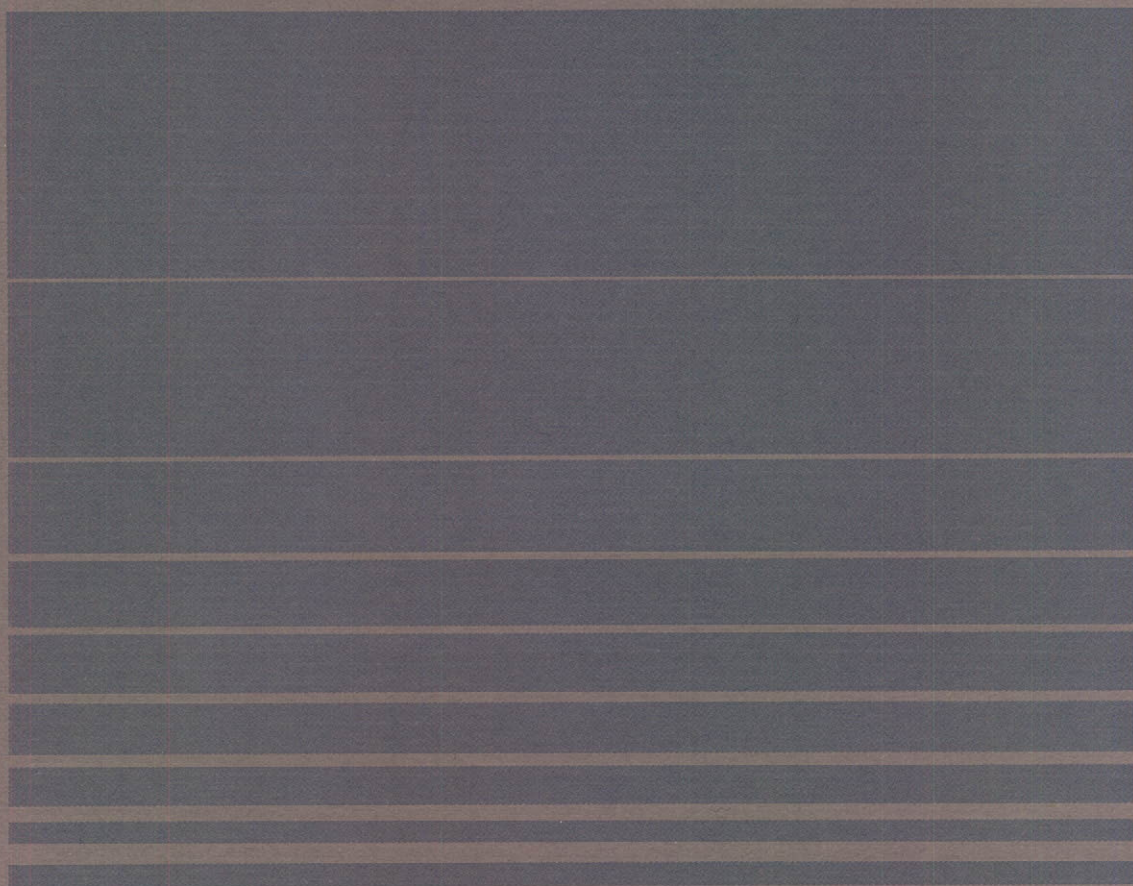
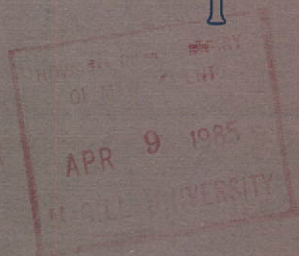


