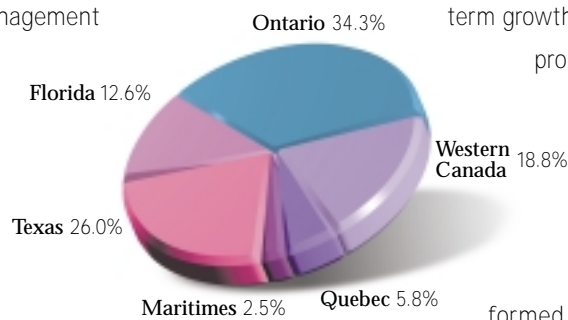
Lease Maturities

Centrefund attempts to stagger lease maturities on a property-by-property basis, which helps to generate a more stable flow of revenue and mitigate risks related to changing market conditions. The Company's leasing philosophy is directed at obtaining long-term tenancies with contractual rent escalations as well as participation in sales success through tenancies with percentage rent clauses. The Company has a very stable shopping centre portfolio, with lease expirations in each of the next five years constituting an annual average of less than 10% of the total leased area in the Centrefund portfolio.

Geographic Diversification

As the chart on the next page shows, the existing Centrefund portfolio is somewhat geographically diversified, although

major concentrations exist in Ontario, Alberta, Florida and Texas. There is a trade-off between operational efficiencies and market influence that can be achieved by geographic concentration, and vulnerability to local market influences that can be avoided by geographic diversification. As Centrefund expands its portfolio, it will seek to further diversify the location of properties by selectively entering new markets. However, it will also seek to add properties in areas where it currently owns shopping centres to take advantage of local market knowledge, anchor tenant relationships and synergies in both management and leasing. The Company, through Centrefund Development Group, is currently contemplating expanding into the North Carolina, Arizona and Colorado markets.



Financial Risk

As outlined above, Centrefund operates in compliance with conservative financial guidelines in order to mitigate the financial risks inherent in the real estate industry. Limits on financial leverage and strong cash flow reduce the risk that replacement financing may not be available upon the maturity of long-term debt. To further limit the Company's exposure to overall reductions in credit availability in poor economic times, the Company attempts to stagger its long-term debt maturities and maintain an adequate level of cash or undrawn credit capacity. Centrefund also attempts to arrange stand-alone, limited recourse project financing to further mitigate the potential risk of a lack of replacement financing. In addition, the Company limits the amount of floating rate debt it will incur at any one time in order to insulate itself from interest rate volatility.

Acquisition Expansion and Development Risk

The key to the Company's ongoing success will be its ability to create and enhance value through the skill, creativity and energy of its Management Team. Centrefund will continue to seek out acquisition, expansion and selective development opportunities that offer acceptable risk-adjusted

rates of return. The Company's acquisition criteria are stringent and its due diligence procedures are rigorous. Centrefund uses a team of trained professionals, including lawyers, engineers, accountants and architects, to thoroughly analyze each proposed acquisition prior to its completion. No acquisition is committed to without a detailed analysis and a personal inspection being completed by the most senior officers of the Management Team. Centrefund believes that acquisitions should only be undertaken if the subject property has the potential for meaningful long-term growth in operating cash flow. Distressed properties will only be acquired if the Company is satisfied, through pre-leasing, that the property can become economically viable in a short, predictable period of time.

During 1997, the Company formed an exclusive partnership for the development of neighbourhood and community-sized shopping centres in Canada and the United States. The partnership, operating under the name Centrefund Development Group, will generally not participate in land speculation or long-term land banking but rather will generally only commit to acquire land once it is fully zoned for the intended retail use and only when an acceptable level of pre-leasing is achieved. Construction risk is mitigated through the use of general contractors engaged pursuant to fixed-price contracts. The Company believes that it can enjoy the rewards of higher investment yields on newly constructed shopping centres without increasing the risk profile of the investment.

Environmental Risk

Shopping centres generally involve less environmental risk than other classes of commercial real estate as very few tenants manufacture, process or store substances that would be considered environmentally unsafe. The major exceptions to this general rule can be gas stations situated on out-parcels adjacent to shopping centre properties and some dry cleaning establishments. The primary responsibility for any environmental remediation rests with the party

responsible for creating the contamination, although the Company may also be liable. Centrefund maintains a program of periodically reviewing and testing its properties to determine if environmental problems exist and includes as a standard covenant in its leases a prohibition against environmentally unsound activities. The Company undertakes a professionally conducted environmental audit before it completes the acquisition of any property in order to mitigate environmental risk.

ECONOMIC CONDITIONS

The economic conditions in the markets in which the Company operates can have a significant impact on the Company's financial success. Adverse changes in general or local economic conditions can result in some retailers being unable to sustain viable businesses and meet their lease obligations to the Company, and may also limit the Company's ability to attract new or replacement tenants. However, Centrefund's shopping centres are generally less susceptible to economic downturns, as they cater to the basic needs of the retail customer by offering food supermarkets, drug stores, financial services, discount department stores and promotional retailers as tenants. In addition, the impact of economic conditions on the overall Centrefund portfolio has been mitigated through the long-term nature of its existing leases and through geographic diversification.

The Company operates a capital-intensive business and as such is sensitive to changes in long-term interest rates. The Company mitigates its exposure to rising interest rates by fixing interest rates on most of its long-term debt. However, although long-term interest rates have increased by approximately 150 basis points over the past year, they remain 15-20 percent below the average yield that can be obtained on acquisitions, and 25-30 percent below the average yield on the development of the Company's type of shopping centre. If long-term interest rates remain below 9%, as is predicted by many economists, the environment within which the Company operates will remain positive.

EFFECTS OF INFLATION

Inflation has remained relatively low since Centrefund commenced operations in March 1994. As a result, inflation has had a minimal impact on the Company's operating performance to date. Nevertheless, most of Centrefund's long-term leases contain provisions designed to mitigate the adverse impact of inflation. These provisions include a pass-through of operating costs, including realty taxes and management expenses, which insulates the Company from inflationary price increases. In addition, most leases include clauses that allow the Company to receive percentage rents based on tenants' gross sales, which generally increase as prices rise. Most of the Company's long-term leases include rent escalation clauses, which increase rental rates over the term of the lease at either pre-negotiated levels or levels determined by reference to increases in the Consumer Price Index. Many of the Company's non-anchor leases are for terms of five years or less, providing the Company with the opportunity to achieve rent increases on renewal or when re-renting the space.

Centrefund is also concerned with the impact of rising interest rates that are symptomatic of periods of inflation. As previously described, the Company limits its floating rate debt, seeks to obtain long-term fixed-rate financing, whenever available, and attempts to avoid concentrations of debt maturities, in order to mitigate its exposure to volatility in the interest rate markets. The combination of rising rents and fixed-rate financing can significantly enhance the value of a well-leased shopping centre portfolio.

THE YEAR 2000

The computer system utilized by the Company and its Property Manager are Year 2000 compliant. To date, the Company has not experienced any problems with tenant or supplier computer systems that may not be Year 2000 compliant. The Company is sensitive to the potential issues that could arise in the event of a third party's computer system not being Year 2000 compliant. Accordingly, the Company continues to monitor transactions with a view to minimizing the potential impact of a breakdown in a third party's computer systems.

