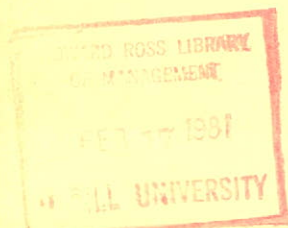


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ANNUAL REPORT 1980

RealCap Holdings Limited



RealCap Holdings Limited

Board of Directors

*David S. Ades, B.Sc., A.M.C.T.
President

RealCap Holdings Limited

Jeanne Ades

*Leonard E. Barlow
Retired Investment Dealer

Roger I. Coe, C.A.

Executive Vice-President and Secretary

RealCap Holdings Limited

*William H. Harper

President

W. H. Harper Inc.

*Peter Mackenzie

Financial Consultant

** Audit Committee*

Officers

David S. Ades, B.Sc., A.M.C.T.
President

Roger I. Coe, C.A.

Executive Vice-President and Secretary

Auditors

Price Waterhouse & Co., Toronto

Banker

Royal Bank of Canada

Solicitors

Cassels, Brock, Toronto

Trustees and Transfer Agents

Guaranty Trust Company of Canada
Series A Debentures

Montreal Trust Company

Class A Shares, Series F Warrants

Stock Exchange Listing

Toronto Stock Exchange

Class A Shares REA.A

Series F Warrants REA.WT

RealCap Holdings Limited

(formerly Federal Trustco Inc.)

2161 Yonge Street, Suite 604

Toronto, Ontario

M4S 3A6

Tel: (416) 486-7729

FINANCIAL HIGHLIGHTS

	1980	1979
Net operating income. \$ 291,000	\$ 33,000	
Net income (loss) \$1,549,000	\$ (471,000)	
Net income (loss) per share. \$2.10	\$ (0.64)	
Dividends per share		
— Class A. \$0.25	\$0.15	
— Common \$0.20	—	
Shareholders' equity. . \$6,272,000	\$4,899,000	
Shares outstanding		
— Class A. 562,514	562,514	
— Common 174,400	174,400	
Book value per share. . \$8.51	\$6.65	
Market price of Class A shares		
High \$6.25	\$3.95	
Low. \$2.40	\$2.25	
December 31. \$6.12	\$2.50	
Number of Class A shareholders. 618	669	

PRESIDENT'S REPORT

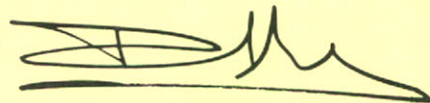
The year 1980 was a turning point in your company's history, with the sale of its subsidiary Federal Trust Company in May. Net operating income was \$291,000 (40 cents per share) compared to \$33,000 (4 cents per share) in 1979. Including the operating results of the former subsidiary and the net gain on sale, net income was \$1,549,000 (\$2.10 per share) compared to a net loss of \$471,000 the previous year. For the three months ended December 31, 1980 net operating income was \$112,000 (15 cents per share).

Since the sale of Federal Trust Company, management has been researching investment opportunities in several industries in both Canada and the United States. To date, no such investments or acquisitions have been completed and available cash has been primarily invested in short term paper of Canadian chartered banks.

Interest rates have been on the rise since the middle of 1980, and although there may be some reduction from present levels especially in short term rates, I anticipate that long term rates will remain high for some further months. This will have a detrimental effect on many companies in North America and should result

in some very attractive investment opportunities for those companies such as ourselves that are in a position to take advantage of this situation. We intend to continue to carefully research any investment opportunities that appear to have prospects of high growth in the 1980's.

I take this opportunity to thank all of our shareholders for their support during the past year and look forward to an interesting and successful 1981.



David S. Ades
President and Chief Executive Officer
January 9, 1981

RealCap Holdings Limited

(formerly Federal Trustco Inc.)

BALANCE SHEET

	December 31	
	1980	1979
		(Note 11)
ASSETS		
Cash and short term investments.	\$2,086,000	\$ 28,000
Investment income due and accrued.	200,000	27,000
Securities (Note 2)-		
Marketable.	2,005,000	—
Other.	4,500,000	—
Mortgage receivable (Note 3).	986,000	982,000
Investment in and subordinated note of subsidiary company (Note 7).	—	7,611,000
Other assets.	81,000	62,000
Unamortized financing costs.	115,000	124,000
	<u>\$9,973,000</u>	<u>\$8,834,000</u>
LIABILITIES		
Bank loan (Note 3).	\$ 70,000	\$ 850,000
Accounts payable and accrued liabilities.	553,000	142,000
Income taxes payable.	269,000	39,000
Long term debt (Note 4).	2,542,000	2,840,000
Deferred income taxes.	267,000	64,000
	<u>3,701,000</u>	<u>3,935,000</u>
SHAREHOLDERS' EQUITY:		
Capital stock (Note 5).	2,524,000	2,524,000
Retained earnings.	3,748,000	2,375,000
	<u>6,272,000</u>	<u>4,899,000</u>
	<u>\$9,973,000</u>	<u>\$8,834,000</u>