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# ANNUAL REPORT 1984



RealCap Holdings Limited





## HIGHLIGHTS

	1984	1983
Net income . . . . .	<b>\$ 328,000</b>	\$ 309,000
Earnings per share . . . . .	<b>\$0.44</b>	\$0.41
Dividends per share		
— Class A . . . . .	<b>\$0.20</b>	\$0.20
— Common . . . . .	<b>\$0.20</b>	\$0.20
Shareholders' equity . . . . .	<b>\$6,458,000</b>	\$6,312,000
Shares outstanding		
— Class A . . . . .	<b>574,514</b>	571,514
— Common . . . . .	<b>174,400</b>	174,400
Book value per share . . . . .	<b>\$8.62</b>	\$8.46
Market price of Class A shares		
— High . . . . .	<b>\$4.50</b>	\$4.75
— Low . . . . .	<b>\$3.45</b>	\$3.80
— December 31 . . . . .	<b>\$3.45</b>	\$4.50
Number of Class A shareholders . .	<b>370</b>	451

## OIL AND GAS RESERVES\*

	Estimated Net Reserves		Estimated Future Net Revenue (U.S. Dollars)	
	Oil & Condensate (Barrels)	Gas (Mcf)	Nondiscounted	Discounted at 10% Per Year
Proved	434	278,935	\$ 666,366	\$ 573,260
Probable	534	100,097	226,626	185,870
Possible	453	45,353	105,822	46,413
GRAND TOTAL	1,421	424,385	\$ 998,814	\$ 805,543

\*Based on evaluation by H. J. Gruy and Associates, Inc. as of November 30, 1984 of interests in Nacogdoches County, Texas. Future revenues are based on assumption of constant price of \$29.00 U.S. per barrel for oil and \$2.90 U.S. per MCF for gas.



## PRESIDENT'S REPORT

The results for the year ended December 31, 1984 were an improvement over those of the previous year. Net income for the year was \$328,000 or 44 cents per share compared to \$309,000 or 41 cents per share in 1983.

Our marketable securities portfolio again generated good revenues for us through capital gains, dividends and interest income. As planned, most of our marketable securities consist of liquid investments in common equities and interest bearing securities including convertible debentures.

Our affiliated company, Reed Monahan Nicholishen, Investment Counsel Inc. continued to increase the number of accounts it manages with the result that, although it suffered a small loss during the first nine months of the year, in the fourth quarter it generated a profit. Further significant new accounts have recently been added, revenues from which will be recorded in 1985. Their client list now includes pension funds of several blue chip Canadian corporations. This growth in business has been aided by their excellent and consistent investment performance record.

Our mutual fund management subsidiary, RealCap Funds Management Limited continued its progress. Management concentrated its efforts on the performance of its Funds. We anticipate that growth will occur in the future as a result.

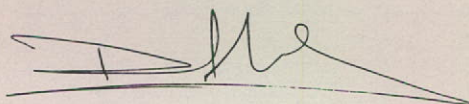
The performance to date of our two Funds has been gratifying. The RealGrowth Canadian Equity Fund achieved a total return of 4.0% for the year as compared to a decline of 2.4% for the TSE "300" Index. The RealGrowth Resources and Financial Services Specialty Fund showed a total return of 13.9% for its first full year of operation to September 30, 1984. This excluded any results from its direct investment in oil and gas properties. For the fifteen months ended December 31, 1984, the Specialty Fund showed a total return of 27.2% compared to a 4.6% increase for the D.J. Industrial Average. Included in these results is the appreciation in value of the oil and gas properties which is based on an independent reserve analysis of these properties.

During 1984 RealCap expanded its activities in the oil and gas business through its wholly owned subsidiary RealCap Inc. (U.S.). To date, RealCap Inc. (U.S.) has

participated in the drilling of 10 wells, 7 of which were on lease interests in Texas acquired in 1983, and 3 on other acreage with other partners. Of these wells 8 were successful and 2 were dry holes. Of the successful wells, 4 are producing and 4 are being completed. An independent reserve evaluation has been completed of the wells on our Texas leases and show estimates as of November 30, 1984 relating to our interests of 424,385 net MCF of gas and 1,421 net barrels of oil. A summary of this evaluation is shown under the "Highlights" section of the annual report. The gas and oil from these wells is being sold and provided \$63,000 of revenues in 1984. We anticipate further cash flow from these and other wells in 1985 and in subsequent years. During 1985 we anticipate participating in the further exploration for gas and oil, primarily in Texas, Louisiana and Oklahoma, being areas in which our co-venturers have experience. We are currently committed to participating in the drilling of one well in Louisiana with further prospects being considered.