ESTIMATED CURRENT VALUE

It is generally accepted in the real estate industry that current value information is an important supplement to historic cost financial statements. At Centrefund we provide this information annually to assist shareholders in the evaluation of their investment and the measurement of the effectiveness of the Company's business plan in light of its overall objective of creating significant long-term shareholder value.

Centrefund's Management Team believes the most appropriate method of determining the estimated current value of the individual properties that comprise its shopping centre portfolio is the Income Capitalization Method. This method estimates value based on capitalizing the current year's annualized income before debt service at a rate equal to the yield a prospective purchaser would expect to earn if they were to acquire the subject property at the determined price.

In determining the value of Centrefund's properties, including those which are currently under redevelopment or development and scheduled for completion within 12 months, each property's stabilized annualized income has been capitalized after providing a reserve for vacancies and non-recoverable expenses. The resulting value is then adjusted to reflect the estimated cost to complete the projects under redevelopment and development.

We believe that based on the nature, quality and size of the Company's properties, the appropriate capitalization rate for the Company's portfolio in today's market is in the range of 9.5%.

In the estimate of net asset value, no recognition has been given to any benefit which may accrue to shareholders from the fair value of the Company's existing liabilities, including the outstanding convertible debentures, which are currently trading at a substantial discount to their face amount.

We have also detailed the per share incentive fee which would be payable to the Company's Management Team if the appreciation calculated were to be realized.

Capitalization Rate	9.25%	9.50%	9.75%
Pre-tax current value, per common share:			
Basic	\$ 17.73	\$ 16.20	\$ 14.75
Fully diluted	\$ 16.43	\$ 15.50	\$ 14.47
Management incentive fee per fully diluted share	\$ 1.16	\$ 1.09	\$ 0.84

The current values included in the above table are estimates; the actual amounts that might be realized on the sale of the Company's portfolio of shopping centres could be higher or lower than the level indicated. Any costs of a potential disposition, and any income tax which may be exigible on a disposition, have not been reflected.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and all of the information included in this annual report have been prepared by and are the responsibility of management and the Board of Directors of the Company. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles appropriate for the real estate industry in Canada, and reflect management's best estimates and judgements based on currently available information. The significant accounting policies which management believes are appropriate for the Company are described in Note 1 to the consolidated financial statements.

The Company has developed and maintains an appropriate system of internal control in order to assure, on a reasonable and cost-effective basis, that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. The Board has appointed an Audit Committee comprised of three Directors, who are independent from management.

The Audit Committee reviews the financial statements, adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited financial statements for publication.

Deloitte & Touche LLP have been appointed by the shareholders as external auditors to perform an audit of the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements as set out below.

[Peter F. Cohen]

Peter F. Cohen, C.A.
Chairman, President and Chief Executive Officer

[Percy A. Fink]

Percy A. Fink, C.A.
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Centrefund Realty Corporation:

We have audited the consolidated balance sheets of Centrefund Realty Corporation as at December 31, 1999 and 1998 and the consolidated statements of operations, deficit, cash flow from operations and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

[Deloitte & Touche LLP]

Chartered Accountants

Toronto, Canada

March 3, 2000

CONSOLIDATED BALANCE SHEETS

December 31 (in thousands of dollars)	1999	1998
Assets		
Shopping centres (Note 2)	\$ 932,942	\$ 863,754
Land and shopping centres under development (Note 3)	25,111	17,983
Cash and cash equivalents	28,469	45,522
Amounts receivable (Note 4)	47,396	29,083
Other assets (Note 5)	40,280	28,169
Future income tax assets (Note 15)	38,335	24,336
	\$ 1,112,533	\$ 1,008,847
Liabilities		
Mortgages payable (Note 6)	\$ 502,921	\$ 397,203
Accounts payable and accrued liabilities	55,955	31,422
Convertible debentures payable (Note 7)	66,463	73,671
Debentures payable (Note 8)	38,166	48,254
Future income tax liabilities (Note 15)	27,490	25,256
	690,995	575,806
Shareholders' Equity (Note 9)	421,538	433,041
	\$ 1,112,533	\$ 1,008,847

See accompanying Notes to Consolidated Financial Statements

Approved by the Board of Directors:

[Peter F. Cohen]

[Robert S. Green]

Peter F. Cohen
Director

Robert S. Green
Director

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31 (in thousands of dollars except per share amounts)	1999	1998
Gross rental income	\$ 137,097	\$ 112,827
Property operating costs	49,571	39,398
Rental income	87,526	73,429
Interest and other income	8,452	5,608
	95,978	79,037
Interest expense:		
Mortgages (Note 11)	29,117	20,579
Debentures	10,044	12,525
	39,161	33,104
Corporate expenses (Note 12)	7,071	5,610
Real estate operating income before depreciation and amortization	49,746	40,323
Depreciation and amortization	10,588	7,544
Real estate operating income	39,158	32,779
Provision for termination of advisory services (Note 13(b))	26,850	-
Settlement of 1994 convertible participating debentures (Note 14)	-	7,447
Earnings before income and other taxes	12,308	25,332
Income and other taxes: (Note 15)		
Current	3,295	2,870
Deferred	(2,220)	5,800
	1,075	8,670
Net earnings for the year	\$ 11,233	\$ 16,662
Net (loss) earnings per common share (Note 16)	\$ (0.17)	\$ 0.45

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF DEFICIT

Years ended December 31 (in thousands of dollars)	1999	1998
Deficit, beginning of the year	\$ (11,917)	\$ (6,341)
Net earnings for the year	11,233	16,662
Interest and accretion on equity component of convertible debentures (net of tax of \$9,122; 1998 - \$6,854)	(13,717)	(10,368)
Dividends	(12,946)	(11,870)
Deficit, end of the year	\$ (27,347)	\$ (11,917)

CONSOLIDATED STATEMENTS OF CASH FLOW FROM OPERATIONS

Years ended December 31 (in thousands of dollars except per share amounts)	1999	1998
Real estate operating income	\$ 39,158	\$ 32,779
Add: depreciation and amortization	10,588	7,544
Deduct: current taxes	(3,295)	(2,870)
Cash flow before provision for termination of advisory services	46,451	37,453
Provision for termination of advisory services (Note 13(b))	26,850	-
Cash flow from operations	\$ 19,601	\$ 37,453
Cash flow before provision for termination of advisory services per common share: (Note 16)		
Basic	\$ 3.21	\$ 2.69
Fully diluted	\$ 1.62	\$ 1.49
Cash flow from operations per common share: (Note 16)		
Basic	\$ 1.36	\$ 2.69
Fully diluted	\$ 0.82	\$ 1.49

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31
(in thousands of dollars)