APPROVED BY THE BOARD:

David S. Ades, *Director*

Roger I. Coe, *Director*

STATEMENT OF INCOME

	Year ended December 31	
	<u>1980</u>	<u>1979</u>
		(Note 11)
Income:		
Interest and dividends	\$ 636,000	\$ 116,000
Administration fees and interest income from former subsidiary company	318,000	729,000
Other	<u>83,000</u>	<u>24,000</u>
	1,037,000	869,000
Expenses:		
Interest —		
Bank loan	61,000	136,000
Long term debt	252,000	270,000
Other operating costs	<u>407,000</u>	<u>407,000</u>
	720,000	813,000
Operating income before income taxes	317,000	56,000
Income taxes:		
Current	22,000	27,000
Deferred	<u>4,000</u>	<u>(4,000)</u>
	26,000	23,000
Net operating income	291,000	33,000
Equity loss in former subsidiary company (Note 7)	<u>(639,000)</u>	<u>(504,000)</u>
Loss before extraordinary item	(348,000)	(471,000)
Extraordinary item—		
Extraordinary net gain on sale of shares and subordinated note of former subsidiary company after income taxes of \$519,000 (Notes 7 and 10)	<u>1,897,000</u>	—
Net income (loss) for the year	<u>\$1,549,000</u>	<u>\$(471,000)</u>
Earnings (loss) per Class A and Common share:		
Net operating income	<u>\$ 0.40</u>	<u>\$ 0.04</u>
Loss before extraordinary item	<u>\$ (0.47)</u>	<u>\$(0.64)</u>
Net income (loss) for the year	<u>\$ 2.10</u>	<u>\$(0.64)</u>
Fully diluted - Net income for the year (Note 8)	<u>\$ 1.78</u>	

STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	<u>1980</u>	<u>1979</u>
Balance at beginning of year.	\$2,375,000	\$2,931,000
Net income (loss) for the year.	1,549,000	(471,000)
	3,924,000	2,460,000
Dividends (Note 5):		
Class A shares (25 cents per share; 15 cents per share in 1979).....	141,000	85,000
Common shares (20 cents per share).....	35,000	—
	176,000	85,000
Balance at end of year.	<u>\$3,748,000</u>	<u>\$2,375,000</u>

STATEMENT OF CHANGES IN CASH POSITION

	Year ended December 31	
	<u>1980</u>	<u>1979</u>
SOURCE OF CASH		
Operations*	\$ 280,000	\$ 14,000
Net proceeds on sale of shares and subordinated note of former subsidiary company after current income taxes of \$320,000 (Notes 7 and 10).....	4,985,000	—
Mortgage receivable payments.	20,000	20,000
Other - net.	32,000	409,000
	5,317,000	443,000
USE OF CASH		
Purchase of securities - net.	2,005,000	—
Reduction of bank indebtedness.	780,000	130,000
Reduction of long term debt.	298,000	165,000
Dividends.	176,000	85,000
	3,259,000	380,000
Increase in cash and short term investments for the year.	2,058,000	63,000
Cash and short term investments at beginning of year.	28,000	(35,000)
Cash and short term investments at end of year.	<u>\$2,086,000</u>	<u>\$ 28,000</u>

*Represents net operating income before equity loss in former subsidiary company and extraordinary item and after adjustments for amortization of financing expenses and discount on mortgage and deferred income taxes.

NOTES TO FINANCIAL STATEMENTS

December 31, 1980

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Securities

Stocks are carried at original cost and bonds at amortized cost. Dividends are recognized in the statement of income when they have been declared. Gains and losses on sales are included in other income.

(b) Financing costs

These costs are written off on a straight-line basis over the term of the related debt.

(c) Income taxes

Full provision for income taxes is made in the financial statements using the tax allocation method, whereby income taxes related to timing differences are included in deferred income taxes.