As I anticipated, more investment opportunities did materialize in 1984 in both the resources and the financial services industry. I believe that the growth of the North American economy will continue at a contained pace and that interest rates will be volatile on the downside, becoming more stable by the end of the year. Gold will also be volatile on the downside with the U.S. dollar remaining strong. The price of oil should become more stable as the year progresses when some of the economies outside of North America also begin to improve. The price of gas should start to firm up by the end of the year as it is much more susceptible to national rather than international conditions. We will continue to pursue our two main avenues of interest, namely the resources industry and the financial services industry and believe that the year will bring us further opportunities in those two areas.

I look forward to a successful 1985.



David S. Ades  
President  
January 23, 1985



# RealCap Holdings Limited

## CONSOLIDATED BALANCE SHEET

	December 31	
	1984	1983
<b>ASSETS</b>		
Investment income due and accrued . . . . .	\$ 247,000	\$ 165,000
Securities (Note 2):		
Marketable . . . . .	4,025,000	2,227,000
Other . . . . .	4,643,000	5,034,000
Mortgages receivable . . . . .	160,000	1,142,000
Oil and gas properties, net of depletion . . . . .	608,000	45,000
Other assets . . . . .	79,000	57,000
Unamortized financing costs . . . . .	78,000	87,000
	<u>\$9,840,000</u>	<u>\$8,757,000</u>
<b>LIABILITIES</b>		
Bank indebtedness . . . . .	\$1,392,000	\$ 112,000
Accounts payable and accrued liabilities . . . . .	189,000	297,000
Income taxes payable . . . . .	2,000	24,000
Long-term debt (Note 3) . . . . .	1,799,000	2,012,000
	<u>3,382,000</u>	<u>2,445,000</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 4) . . . . .	2,561,000	2,552,000
Retained earnings . . . . .	3,897,000	3,760,000
	<u>6,458,000</u>	<u>6,312,000</u>
	<u>\$9,840,000</u>	<u>\$8,757,000</u>

### APPROVED BY THE BOARD:

David S. Ades, Director

Roger I. Coe, Director



## CONSOLIDATED STATEMENT OF INCOME

	Year ended December 31	
	1984	1983
<b>Income:</b>		
Interest and dividends . . . . .	\$ 609,000	\$ 712,000
Oil and gas . . . . .	63,000	—
Other . . . . .	70,000	81,000
	<u>742,000</u>	<u>793,000</u>
<b>Expenses:</b>		
Interest—		
Bank indebtedness . . . . .	59,000	14,000
Long-term debt . . . . .	178,000	201,000
Other operating costs . . . . .	615,000	535,000
Depletion . . . . .	33,000	—
	<u>885,000</u>	<u>750,000</u>
Operating income (loss) . . . . .	(143,000)	43,000
Gain on sale of securities . . . . .	473,000	452,000
	<u>330,000</u>	<u>495,000</u>
Income taxes recoverable (Note 5) . . . . .	—	7,000
Income before share in loss of affiliated company . . . . .	330,000	502,000
Share in loss of affiliated company . . . . .	2,000	193,000
<b>NET INCOME FOR THE YEAR . . . . .</b>	<u><u>\$ 328,000</u></u>	<u><u>\$ 309,000</u></u>
<b>Earnings per Class A and common share . . . . .</b>	<u><u>\$ 0.44</u></u>	<u><u>\$ 0.41</u></u>



## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	1984	1983
Retained earnings at beginning of year:		
As previously reported . . . . .	<b>\$3,825,000</b>	\$3,739,000
Prior period adjustment (Note 6) . . . . .	<b>65,000</b>	65,000
As restated . . . . .	<b>3,760,000</b>	3,674,000
Net income for the year . . . . .	<b>328,000</b>	309,000
	<b>4,088,000</b>	3,983,000
Dividends (Note 4):		
Class A shares (20 cents per share) . . . . .	<b>114,000</b>	114,000
Common shares (20 cents per share) . . . . .	<b>35,000</b>	35,000
	<b>149,000</b>	149,000
Provision for refundable taxes, net of recovery of \$37,000 (1983 - \$37,000) (Note 5) . . . . .	<b>42,000</b>	74,000
	<b>191,000</b>	223,000
Retained earnings at end of year . . . . .	<b>\$3,897,000</b>	\$3,760,000

## CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

	Year ended December 31	
	1984	1983
<b>Source of Cash:</b>		
Net income for the year . . . . .	<b>\$ 328,000</b>	\$ 309,000
Expenses not requiring use of cash . . . . .	<b>51,000</b>	179,000
	<b>379,000</b>	488,000
Proceeds from issue of Class A shares . . . . .	<b>9,000</b>	9,000
Mortgages receivable payments, net . . . . .	<b>982,000</b>	(30,000)
	<b>1,370,000</b>	467,000
<b>Use of cash:</b>		
Purchase of securities, net . . . . .	<b>1,409,000</b>	126,000
Investment in oil and gas properties . . . . .	<b>596,000</b>	45,000
Reduction of long-term debt . . . . .	<b>213,000</b>	275,000
Dividends . . . . .	<b>149,000</b>	149,000
Other, net . . . . .	<b>283,000</b>	(73,000)
	<b>2,650,000</b>	522,000
Increase in bank indebtedness for the year . . . . .	<b>1,280,000</b>	55,000
Bank indebtedness at beginning of year . . . . .	<b>112,000</b>	57,000
Bank indebtedness at end of year . . . . .	<b>\$1,392,000</b>	\$ 112,000



## AUDITORS' REPORT

### To the Shareholders of RealCap Holdings Limited:

We have examined the consolidated balance sheet of RealCap Holdings Limited as at December 31, 1984 and the consolidated 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 consolidated financial statements present fairly the financial position of the Company as at December 31, 1984 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

Toronto  
January 22, 1985

Chartered Accountants

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1984

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### (a) Principles of consolidation -

The consolidated financial statements include the accounts of its subsidiaries. The investment in an affiliated company is accounted for by the equity method of accounting.

#### (b) Securities - Marketable -

Stocks are carried at original cost after deducting any premiums received on the writing of call options against the underlying stock. Calls purchased are shown at cost and premiums received on puts sold are deducted. Bonds are carried at original cost, adjusted for amortization of discounts to maturity. Dividends are recognized in the statement of income when they have been earned.

#### Other -

Other securities are carried at cost except for the investment in an affiliated company.

#### (c) Oil and gas properties -

The Company follows the full cost method of accounting for oil and gas properties under which all costs related to the exploration for and development of oil and gas properties are capitalized on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical expenses, costs of drilling both productive and non-productive wells, interest

and overhead charges related to exploration activities.

These costs are depleted using the unit-of-production method based upon the estimated quantity of proven oil and gas reserves. Costs of unproved oil and gas properties are not depleted while the Company is in the process of drilling, completing or evaluating the properties.

#### (d) Foreign currency translation -

The financial statements of the foreign subsidiary and accounts of the Company denominated in foreign currency have been translated into Canadian dollars on the following bases:

- (i) All assets and liabilities have been translated at the rate prevailing at the balance sheet date, except for securities and oil and gas properties which are translated at the rates prevailing when the assets were acquired.
- (ii) Income and expenses at the rates prevailing at the dates the income was received or the expenses paid. Depletion is translated on the same basis as the related asset.