	1999	1998
Operating Activities		
Net earnings for the year	\$ 11,233	\$ 16,662
Items not affecting cash:		
Depreciation and amortization	10,588	7,544
Deferred income taxes	(2,220)	5,800
Settlement of 1994 convertible participating debentures	-	7,447
Cash flow from operations	19,601	37,453
Net change in non-cash operating items	18,663	(11,785)
Cash provided by operating activities	38,264	25,668
Investing Activities		
Acquisition of shopping centres	(27,001)	(158,702)
Expansion and redevelopment of shopping centres	(58,789)	(57,875)
Acquisition and development of land	(7,568)	(13,177)
Acquisition of loans and mortgages	-	(8,140)
Advances to development partner	(14,232)	(6,562)
Investment in mortgage	(4,835)	-
Investment in marketable securities	(7,567)	(8,478)
Cash used in investing activities	(119,992)	(252,934)
Financing Activities		
Proceeds of mortgage financings	154,634	162,373
Repayment of mortgages payable	(53,446)	(57,195)
Issue of debentures, net of issue costs	-	193,080
Repayment of debentures	(10,088)	(1,254)
Repayment of convertible debentures	(6,474)	(5,984)
Issue of common shares	13,471	4,618
Common shares purchased and cancelled	(6,226)	-
Dividends paid	(12,946)	(11,870)
Interest paid on equity component of debentures	(14,250)	(7,202)
Settlement of 1994 convertible participating debentures	-	(7,447)
Cash provided by financing activities	64,675	269,119
(Decrease) increase in cash and cash equivalents	(17,053)	41,853
Cash and cash equivalents, beginning of the year	45,522	3,669
Cash and cash equivalents, end of the year	\$ 28,469	\$ 45,522
Supplementary Information		
Cash income taxes paid	\$ 2,420	\$ 1,726
Cash interest paid	\$ 53,496	\$ 40,939

See accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999 & 1998

1. Significant Accounting Policies

The Company was incorporated under the laws of Ontario on November 10, 1993 to engage in the business of acquiring, expanding, developing and redeveloping, and owning neighbourhood and community shopping centres.

The Company's financial statements are presented in accordance with generally accepted accounting principles in Canada and are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies. The Company's significant accounting policies are as follows:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and the Company's proportionate share of assets, liabilities, revenues and expenses of partnership and limited liability corporate ventures, which are accounted for using the proportionate consolidation method.

(b) Shopping Centres, Shopping Centres Under Redevelopment and Land and Shopping Centres Under Development

Shopping centres are stated at the lower of cost less accumulated depreciation, and net recoverable amounts. Shopping centres under development and redevelopment and land held for development are stated at the lower of cost and net recoverable amounts. The cost of shopping centres, shopping centres under development and redevelopment and land held for development includes all expenditures incurred in connection with the acquisition, development, redevelopment and initial leasing of the properties. These expenditures include acquisition costs (including acquisition fees paid to the Advisor), construction costs, initial leasing costs, other direct costs, building improvement costs and carrying costs. Carrying costs (including property taxes and interest, net of operating results) are capitalized to the cost of the properties until the accounting completion date (which is based on achieving a satisfactory occupancy level within a predetermined time limit).

Net recoverable amounts represent the estimated future net cash flow expected to be received from the ongoing use and residual worth of a property. To arrive at this amount, the Company projects the cash flow for each property on an undiscounted basis and reviews the current market value of its land holdings. These projections take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area.

(c) Gross Rental Income

Gross rental income includes rents earned from tenants under lease agreements, including percentage participation rents, property tax and operating cost recoveries, and incidental income, including lease cancellation payments.

(d) Depreciation and Amortization

The Company follows the sinking-fund method of depreciating its buildings and improvements. Under this method, depreciation is charged to income in increasing annual amounts consisting of fixed annual sums, together with interest compounded at the rate of 5% per annum, so as to fully depreciate the properties over their estimated useful lives, which vary but do not exceed 40 years.

The Company amortizes commitment fees and other costs incurred in connection with debt financing over the term of such financing. Leasing fees and tenant inducements incurred on securing leases, other than initial leases, are amortized over the term of such leases on a straight-line basis.

(e) *Investment in Marketable Securities*

The Company's investment in a public real estate company is stated at cost unless there is a decline in value which is considered to be other than temporary, in which case the investment would be written down to estimated realizable value.

(f) *Foreign Currency*

The Company carries on business in the United States through operationally and financially self-sustaining wholly-owned subsidiaries.

Assets and liabilities denominated in United States dollars are translated into Canadian dollars at year-end exchange rates. The resulting net gains or losses are accumulated as a separate component of shareholders' equity. Revenues and expenses denominated in United States dollars are translated at the average exchange rate for the year.

(g) *Convertible Debentures*

The Company presents its convertible debentures in their debt and equity component parts where applicable, as follows:

1. The debt component represents the value of the semi-annual interest obligations to be satisfied by cash, discounted at the rate of interest that would have been applicable to a debt-only instrument of comparable term and risk at the date of issue. As a result, a portion of the semi-annual interest payments has been treated as a reduction of the debt component and the remainder as interest expense.
2. The equity component of the convertible debentures is presented under "Shareholders' Equity" in the consolidated balance sheets. A value is ascribed to the equity component as a result of the issuer's ability upon maturity to convert the debentures into common shares, and is increased over its term to the full face value of the debentures by an annual charge to retained earnings. In addition, debentures which provide the issuer the ability to satisfy the interest payments through the issuance of common shares are also included in the equity component of convertible debentures. A value is also ascribed to the conversion right granted to the holder, which remains a fixed amount over the term of the debentures.
3. Debenture issue costs are proportionately allocated to their respective debt and equity components. The debt component of the issue costs is classified as deferred financing costs, and is amortized over the term of the debentures. The equity component of the issue costs reduces the carrying value of the equity component of the convertible debentures.

(h) *Income Taxes*

The Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") concerning accounting for income taxes for 1999 with restatement of the 1998 comparative information.

The adoption of the new standards changes the Company's focus when accounting for income taxes from a statement of earnings to a balance sheet approach. Previously, the Company recorded deferred income taxes based on timing differences in the recognition of income and expense for tax and financial reporting purposes. The new standards require the recognition of future income taxes for the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values.

These new standards also require the Company to compute future income taxes using the enacted corporate income tax rates for the years in which the differences will reverse. Previously, deferred income tax balances reflected the rates in effect when the differences arose.

(i) *Financial Instruments*

The fair value of the Company's financial instruments is estimated based on the amount at which these instruments could be exchanged in a transaction between knowledgeable and willing parties. Fair value is estimated using market values where available or using present value techniques and assumptions concerning the amount and the timing of expected future cash flows and discount rates which reflect the appropriate level of risk of the instrument. The estimated fair values may differ from those which could be realized in an immediate settlement of the instruments. The fair value of cash and short-term deposits approximates their carrying value.

Certain amounts receivable, other assets, accounts payable and accrued liabilities are assumed to have a fair value that approximates their historical cost carrying amount due to their short-term nature.

The fair value of loans receivable, mortgages payable, and debentures payable has been determined by discounting the cash flows of these financial obligations using market rates for debt of similar corresponding terms and risk.

(j) *Use of Estimates*

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

(k) *Stock-Based Compensation Plan*

The Company has a stock-based compensation plan which is described in Note 9. No compensation expense is recognized for the plan when stock options are granted. Any consideration paid by employees on the exercise of stock options is credited to share capital.

(l) *Statement of Cash Flows*

The Company adopted the new recommendations of the CICA for cash flow statements for 1999 with restatement of the 1998 comparative information. Under the new standards, investing and financing activities that do not require the use of cash or cash equivalents are excluded from the statements of cash flows and disclosed separately. Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments.

As is common practice within the real estate industry, the Company has also included statements of cash flow from operations in its financial statements. This measurement, which is an important component of cash flow, is considered a meaningful and useful indicator of real estate operating performance. Cash flow from operations is the equivalent of income before extraordinary items adjusted for future income taxes, depreciation and amortization of capital items and any gain or loss on sale of or provision against capital items.