2. SECURITIES

(a) Marketable

	December 31, 1980	
	Cost	Market
Bonds —		
Government of Canada	\$ 199,000	\$ 178,000
Corporations	592,000	573,000
	<u>791,000</u>	<u>751,000</u>
Stocks —		
Preferred	1,194,000	1,176,000
Common	20,000	20,000
	<u>1,214,000</u>	<u>1,196,000</u>
	<u>\$2,005,000</u>	<u>\$1,947,000</u>

(b) Other

Consists of 450,000 7-1/2% cumulative redeemable non-voting preference shares having a par value of \$10 each of Central and Eastern Trust Company. The shares have a 5% annual sinking fund requirement and an obligation to purchase the remainder of the shares in 1990. Out of these total shares, 200,000 have been placed in escrow as outlined in Note 7.

3. MORTGAGE RECEIVABLE

The mortgage loan which matures on March 15, 1984 is stated at its outstanding principal amount less unamortized discount. The mortgage is pledged as security for the bank loan.

4. LONG TERM DEBT

Long term debt of \$2,542,000 (1979 - \$2,840,000) consists of 9-1/4% sinking fund debentures, Series A, due July 3, 1993.

AUDITORS' REPORT

To the Shareholders of RealCap Holdings Limited:

We have examined the balance sheet of RealCap Holdings Limited as at December 31, 1980 and the statements of income, retained earnings, and changes in cash position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1980 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

Toronto
January 14, 1981

The Trust Indenture securing the sinking fund debentures Series A contains, among other things, restrictions as to the issuing of additional debentures and of other secured debt and on paying dividends. The Company has covenanted to pay by way of a mandatory sinking fund, sums sufficient to retire \$165,000 principal amount of debt on or before July 3 in each of the years 1981 to 1993 inclusive.

5. CAPITAL STOCK

Detail of authorized and issued capital at December 31, 1979 and 1980:

Authorized—

2,000,000 cumulative (20 cents) non-voting participating Class A shares without par value

360,000 common shares without par value

Issued—

562,514 Class A shares.....	\$2,190,000
174,400 common shares.....	334,000
	<hr/>
	\$2,524,000

The Class A shareholders are entitled to a cumulative preferential dividend of 20 cents per share per annum. No dividend shall be paid on the common shares in any year unless the dividend requirements for Class A shares including arrears have been met. The Class A and common shares participate equally in dividends declared in excess of 20 cents per share per annum.

At December 31, 1980 there are 175,000 Series F share warrants outstanding which entitle the holders to acquire one Class A share for each warrant held to July 3, 1983 at an exercise price of \$7.75.

During the year, options were granted to senior officers of the Company entitling them to purchase 5,000 Class A shares and at the option of the holder 10,000 Class A and/or common shares for a total of 15,000 shares at a price of \$3.00 per share. The options to purchase these shares expire at the rate of 3,000 shares per year on each November 18 anniversary date up to 1985.

6. INCOME TAXES

The income tax provision included in net operating income is different than the prevailing corporate tax rate because income includes non-taxable dividends.

7. SALE OF SUBSIDIARY COMPANY

The sale of Federal Trust Company to Central and Eastern Trust Company was completed on May 16, 1980. Consideration received was 450,000 7-1/2% cumulative, redeemable non-voting preference shares of the par value of \$10 each of Central and Eastern Trust Company and cash of \$5 million for a total consideration of \$9.5 million. Under the agreement, the Company assumes responsibility for some outstanding court actions to which Federal Trust Company as a subsidiary is a party, and as a security therefor agreed to place in escrow 200,000 of the preference shares received. In the opinion of management, adequate provision has been made in the financial statements for any potential losses that may be incurred.

8. EARNINGS PER SHARE

Fully diluted earnings per share reflect the result as if the Series F share warrants and stock options with dilutive effects outstanding at the end of the year had been exercised at the beginning of the year. For the purpose of these calculations, earnings of \$98,000 have been imputed at an after tax rate of 7%.

9. REMUNERATION OF DIRECTORS AND SENIORS OFFICERS

The aggregate direct remuneration paid to directors and seniors officers of the Company amounted to \$245,000 in 1980 and \$257,000 in 1979.

10. RELATED PARTY TRANSACTION

During the year the Company sold a subordinated note of Federal Trust Company in the principal amount of \$483,000 to a company owned by the President of the Company for a cash consideration of \$386,000. The price was established based on a valuation prepared by an investment dealer. The note bore interest at the rate of 12% and matured in 1990. The transaction was sanctioned by a disinterested quorum of the board of directors.

11. COMPARATIVE FINANCIAL STATEMENTS

The 1979 balance sheet, statement of income and statement of changes in cash position figures, have been restated to exclude the consolidation of Federal Trust Company. The investment in this former subsidiary company has been reflected using the equity method of accounting.