The resulting foreign currency translation gains and losses are included in the determination of net income for the year.

#### (e) Financing costs -

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

#### (f) 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, 1984	
	Cost	Market
Stocks-		
Common . . . .	\$2,677,000	\$2,541,000
Options (Note 7)	(47,000)	(63,000)
	<u>2,630,000</u>	<u>2,478,000</u>
Bonds . . . . .	1,395,000	1,361,000
	<u>\$4,025,000</u>	<u>\$3,839,000</u>

	December 31, 1983	
	Cost	Market
Stocks-		
Preferred . . . .	\$ 180,000	\$ 177,000
Common . . . .	913,000	933,000
Options . . . . .	(3,000)	(5,000)
	<u>1,090,000</u>	<u>1,105,000</u>
Bonds . . . . .	1,137,000	1,115,000
	<u>\$ 2,227,000</u>	<u>\$ 2,220,000</u>



**(b) Other -**

	<u>1984</u>	<u>1983</u>
Central Trust Company 7½% cumulative redeemable preference shares . . . . .	<b>\$3,600,000</b>	\$3,825,000
Investment in mutual funds . . .	<b>350,000</b>	600,000
Central Trust Company \$483,000, 12% subordinated note, January 1, 1990 . . . . .	<b>474,000</b>	473,000
Affiliated company and other . . . . .	<b>219,000</b>	136,000
	<u><b>\$4,643,000</b></u>	<u>\$5,034,000</u>

The 360,000 preference shares of Central Trust Company require a 5% annual sinking fund retirement of 22,500 shares and an obligation to purchase the remainder of the shares in 1990. Out of these total shares, 5,000 are held in escrow.

**3. LONG-TERM DEBT:**

Long-term debt of \$1,799,000 (1983-\$2,012,000) consists of 9¼% sinking fund debentures, Series A, due July 3, 1993.

The Trust Indenture securing the sinking fund debentures, Series A, contains restrictions as to the issuance of additional debentures and other secured debt and the payment of dividends. The Company has covenanted to pay by way of a mandatory sinking fund, sums sufficient to retire \$165,000 of principal on or before July 3 in each of the years 1985 to 1993 inclusive.

**4. CAPITAL STOCK:**

Details of authorized and issued capital:

**Authorized -**

4,000,000 cumulative (20 cents) non-voting participating Class A shares  
360,000 common shares

	<u>December 31</u>	
	<u>1984</u>	<u>1983</u>
<b>Issued -</b>		
574,514 (1983-571,514)		
Class A shares	<b>\$2,227,000</b>	\$2,218,000
174,400 common shares	<b>334,000</b>	334,000
	<u><b>\$2,561,000</b></u>	<u>\$2,552,000</u>

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.

During the year, 3,000 Class A shares were issued for a consideration of \$9,000 to senior officers of the Company as a result of an outstanding option. At December 31, 1984, options to senior officers to purchase 1,000 Class A shares and at the option of the holder 2,000 Class A and/or common shares for a total of 3,000 shares at a price of \$3 each remain outstanding. The options to purchase these shares expire November 18, 1985.

**5. INCOME TAXES:**

The consolidated statement of income does not include a provision for income taxes because income for tax purposes excludes dividends from Canadian corporations and one-half of the gain on the sale of securities.

The Company is subject to a 25% special tax on taxable dividends received from corporations resident in Canada. This tax is refundable on payment of taxable dividends to shareholders at the rate of \$1 for each \$4 of such dividends paid. The amount eligible for refund at December 31, 1984, all of which is included in the consolidated statement of retained earnings, amounted to \$239,000 (1983-\$197,000).

At December 31, 1984 the Company has loss carry-forwards for income tax purposes of approximately \$888,000 that expire commencing in 1987. The benefit of approximately \$455,000 of these losses has been recognized by a reduction of deferred income tax credits.