For the year ended December 31, 1999, cash flow from operations was affected by the provision for the termination of advisory services (see Note 13(b)). This provision, although an operating expense, is not considered by management to be a normal or recurring part of operations. The statements disclose cash flow from operations, both before and after the provision for termination of advisory services.

2. Shopping Centres

Shopping centres, expressed in thousands of dollars, consist of the following:

	1999	1998
<i>Shopping Centres in Operation</i>		
Land	\$ 157,282	\$ 145,866
Buildings and improvements	747,676	672,055
Deferred leasing costs	16,697	10,559
	921,655	828,480
Accumulated amortization and depreciation	(24,537)	(15,443)
	\$ 897,118	\$ 813,037
<i>Shopping Centres under Redevelopment</i>		
Acquisition costs	\$ 27,450	\$ 35,184
Development costs	4,723	10,250
Interest costs	1,692	3,332
Other net carrying costs	1,959	1,951
	35,824	50,717
Total Shopping Centres	\$ 932,942	\$ 863,754
<i>Geographic Segmentation</i>		
Canada	\$ 551,690	\$ 488,401
United States	381,252	375,353
	\$ 932,942	\$ 863,754

During the year the Company acquired shopping centres at a cost of \$41.6 million (1998 - \$180.8 million) and assumed mortgages payable in the amount of \$14.6 million (1998 - \$22.1 million) in connection with these acquisitions.

3. Land and Shopping Centres under Development

Land and shopping centres under development, expressed in thousands of dollars, consist of the following:

	1999	1998
Acquisition costs	\$ 14,632	\$ 10,374
Development costs	8,006	6,652
Interest costs	2,473	957
	\$ 25,111	\$ 17,983
<i>Geographic Segmentation</i>		
Canada	\$ 11,724	\$ 10,492
United States	13,387	7,491
	\$ 25,111	\$ 17,983

4. Amounts Receivable

Amounts receivable, expressed in thousands of dollars, consist of the following:

	1999	1998
Amounts receivable	\$ 10,323	\$ 9,271
Cash flow loans and mortgages receivable (a)	6,358	8,140
Loan receivable from municipality (b)	1,316	1,340
Loans receivable from development partner (c)	24,564	10,332
Mortgage receivable (d)	4,835	-
	\$ 47,396	\$ 29,083

- (a) In connection with the 1997 acquisition of a portfolio of shopping centres, the Company acquired a 50% interest in various cash flow loans and mortgages receivable. The loans and mortgages receivable bear interest at varying rates ranging from 10% to prime plus 0.75% per annum and mature in 1999 and 2000.
- (b) The loan receivable from a municipality bears interest at the rate of 8% per annum, calculated and compounded quarterly, and is repayable quarterly over a 25-year period, maturing in December, 2021.
- (c) The Company has advanced funds to its development partner, North American Realty Group and affiliates (see Note 13(d)), to finance a portion of its capital requirements in the development partnership. The loans bear interest at rates varying from the Company's cost of funds to 10% and are repayable from the development partner's share of proceeds generated from refinancings or sales. The Company has taken assignments of the development partner's debt and equity interests in the development partnership as security for the loans receivable.
- (d) The mortgage receivable from a joint venture in which Centrefund Development Group has a 50% interest bears interest at the rate of 10% per annum, calculated and compounded monthly, and matures in January, 2004.

The fair value of the loans and mortgages receivable at December 31, 1999 and 1998, approximates their carrying costs.

The Company is exposed to credit risk to the extent that debtors fail to meet their obligations. This risk is alleviated by minimizing the amount of exposure the Company has to any one tenant, ensuring a diversified tenant mix, acquiring properties in superior geographic locations, and by the hypothecated properties.

5. Other Assets

Other assets, expressed in thousands of dollars, consist of the following:

	1999	1998
Deferred financing and issue costs	\$ 5,666	\$ 5,609
Deferred interest rate hedge costs	7,897	6,433
Investment in Revenue Properties Company Limited	16,045	8,478
Purchase contract deposits	2,983	2,243
Sundry assets	7,689	5,406
	\$ 40,280	\$ 28,169

Based on its publicly listed trading price, as at December 31, 1999 the market value of the Company's investment in the common shares of Revenue Properties Company Limited, representing a 9.9% interest (1998 - 4.9% interest), was \$13.6 million (1998 - \$8.8 million).

6. Mortgages Payable

Mortgages payable secured by shopping centres presented by geographic segment, expressed in thousands of dollars, consist of the following:

	1999			1998		
	Canada	U.S.	Total	Canada	U.S.	Total
Fixed rate	\$ 262,167	\$ 121,387	\$ 383,554	\$ 205,691	\$ 93,589	\$ 299,280
Floating rate	36,540	82,827	119,367	19,412	78,511	97,923
	\$ 298,707	\$ 204,214	\$ 502,921	\$ 225,103	\$ 172,100	\$ 397,203

Canada:

Fixed rate financing bears interest at an average fixed rate of 7.5% (1998 – at an average fixed rate of 7.6%) and matures in years ranging from 2000 to 2019. Floating rate financing bears interest at floating rates determined by reference to Canadian prime lending and bankers' acceptance rates and matures in 2000 and 2001.

At December 31, 1999 property collateralized credit facilities in the amount of \$15.8 million (1998 – \$32.8 million) were undrawn and available. In addition, as at December 31, 1999, property collateralized credit facilities arranged by Centrefund Development Group (see Notes 13(d) and 18), in the amount of \$21.8 million (1998 – \$20.0 million), were undrawn and available.

United States:

Fixed rate financing bears interest at an average fixed rate of 7.3% (1998 – at an average fixed rate of 7.6%) and matures in years ranging from 2000 to 2013. Floating rate financing bears interest at a floating rate determined by reference to the London Inter-Bank Offering Rate and matures in years ranging from 2001 to 2004.

At December 31, 1999, property collateralized credit facilities were fully drawn. In connection with these facilities, the Company had pledged \$2.6 million (U.S.\$1.8 million) of cash as additional security for the lender (1998 – \$13.2 million (U.S.\$8.6 million)). Subsequent to year-end cash security of \$1.9 million (U.S.\$1.3 million) was released by the lender.

As at December 31, principal repayments of mortgages payable, expressed in thousands of dollars, are due as follows:

	1999			1998
	Canada	U.S.	Total	Total
1999	\$ –	\$ –	\$ –	\$ 50,507
2000	53,381	7,843	61,224	60,892
2001	34,163	4,585	38,748	17,686
2002	41,655	7,910	49,565	47,572
2003	12,244	89,413	101,657	93,393
2004	8,305	52,803	61,108	–
Thereafter	148,959	41,660	190,619	127,153
	\$ 298,707	\$ 204,214	\$ 502,921	\$ 397,203

The fair value of mortgages payable at December 31, 1999, has been estimated to be \$492.0 million (1998 – \$405.1 million).

The Company is subject to the risk of interest rate fluctuations. The Company minimizes its interest rate risk by ensuring that debt maturities are spread out over a number of years. This allows the Company to reduce the risk of unfavourable interest rate changes. Also, the Company ensures that its mortgage portfolio contains debt with both fixed and floating interest rates.

