

Francana Development
Corporation Limited

Annual Report 1970

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Francana Development Corporation Ltd.

612 St. James Street, Montreal 101, Quebec
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Directors

B. Lechartier	Chairman and General Manager, Crédit Foncier Franco-Canadien Director, Bank of Montreal
Gavin W. H. Relly	Chairman, Hudson Bay Mining and Smelting Co., Limited Chairman and President, Anglo American Corporation of Canada Limited
J. Debray	Associate General Manager, Crédit Foncier Franco-Canadien Executive Vice-President, Francana Oil & Gas Ltd.
G. J. Risby	Vice President-Treasurer, Anglo American Corporation of Canada Limited
M. B. Harding	Assistant General Manager, Crédit Foncier Franco-Canadien

Officers

B. Lechartier	Chairman and President
J. Debray	Executive Vice-President
M. B. Harding	Vice President-Treasurer
A. Bineau	Secretary

Subsidiaries

Frandedcor Ventures Ltd.

M. M. Lessard	Vice-President
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Frandedcor Explorations Ltd.

C. L. Coleman	Mining Consultant, Director
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Frandedcor Investments Ltd.

A. Bineau	Vice-President
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Report of the Directors

The consolidated assets of Francana Development Corporation Ltd. and its wholly-owned subsidiaries amounted to \$15.2 million on December 31, 1970, compared to \$14.6 million on the same date in 1969, an increase of 4.1%. The net value of these assets at year end, taking quoted assets at market value and unquoted assets at cost, was \$20.9 million compared to \$18.9 million at the end of 1969.

Net income of the Company and its subsidiaries for the fiscal year ending December 31, 1970, was \$682 000 compared with \$962 000 for 1969. The decrease in net income was due partly to lower dividends and partly to a loss suffered in share-trading activities and a provision for the write-down of trading securities. During 1970 the Company paid dividends totalling \$450 000, the same as in 1969.

There was no change in the ownership of the issued capital of Francana Development Corporation Ltd. during the year. Sixty percent of the Company's outstanding shares are owned by Crédit Foncier Franco-Canadien and the balance of forty percent is held by Anmercosa Investments Ltd., a wholly-owned subsidiary of Anglo-American Corporation of Canada Limited.

Francana Development Corporation Ltd. increased its investments in one of its subsidiaries, Frandevcor Ventures Ltd., by \$200 000 during the year through the purchase of treasury preferred shares. This investment raised the Company's total share investment in its wholly-owned subsidiaries to \$1 992 000.

Hudson Bay Mining and Smelting Co., Limited

The Company's holding of Hudson Bay Mining and Smelting Co., Limited's shares increased during the year from 152 000 shares to 456 000 shares as a result of a three for one share split. This shareholding, which represents approximately five percent of Hudson Bay Mining and Smelting Co., Limited's issued stock, is Francana Development Corporation Ltd.'s principal investment.

A significant decrease in the price of copper and zinc during the latter half of 1970 resulted in lower earnings for Hudson Bay Mining and Smelting Co., Limited for the year ending December 31, 1970. The company's net income amounted to \$19.6 million, equi-

valent to \$2.16 per share, compared to \$29.7 million in 1969, equivalent to \$3.29 per share. The company omitted the year-end extra dividend which lowered its dividends to \$1.18 $\frac{1}{3}$ per share during the year from \$1.46 $\frac{2}{3}$ that was paid in 1969.

The Hudson Bay Mining and Smelting Co., Limited's potash mine and mill complex came into production in 1970 on schedule and within budget. There is every indication that even under the present unfavourable circumstances prevailing in the potash industry, this new complex should contribute positively to the cash flow of Hudson Bay Mining and Smelting Co., Limited.

Francana Oil & Gas Ltd.

A major development during the year for Francana Development Corporation Ltd. was the sale by Francana Oil & Gas Ltd. of 700 000 treasury shares to the public at \$5 per share in January. This move resulted in there being a public market for the Company's second major investment and it reduced the Company's holding in Francana Oil & Gas Ltd. from 40% to 34.4% of the outstanding shares.

Francana Oil & Gas Ltd.'s net earnings totalled \$904 000 for the year ending December 31, 1970, an increase of eighteen percent over the 1969 figure of \$769 000. There was also an increase of nineteen percent in the company's cash flow which amounted to \$1.9 million as compared to \$1.6 million in 1969. The company finished the year in a strong cash position with working capital of \$2.2 million whereas it had a working capital deficit of \$68 000 a year earlier. This improvement in working capital resulted from the

proceeds of the sale of the 700 000 treasury shares to the public.