**6. PRIOR PERIOD ADJUSTMENT:**

During the year, the Company settled certain claims and court actions relating to a former subsidiary company. Retained earnings have been restated to reflect the adjustment to the net gain on sale of that subsidiary.

**7. CONTINGENCY:**

As a result of the sale of put options the Company may be required to purchase certain securities for a maximum aggregate consideration of \$555,000 U.S. dollars.

**8. COMPARATIVE FIGURES:**

Certain 1983 comparative figures have been reclassified to conform with the 1984 presentation.



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# RealCap Holdings Limited

2161 Yonge Street, Suite 604, Toronto,  
Ontario, Canada, M4S 3A6 — Tel: (416) 486-7729

## Board of Directors

\*David S. Ades, B.Sc., A.M.C.T.  
Toronto  
*President*  
*RealCap Holdings Limited*

Jeanne Ades  
Toronto  
*Retired*

\*Leonard E. Barlow  
Toronto  
*Retired Investment Dealer*

Roger I. Coe, C.A.  
Toronto  
*Executive Vice-President and Secretary*  
*RealCap Holdings Limited*

\*Ignatius A. McEwan, Q.C.  
Toronto  
*Partner*  
*Borden & Elliot*

\*Peter Mackenzie  
Ottawa  
*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*

Ralph M. Ades, B.A. (Econ.)  
*Vice-President, Investments*

## Auditors

Price Waterhouse, 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*

## Stock Exchange Listing

Toronto Stock Exchange  
*Class A Shares REA.A*





## RealCap Funds Management Limited

This subsidiary was formed in 1983 to manage mutual funds and during that year two no-load funds were formed:

### **RealGrowth Canadian Equity Fund**

Objective of this Fund is to provide capital growth through investment in diversified portfolio of primarily high grade Canadian common shares. The minimum initial investment in the fund is \$500.

### **RealGrowth Resources and Financial Services Specialty Fund**

Objective of this Fund is to provide above-average growth of capital, primarily through investments in North American resources and financial services companies. The minimum initial investment in the Fund is \$100,000.

### **Investment Advisor to the Funds**

Reed Monahan Nicholishen,  
Investment Counsel Inc., Toronto,  
Ontario.

### **Board of Directors**

D. William Morison  
Toronto  
*Chairman of the Board of RealCap Funds  
Management Limited and Reed Monahan  
Nicholishen, Investment Counsel Inc.*

David S. Ades  
Toronto  
*President of RealCap Funds Management Limited  
and RealCap Holdings Limited*

Roger I. Coe, C.A.  
Toronto  
*Executive Vice-President of RealCap Funds  
Management Limited  
and RealCap Holdings Limited*

Stuart T. Peeler  
Tucson, Arizona  
*Chairman and Chief Executive Officer of  
Statex Petroleum Inc.*

Donald F. Reed, CFA  
Toronto  
*President of Reed Monahan Nicholishen,  
Investment Counsel Inc.*



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## RealCap, Inc. (U.S.)

This subsidiary was formed in 1984 to manage the oil and gas exploration activities of the company in the United States. The Company participates with other experienced operators and its operations to date have been in Texas, Louisiana and Oklahoma.

### **Board of Directors**

David S. Ades  
*President*

Roger I. Coe  
*Executive Vice-President*

Ralph M. Ades  
*Vice-President*

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## Reed Monahan Nicholishen, Investment Counsel Inc.

This affiliated Company was formed in 1982 with the primary objective of managing pension fund money. The three principals had worked together for six years at a major trust company managing pension assets in excess of \$1 billion, with consistent superior results. They each have in excess of thirteen years in the investment business.

The Company has in a short period of time built up a clientele which includes pension funds of many blue chip Canadian corporations.

### **Officers**

D. William Morison  
*Chairman*

Donald F. Reed, CFA  
*President*

Bing Monahan  
*Vice-President*

Marshall E. Nicholishen  
*Vice-President*