7. Convertible Debentures

The Company has issued and has currently outstanding five series of convertible debentures. All of the debentures are unsecured subordinated debentures, require interest payable semi-annually and are convertible into common stock of the Company at the holders' option at the earlier of maturity or redemption date. In addition the Company has the right to settle its obligations to repay principal upon redemption or maturity by issuing common stock. If the company chooses to issue common stock, with the exception of the 7.5% series, where the value of the common stock is fixed at \$11 per common share, the stock is to be valued at 95% of the weighted average trading price for the 20 consecutive trading days ending five days prior to the redemption or maturity date, as may be applicable. In the case of the 7.0% and the 7.25% series the Company also has the option, subject to regulatory approval, of settling interest due from time to time by way of the issue of common shares valued in the same fashion as with respect to the repayment of principal on those debentures. The debentures are redeemable at par value plus accrued interest after specified dates or by tender to all holders in the case of the 7.5% debentures.

The other terms of the convertible debentures are summarized as follows:

Series	Conversion Price	Maturity	Redemption Date
8.5% Convertible Debentures	\$15.50 per common share	November 30, 2006	November 30, 2002
7.875% Convertible Debentures	\$17.00 per common share	January 31, 2007	January 31, 2003
7.0% Convertible Debentures	\$23.50 per common share	February 28, 2008	February 28, 2004
7.25% Convertible Debentures	\$25.25 per common share	June 30, 2008	June 30, 2004
7.5% Convertible Debentures	\$11.00 per common share	December 31, 2009	-

The components of the convertible debentures, expressed in thousands of dollars, are classified as follows:

Series	1999			1998	
	Principal	Liability	Equity	Liability	Equity
8.5% Convertible Debentures	\$ 57,516	\$ 24,056	\$ 33,735	\$ 26,452	\$ 31,003
7.875% Convertible Debentures	97,547	39,337	58,948	43,206	54,467
7.0% Convertible Debentures	100,000	-	99,163	-	98,554
7.25% Convertible Debentures	100,000	-	98,917	-	98,339
7.5% Convertible Debentures	6,237	3,070	3,356	4,013	3,845
	\$ 361,300	\$ 66,463	\$ 294,119	\$ 73,671	\$ 286,208

In October 1999, the Company filed and was granted a Notice of Intention to renew its Normal Course Issuer Bid with the Toronto Stock Exchange. This program allows the Company to purchase up to \$5,750,000 principal amount of 8.5% convertible unsecured subordinated debentures, \$9,700,000 principal amount of 7.875% convertible unsecured subordinated debentures, \$10,000,000 principal amount of 7.0% convertible unsecured subordinated debentures and \$10,000,000

principal amount of 7.25% convertible unsecured subordinated debentures over the next year. As at December 31, 1999, no debentures have been purchased under this Issuer Bid.

Based on publicly listed trading prices, as at December 31, 1999, the market value on the principal amount of the convertible debentures was \$292.7 million (1998 – \$339.6 million).

8. Debentures Payable

Debentures payable, expressed in thousands of dollars, consist of the following:

	1999	1998
7.5% Debentures	\$ 38,166	\$ 38,166
7.5% U.S. Dollar Denominated Debentures	–	10,088
	\$ 38,166	\$ 48,254

The 7.5% Debentures (formerly the 1994 Convertible Participating Debentures (see Note 14)) mature on December 1, 2003 and bear interest at a rate of 7.5% per annum, payable semi-annually. These debentures are subordinated direct obligations of the Company, secured by a floating charge on real and immoveable property comprising four of the Company's shopping centres.

The 7.5% U.S. Dollar Denominated Debentures matured on December 31, 1999 and bore interest at the rate of 7.5% per annum payable semi-annually. These debentures were subordinated direct unsecured obligations of Centrefund Realty (U.S.) Corporation, the Company's indirect wholly-owned U.S. subsidiary. The debentures were fully repaid prior to their maturity and holders of these debentures utilized the proceeds received on redemption to exercise their warrants to purchase common shares of the Company (see Note 9).

Based on its publicly listed trading price, as at December 31, 1999, the market value of the 7.5% Debentures was \$33.6 million (1998 – \$34.3 million) and the fair value of the 7.5% U.S. Dollar Denominated Debentures was \$nil (1998 – \$10.6 million).

9. Shareholders' Equity

Shareholders' equity, expressed in thousands of dollars, consists of the following:

	1999	1998
Equity component of convertible debentures (Note 7)	\$ 294,119	\$ 286,208
Share capital	150,293	141,581
Advisory warrants (Note 13(b))	2,000	–
Cumulative currency translation adjustment (Note 10)	2,473	17,169
Deficit	(27,347)	(11,917)
	\$ 421,538	\$ 433,041

The Company has an unlimited number of authorized preference shares and common shares. The preference shares may be issued from time to time in one or more series, each series comprising the number of shares, designations, rights, privileges, restrictions and conditions which the Board of Directors determines by resolution; preference shares are non-voting and rank in priority to the common shares with respect to dividends and distributions upon dissolution. The common shares carry one vote each and participate equally in the earnings of the Company and the net assets of the Company upon dissolution. Dividends are payable on the common shares as and when declared by the Board of Directors.

The following table sets forth the particulars of the issued and outstanding shares of the Company:

	Number of Common Shares	Stated Capital (thousands)
Issued and outstanding at December 31, 1997	13,455,501	\$129,417
Issued in connection with exercise of warrants and convertible debenture conversions	651,952	8,826
Issued in connection with the Dividend and Interest Reinvestment Plan	200,253	3,338
Issued and outstanding at December 31, 1998	14,307,706	141,581
Issued in connection with exercise of warrants and convertible debenture conversions	943,525	11,284
Issued in connection with the Dividend and Interest Reinvestment Plan	275,774	3,654
Common shares purchased and cancelled	(456,682)	(6,226)
Issued and outstanding at December 31, 1999	15,070,323	\$150,293

In connection with the acquisition of Centrefund America Holding Corp. on December 31, 1994, the Company issued 1,149,000 warrants for the acquisition of 1,149,000 common shares at an exercise price of U.S.\$8.12 per share exercisable on or before December 31, 1999. During 1999 the balance of the outstanding warrants were exercised and as a result, at December 31, 1999 no warrants remained issued and outstanding (1998 – 810,140).

During fiscal 1999 the Company purchased 456,682 shares (1998 – nil) under its Normal Course Issuer Bid. In October 1999 the Company filed and was granted a Notice of Intention to renew its Normal Course Issuer Bid with the Toronto Stock Exchange. This program allows the Company to purchase up to 962,500 of its common shares over the next year.

In October 1998 the Company received securities' commission approval to issue 1,250,000 stock options to its directors, officers and the management personnel of both the Advisor and Property Manager (see Note 13). As at December 31, 1999 the Company had granted 837,500 stock options (1998 – 845,000) at an exercise price of \$14.30, which vest 20% annually and expire in October, 2008. As at December 31, 1999, no stock options had yet been exercised. During 1999, 7,500 stock options were cancelled.

10. Foreign Currency

The Company maintains its accounts in Canadian dollars. However, a portion of its operations are located in the United States and therefore the Company is subject to foreign currency fluctuations which may, from time to time, impact its financial position and results. The Company's U.S. shopping centre portfolio is financed in part by U.S. dollar denominated mortgages payable, which are fully serviced by the cash flow generated by the Company's U.S. operations. This substantially mitigates the Company's exposure to fluctuations in foreign currency exchange rates.