The company carried out an active exploration and development program during the year which resulted in a net increase in proven and probable oil and gas reserves of 939 000 barrels and 8.6 billion cubic feet respectively over the comparable figures for the previous year. This increase in reserves took place in spite of an increase of eleven percent in oil production which amounted to 1 003 000 barrels in 1970. At year end the company's proven and probable recoverable oil and gas reserves were estimated to be 18.1 million barrels of oil and natural gas liquid and 39.2 billion cubic feet of natural gas.

The company has land holdings in all the major exploration areas across Canada and at year end these holdings totalled 6.5 million gross acres corresponding to 2.9 million net acres.

Wholly-owned Subsidiaries

Francana Development Corporation Ltd. has three wholly-owned subsidiaries, Frandevcor Ventures Ltd., Frandevcor Explorations Ltd. and Frandevcor Investments Ltd., that were incorporated to invest respectively in (i) junior

debt and equity securities of companies operating in areas other than mining and oil and gas, (ii) mining and oil and gas situations and (iii) listed companies.

Frandevcor Ventures Ltd.

Frandevcor Ventures Ltd. invests in established, public or private, well-managed companies by providing the junior debt and equity money required, preferably, for expansion or acquisitions.

Frandevcor Ventures Ltd.'s main investment is in Provost Cartage Inc., a Canadian bulk trucking company operating in Eastern

Canada and the northeastern United States. The company is also a shareholder in two other Canadian organizations, Sterisystems Ltd., Toronto, which is in the hospital-television rental business and Dad's Industries Ltd., Vancouver, a manufacturer of cookies with plants in Vancouver and Toronto.

Frandevcor Explorations Ltd.

Frandevcor Explorations Ltd. is the Company's vehicle for participating in the mining and oil and gas industries. During the year Frandevcor Explorations Ltd. examined a number of mining situations involving the possible financing of Canadian mineral deposits to production but it was decided that none of them warranted participation by the company.

Frandevcor Explorations Ltd. has an investment of \$215 000 in Trend Exploration Limited, a Denver-based company engaged in oil and gas exploration in North America, Europe and Indonesia. This company, whose main activity is developing oil, gas and mining prospects that are then dealt to major oil companies with the company retaining a carried interest, enjoyed a good year in 1970.

Francana Development Corporation Ltd., through a subsidiary, has a participation in Nicanex Mines Ltd., a private mining exploration company that is active in Western Canada and whose major shareholder is Nippon Mining Co. Ltd. Although Nicanex Mines Ltd.'s activities to date have not resulted in the discovery of any significant mineral deposits, the company's shareholders have been sufficiently satisfied with the operation to have decided to increase the company's exploration activities and to finance them for a further three years. To this end, discussions are being held with a major U.S. organization with a view to having it participate in the company and share the cost of the new program with the present shareholders.

Frandevcor Investments Ltd.

Frandevcor Investments Ltd.'s portfolio increased during the year from \$1.8 million to \$2.3 million. The company showed a net loss for the year ending December 31, 1970 of \$103 000, after the provision of \$230 000 for writing down the share portfolio to market value.

The consolidation of Frandevcor Investments Ltd.'s results with those of Francana

Development Corporation Ltd. (FDC) produces a continual fluctuation in FDC's earnings as a result of the changes that must be made in the provision for the adjustment of the net value of Frandevcor Investments Ltd.'s share portfolio to market value. This provision, which amounted to \$485 000 at year end compared to \$255 000 in 1969, should decrease with any upturn in the stock market.

New Investments

Francana Development Corporation Ltd. is interested in participating in established companies with competent management and it is prepared, through its subsidiary, Frandevcor Ventures Ltd., to put up significant amounts of junior debt money in combination with equity for the expansion of such enter-

prises. In addition, the Company's subsidiary, Frandevcor Explorations Ltd., has funds to invest for the purchase of oil and gas reserves and it is also interested in playing a role in the financing to production of ore bodies located in North America.

B. Lechartier
Chairman and President

February 26, 1971.