The cumulative currency translation adjustment represents the cumulative unrecognized exchange adjustment on the net assets of the Company's subsidiaries which operate in the United States. The change for the year reflects the impact of U.S. currency movements at December 31, 1999 relative to the exchange rate in effect as at December 31, 1998 on these net assets.

The rate of exchange in effect on December 31, 1999 was U.S.\$1.00 = \$1.44 (1998 – \$1.53). The average rate of exchange during 1999 was U.S.\$1.00 = \$1.48 (1998 – \$1.49).

11. Interest Expense on Mortgages

Interest expense incurred on mortgages, expressed in thousands of dollars, consists of the following:

	1999	1998
Total interest cost	\$ 34,910	\$ 25,525
Less interest capitalized:		
Shopping centres under redevelopment	(3,763)	(4,200)
Land and shopping centres under development	(2,030)	(746)
	\$ 29,117	\$ 20,579

12. Corporate Expenses

Corporate expenses, expressed in thousands of dollars, consist of the following:

	1999	1998
Advisory fees (see Note 13(a))	\$ 5,333	\$ 4,293
Capital taxes	842	600
General and administrative	896	717
	\$ 7,071	\$ 5,610

13. Related Party Transactions*(a) Advisory and Incentive Fees**Advisory Fees*

Dawasco Realty Advisory Corp. (the "Advisor"), a private Ontario corporation controlled by two of the Company's directors, one of whom is the Chairman, President and Chief Executive Officer of the Company, has been engaged to manage and administer the affairs of the Company, pursuant to an Advisory Agreement made February 15, 1994 (the "Advisory Agreement"). The Advisory Agreement is for a five-year term and is automatically renewable for additional five-year terms unless terminated in accordance with the terms thereof. The Advisor is paid an annual advisory fee equal to 0.65% of the total cost of the first \$150 million of the Company's assets and 0.6% of the total cost of the Company's assets in excess of \$150 million. The Advisor is also paid an acquisition fee of 1.5% of the total acquisition price upon the purchase of any property by the Company and a disposition fee of 0.5% of the aggregate sale price of any property sold by the Company (see Note 13(b)). The annual advisory fees, acquisition fees and disposition fees are referred to collectively in these financial statements as the "Advisory Fees".

Incentive Fees

The Advisor is entitled to earn an annual incentive fee equal to 20% of the amount by which the aggregate net property cash flow and the aggregate net sale proceeds generated by the Company's shopping centre portfolio, and other related assets exceed 10% of the aggregate equity invested in such portfolio and other assets. If the agreement is terminated, in accordance with its terms, the Advisor is also entitled to receive an incentive fee equal to 20% of the excess of the fair market value of the Company's shopping centre portfolio and other related assets over the aggregate of: (i) the recorded cost of such portfolio and assets, determined at the termination date, and (ii) the aggregate amount required to have provided the Company since March 29, 1994 and with a 10% compound, cumulative annual return on the average aggregate equity allocable to such portfolio and assets, net of annual incentive fees paid to the Advisor and after

taking into consideration aggregate net property cash flow and aggregate net sale proceeds received with respect to such portfolio and assets. This latter amount is referred to in these financial statements as the "Fair Value Incentive Amount" (see Note 19(a)).

The fees earned by the Advisor, expressed in thousands of dollars, are summarized as follows:

	1999	1998
Advisory fees	\$ 6,263	\$ 5,145
Acquisition and disposition fees, net of payments to the Property Manager	445	1,449
Incentive fees, net of payments to the Property Manager	1,327	1,353
	\$ 8,035	\$ 7,947

During the year, \$930 thousand (1998 - \$852 thousand) in advisory fees included above were capitalized to shopping centres under redevelopment and land and shopping centres under development.

(b) *Provision for termination of advisory services*

In November 1999 the Board of Directors of the Company approved a transaction to terminate the Advisory Fees component and revise the incentive fee provisions of the Advisory Agreement. Pursuant to the transaction, the Advisory Agreement may be terminated by the Company at the expiration of the current term on March 29, 2004, subject to obtaining shareholder approval or upon the expiration of any subsequent term. In addition, the Advisor has agreed to continue to provide the strategic services of the Company's Chairman, President and Chief Executive Officer. The transaction, which takes effect from January 1, 2000, was formally approved by shareholders on January 18, 2000 and is scheduled to close during the second quarter of 2000.

A provision for the transaction has been recorded in the financial statements at December 31, 1999. The provision includes \$25 million for the advisory termination payment in respect of the termination of the Advisory Fees component of the Advisory Agreement.

If the amended Advisory Agreement is terminated effective March 29, 2004, then:

- ◇ Effective January 1, 2000 and for the balance of the current term, the annual incentive fees will be calculated solely with reference to the shopping centre portfolio and related assets owned by the Company as at September 30, 1999;
- ◇ The Fair Value Incentive Amount (see Note 19(a)), payable upon termination of the amended Advisory Agreement, will be calculated solely with reference to the shopping centre portfolio and related assets owned by the Company as at September 30, 1999;
- ◇ The Company will have the option to satisfy the Fair Value Incentive Amount in a combination of cash and common shares provided that the cash portion of such combined payment represents at least 50% thereof, the common shares forming part of such combined payment are issued on a tax-deferred basis to the Advisor and certain other conditions are met; and
- ◇ The property management agreement will be terminated effective March 29, 2004 (see Note 13(c)).

As consideration for the amendments to the Advisory Agreement and in consideration for the Advisor continuing to provide the strategic services of the Company's Chairman, President and Chief Executive Officer, the Advisor will receive the following:

- ◇ The advisory termination fee of \$25 million referred to above, and in this regard, the Advisor has agreed to use \$2 million of the termination payment to purchase advisory warrants having a 10-year term which entitle the holder to purchase 1,000,000 common shares at an exercise price of \$14 per share;

- ◇ An annual base incentive fee of \$2 million (which will increase by 10% calculated and compounded annually commencing January 1, 2001 to the end of the term of the amended Advisory Agreement);
- ◇ A stock appreciation package which represents the appreciation in the value of 3,600,000 common shares measured with reference to a base price of \$14 per share, which will be satisfied by the payment of:
 - a) a fee of \$5,400,000 which will, except in certain circumstances, be used to purchase incentive warrants of the Company ("Incentive Warrants") entitling the holder thereof to purchase an aggregate of 3,600,000 common shares at an exercise price of \$14 per share (as adjusted), having a term expiring on January 1, 2005; and
 - b) if applicable, a fee of \$1,800,000 which will, except in certain circumstances, be used to purchase common share purchase warrants of the Company, having a term of five years from the date of their issuance and representing a right to subscribe for 3,600,000 common shares less the aggregate number of common shares acquired by the holders of the Incentive Warrants, for an exercise price equal to the greater of the fair market value of the common shares on the date of issuance of such warrants and \$14 per share (as adjusted).

If the amended Advisory Agreement is not terminated effective March 29, 2004, then:

- ◇ The amended Advisory Agreement and the property management agreement will be automatically renewed for successive five-year terms until terminated in accordance with their respective terms;
- ◇ The annual incentive fees and the Fair Value Incentive Amount will be calculated with reference to the shopping centre portfolio and related assets in existence at that date;
- ◇ The Fair Value Incentive Amount (see Note 19(a)) will be satisfied entirely in cash; and
- ◇ The stock appreciation package will be satisfied in cash and will be equal to the greater of:
 - a) \$7.2 million; and
 - b) the product of (x) 3,600,000 (subject to certain adjustments) and (y) the amount, if any, by which the fair market value of the common shares on March 29, 2004 exceeds \$14 per share (as adjusted), together with interest thereon at the Company's cost of funds from March 29, 2004 to the date of payment.

The payment of the various fees referred to above and the issuance of the warrants may be accelerated in certain circumstances, such as a change in control of the Company or the death or permanent disability of the Company's Chairman, President and Chief Executive Officer.

The Property Manager will receive a portion of all of the consideration received by the Advisor, except for the annual base incentive fee.

The Company has incurred third-party professional and consulting costs of \$1.85 million in connection with the negotiation and preparation of the documents implementing the amendments to the Advisory Agreement described above.

(c) *Property Management Fees*

Centrecorp Management Services Limited (the "Property Manager"), a private Ontario corporation controlled by two of the Company's directors, has been engaged to act as the Company's property manager, pursuant to a Property Management Agreement made February 15, 1994. The current term of the Property Management Agreement expires March 29, 2004. The Agreement will renew automatically for an additional five years if the Advisory Agreement is renewed. In addition, the Property Manager has also been retained by Centrefund Development Group to act as the

Partnership's property manager, pursuant to a Memorandum of Agreement made September 15, 1997. The agreement is for an initial term of 10 years and is automatically renewable for successive five-year terms. The Property Manager is responsible for all property management functions, including property administration, maintenance and leasing, and assists the Company and the Advisor in acquisition and management decisions.

The fees earned by the Property Manager, expressed in thousands of dollars, are summarized as follows:

	1999	1998
Property management fees, net	\$ 1,074	\$ 696
Acquisition and disposition fees, paid by the Advisor	445	1,449
Construction supervision fees	1,385	1,332
Leasing fees	3,123	3,347
Incentive fees, paid by the Advisor	1,327	1,353
	\$ 7,354	\$ 8,177

Property management fees are net of \$3.6 million (1998 - \$2.6 million) recovered directly from tenants. For the year ended December 31, 1999, the Company's share of development overhead cost reimbursements paid to the Property Manager was in the amount of \$1.5 million (1998 - \$449 thousand).

(d) *Centrefund Development Group*

The Company holds a 50.1% interest in an exclusive partnership with North American Realty Group and affiliates ("NARG"), to engage in the development of neighbourhood and community-sized shopping centres in Canada and the United States. NARG is an Ontario partnership controlled by North American Development Corporation, a private corporation related to the Company's Property Manager.

The Company has advanced \$24.6 million in loans to its development partner, NARG, to partially finance its investment in the development partnership. The loans bear interest at rates varying from the Company's cost of funds to 10%. For the year ended December 31, 1999, the Company earned interest of \$1.8 million (1998 - \$595 thousand) from loans to the development partner which will be repaid from cash flows generated from the development properties and from the development partner's share of proceeds generated from refinancings or sales.

14. Settlement of 1994 Convertible Participating Debentures

On November 30, 1998, the Company and the holders of the 1994 Convertible Participating Debentures agreed to settle on the terms of these debentures and replace them with 7.5% Debentures (see Note 8). As a result of this settlement, the participation and convertibility features as well as the covenant restricting the level of senior indebtedness were removed. The cost of the settlement aggregated \$7.4 million and is included in the 1998 consolidated statement of operations as a one-time charge.

15. Income Taxes

The Company's activities are carried out directly and through operating subsidiaries and partnership ventures in Canada and the United States. The income tax effect on operations depends on the tax legislation in each country and the operating results of each subsidiary and partnership venture and the parent Company.

The provision for income and other taxes, expressed in thousands of dollars, is calculated as follows:

	1999	1998
Provision for income taxes on income at the combined Canadian federal and provincial income tax rates	\$ 5,490	\$ 11,300
Increase (decrease) in the provision for income taxes due to the following items:		
Large Corporations Tax	1,170	1,075
Foreign operations	(6,370)	(3,705)
United States withholding taxes	475	490
Other	310	(490)
	\$ 1,075	\$ 8,670

Future income tax assets and liabilities result primarily from: (i) the difference between depreciation recorded for accounting purposes and that claimed for income tax purposes; (ii) certain development, leasing and carrying costs capitalized or deferred for accounting purposes which are claimed for income tax purposes; and (iii) issue costs charged to the equity accounts and other assets, which are deductible over five years for income tax purposes.

As at December 31, 1999, the Company's future income tax assets and liabilities, expressed in thousands of dollars, are as follows:

	1999	1998
Future income tax assets		
Losses available for carry-forward	\$ 23,551	\$ 19,217
Other assets	12,748	3,213
Canadian and U.S. minimum tax credits	1,573	1,343
Other	463	563
	\$ 38,335	\$ 24,336
Future income tax liabilities		
Shopping centres	\$ 27,371	\$ 25,137
Other	119	119
	\$ 27,490	\$ 25,256

At December 31, 1999 the Company has tax-loss carry-forwards for Canadian income tax purposes of approximately \$53 million prior to the recognition of the provision for termination of the advisory services, which have been recognized as future income tax assets and are available to reduce future Canadian taxable income. These tax-loss carry-forwards expire at various dates between December 31, 2001 and December 31, 2006.

16. Per Share Calculations

Basic per share information is calculated based on a weighted average of 14,469,728 common shares outstanding during the year (1998 - 13,947,169 common shares).

The determination of basic earnings per share reflects a reduction of \$13.7 million (1998 - \$10.4 million) to reported net earnings, which represents interest and accretion on the equity component of convertible debentures, net of tax.

Fully diluted per share information is calculated based on a weighted average of 33,541,412 common shares (1998 – 30,717,772 common shares), which reflects the conversion of the convertible debentures and the exercise of the outstanding warrants and issued options.

17. Segmented Information

The Company and its subsidiaries operate in the retail-related real estate industry in both Canada and the United States.

Real estate operating income by geographic segment for the year ended December 31, 1999, expressed in thousands of dollars, is summarized as follows:

	Canada	U.S.	Total
Gross rental income	\$ 78,365	\$ 58,732	\$ 137,097
Property operating costs	30,295	19,276	49,571
Rental income	48,070	39,456	87,526
Interest and other income	5,378	3,074	8,452
	53,448	42,530	95,978
Interest expense:			
Mortgages	14,929	14,188	29,117
Debentures	9,476	568	10,044
	24,405	14,756	39,161
Corporate expenses	4,024	3,047	7,071
Real estate operating income before depreciation and amortization	25,019	24,727	49,746
Depreciation and amortization	5,742	4,846	10,588
Real estate operating income	\$ 19,277	\$ 19,881	\$ 39,158

Real estate operating income by geographic segment for the year ended December 31, 1998, expressed in thousands of dollars, is summarized as follows:

	Canada	U.S.	Total
Gross rental income	\$ 71,943	\$ 40,884	\$ 112,827
Property operating costs	26,276	13,122	39,398
Rental income	45,667	27,762	73,429
Interest and other income	4,154	1,454	5,608
	49,821	29,216	79,037
Interest expense:			
Mortgages	11,075	9,504	20,579
Debentures	11,766	759	12,525
	22,841	10,263	33,104
Corporate expenses	3,665	1,945	5,610
Real estate operating income before depreciation and amortization	23,315	17,008	40,323
Depreciation and amortization	4,623	2,921	7,544
Real estate operating income	\$ 18,692	\$ 14,087	\$ 32,779

18. Partnership Ventures

The Company participates in partnership ventures that own land, shopping centres, and shopping centres under development.

The following amounts expressed in thousands of dollars, are included in the consolidated financial statements and represent the Company's proportionate interest in the financial accounts of the partnership ventures:

	1999	1998
Assets	\$ 48,193	\$ 20,647
Liabilities	\$ 34,053	\$ 18,349
Revenues	\$ 1,872	\$ -
Expenses	\$ 1,663	\$ 286
Cash flow provided by (used in)		
Operating activities	\$ 115	\$ 933
Financing activities	\$ 25,365	\$ 12,322
Investing activities	\$ (25,457)	\$ (12,618)

The Company is contingently liable for certain of the obligations of the partnership ventures and all of the assets of the partnership ventures are available for the purpose of satisfying such obligations and guarantees (See Note 19(c)).

19. Contingent Liabilities

The Company is contingently liable for the following:

- (a) The Company is contingently liable to the Advisor for certain payments if it terminates the amended Advisory Agreement (see Note 13(b)). If the Advisory Agreement is terminated and the Fair Value Incentive Amount becomes payable, such amount will be charged to earnings in the year in which the termination occurs or the event becomes likely. Any amount payable will be calculated in accordance with the terms of the Advisory Agreement, based on the fair market value of the shopping centre portfolio and related assets, at the termination date. If the Advisory Agreement had been terminated effective December 31, 1999, the Company estimates that the Fair Value Incentive Amount payable to the Advisor would have been approximately \$23 million (1998 - \$38 million), based on the Company's estimate of the fair market value of its shopping centre portfolio and related assets as at that date. In estimating the value of the shopping centre portfolio, an independent appraisal has not been performed; however, management has used the Income Capitalization Method utilizing an average 9.5% (1998 - 9.0%) capitalization rate. The estimate may not be reflective of any actual amount payable, should the agreement be terminated. The amount payable is dependent on various factors such as interest rates, vacancy rates, capitalization rates, U.S.\$ exchange rates and general market and economic conditions at the date of termination, as well as the method of valuation used to estimate value. Furthermore, any changes in the Company's shopping centre portfolio, including those resulting from the acquisition or sale of properties would change the amount of this contingent obligation. At this time, the likelihood of the termination of the Advisory Agreement is not determinable.

If the amended Advisory Agreement is terminated effective March 29, 2004, the Fair Value Incentive Amount would be calculated solely with reference to the shopping centre portfolio and certain related assets owned by the Company as at September 30, 1999. At the Company's option, up to one-half of the amount due to the Advisor could be settled by the issuance of common shares and the remainder paid in cash.

If the amended Advisory Agreement is terminated subsequent to March 29, 2004, the Fair Value Incentive Amount will be calculated with reference to the shopping centre portfolio and related assets in existence as at the effective date of termination and will be satisfied entirely in cash.

- (b) In addition, if the amended Advisory Agreement is terminated before, on or subsequent to March 29, 2004, the Company will be contingently liable to pay the Advisor the Stock Appreciation Package (see Note 13(b)).
- (c) The Company has provided guarantees for approximately \$33.7 million (1998 – \$nil) to various lenders in connection with loans advanced to Centrefund Development Group. Subsequent to the year ended December 31, 1999, new financings arranged by Centrefund Development Group released the Company from \$12.3 million of guarantees it had previously provided.
- (d) The Company is also contingently liable for letters of credit in the amount of \$9.2 million (1998 – \$2.2 million) issued in the ordinary course of business.

20. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude at this time that all aspects of the Year 2000 Issue that may affect the Company, including those related to tenants, suppliers, or other third parties, have been fully resolved.

21. Comparative Figures

Certain comparative figures have been reclassified to reflect the current year's presentation.

CORPORATE INFORMATION

Directors & Officers

Directors

Peter F. Cohen, C.A.⁽¹⁾
Chairman, President and Chief Executive Officer,
Centrefund Realty Corporation

Ricky B. Stupp Cohen
Vice-President,
Dawasco Realty Advisory Corp.

A. Ephraim Diamond⁽²⁾
President,
Whitecastle Investments Limited

Robert S. Green⁽¹⁾
President and Chief Operating Officer,
Centrecorp Management Services Limited

Jay S. Hennick⁽²⁾
President and Chief Executive Officer,
FirstService Corporation

John W.S. Preston⁽¹⁾
Chairman, President and Chief Executive Officer,
Centrefund Development Group

Stanley B. Swartzman⁽²⁾
Retired Business Executive

Lorie Waisberg⁽²⁾
Partner,
Goodman Phillips & Vineberg

Officers

Peter F. Cohen, C.A.
Chairman, President and Chief Executive Officer

Steven E. Cohen
Senior Vice-President

Percy A. Fink, C.A.
Chief Financial Officer

Robert S. Green
Secretary

Errol G. Jones
Vice-President

Legal Counsel

Goodman Phillips & Vineberg
Toronto, Ontario

Auditors

Deloitte & Touche LLP
Toronto, Ontario

Bankers

Bank of Nova Scotia
Bank of Montreal
Comerica Bank
First Union National Bank

(1) Management Committee (2) Audit Committee

SHAREHOLDER INFORMATION

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 Toronto, Ontario M4V 3A1
 Tel: (416) 515-1400
 1-800-240-5711
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Stock Exchange Listings

Common Shares: CFE
 7.5% Debentures: CFE.DB
 8.5% Convertible Debentures: CFE.DB.A
 7.875% Convertible Debentures: CFE.DB.B
 7.0% Convertible Debentures: CFE.DB.C
 7.25% Convertible Debentures: CFE.DB.D

Transfer Agent

Montreal Trust Company of Canada
 151 Front Street West, 8th Floor
 Toronto, Ontario M5J 2N1
 Tel: (416) 981-9633

Annual Meeting

Shareholders are invited to attend
 the Annual Shareholders' Meeting
 to be held at 10:00 a.m. on June 26, 2000
 at the Design Exchange located
 at 234 Bay Street, Toronto, Ontario

Common Share Market Quotations

	High	Low	Dividends paid	Volume
1997				
First Quarter	\$ 15.50	\$ 13.85	\$ 0.20	3,143,300
Second Quarter	\$ 16.60	\$ 13.90	\$ 0.20	1,589,733
Third Quarter	\$ 17.35	\$ 15.65	\$ 0.20	2,278,090
Fourth Quarter	\$ 20.40	\$ 16.00	\$ 0.21	4,165,995
1998				
First Quarter	\$ 22.45	\$ 17.60	\$ 0.21	2,546,811
Second Quarter	\$ 22.30	\$ 18.90	\$ 0.21	1,474,635
Third Quarter	\$ 19.25	\$ 13.25	\$ 0.21	968,352
Fourth Quarter	\$ 17.50	\$ 13.50	\$ 0.22	1,643,001
1999				
First Quarter	\$ 17.00	\$ 14.00	\$ 0.22	1,902,977
Second Quarter	\$ 15.65	\$ 13.20	\$ 0.22	1,112,183
Third Quarter	\$ 14.25	\$ 12.70	\$ 0.22	1,949,989
Fourth Quarter	\$ 13.50	\$ 11.05	\$ 0.23	1,780,592

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