Consolidated Balance Sheet

as at December 31, 1970 (Note 1)

Assets	1970	1969
Current Assets		
Cash	\$ 155 000	\$ 177 000
Accounts receivable	135 000	24 000
Income taxes recoverable	—	22 000
Demand or short term deposits	1 350 000	1 700 000
Trading securities, at cost (Note 2)	2 345 000	1 829 000
	<u>3 985 000</u>	<u>3 752 000</u>
Loans	1 217 000	1 144 000
Investments, at cost		
Debentures (Note 3)	210 000	—
Quoted shares (Note 4)	8 860 000	7 780 000
Unquoted shares	885 000	1 961 000
	<u>9 955 000</u>	<u>9 741 000</u>
Other assets	2 000	3 000
	<u>\$15 159 000</u>	<u>\$14 640 000</u>

Approved by the Board of Directors

B. Lechartier, Director

G. J. Risby, Director

Liabilities	1970	1969
Current Liabilities		
Accounts payable	\$ 154 000	\$ 104 000
Provision for income taxes	<u>1 000</u>	<u>—</u>
	155 000	104 000
Deferred income		
	6 000	—
Provision		
for writing down value of trading securities (Note 5)	485 000	255 000
Shareholders' Equity		
Capital stock		
Authorized		
2 000 000 common shares without nominal value		
Issued and fully paid		
1 000 000 shares	12 800 000	12 800 000
Retained earnings	<u>1 713 000</u>	<u>1 481 000</u>
	<u>14 513 000</u>	<u>14 281 000</u>
	<u>\$15 159 000</u>	<u>\$14 640 000</u>

Consolidated Statement of Income and Expense

for the year ended December 31, 1970

	1970	1969
Income		
Dividends	\$ 805 000	\$ 945 000
Interest	272 000	143 000
Profit (loss) on sale of trading securities	(37 000)	192 000
Management fees	<u>12 000</u>	<u>—</u>
	1 052 000	1 280 000
Expense	114 000	86 000
Income before provision for writing down value of trading securities and income taxes	<u>938 000</u>	<u>1 194 000</u>
Provision for writing down value of trading securities	230 000	192 000
Provision for income taxes	<u>26 000</u>	<u>40 000</u>
	256 000	232 000
Net Income for the year	<u>\$ 682 000</u>	<u>\$ 962 000</u>

Consolidated Statement of Retained Earnings

for the year ended December 31, 1970

	1970	1969
Balance, January 1	\$ 1 481 000	\$ 682 000
Add:		
Net income for the year	682 000	962 000
Gain on realization of investments	—	288 000
	<u>2 163 000</u>	<u>1 932 000</u>
Deduct:		
Dividends	450 000	450 000
Incorporation expenses	—	1 000
	<u>450 000</u>	<u>451 000</u>
Balance, December 31	<u>\$ 1 713 000</u>	<u>\$ 1 481 000</u>

Consolidated Statement of Source and Application of Funds

for the year ended December 31, 1970

	1970	1969
Source of Funds		
Net income for the year	\$ 682 000	\$ 962 000
Provision for writing down value of trading securities	230 000	192 000
Depreciation	<u>2 000</u>	<u>1 000</u>
	914 000	1 155 000
Loans reimbursed	88 000	150 000
Investments realized:		
Unquoted shares	<u>—</u>	<u>1 112 000</u>
	1 002 000	2 417 000
Application of Funds		
Loans and advances	155 000	1 144 000
Investments made		
Debentures	210 000	—
Unquoted shares	5 000	564 000
Dividends paid	450 000	450 000
Incorporation expenses, office equipment and other	<u>1 000</u>	<u>2 000</u>
	821 000	2 160 000
Working Capital		
Increase in working capital for the year	181 000	257 000
Working capital at beginning of the year	<u>3 649 000</u>	<u>3 392 000</u>
Working capital at end of the year	<u>\$ 3 830 000</u>	<u>\$ 3 649 000</u>

Notes to the Consolidated Financial Statements

for the year 1970

Note 1

In the accompanying consolidated financial statements, the accounts of Francana Development Corporation Ltd. have been consolidated with those of the following subsidiary

companies, all of which are wholly-owned:
Frandedcor Investments Ltd.
Frandedcor Explorations Ltd.
Frandedcor Ventures Ltd.

Note 2

The market value of trading securities was \$1 859 000 as at December 31, 1970 and \$1 607 000 as at December 31, 1969.

Note 3

Debentures

The market value of these debentures was \$214 000 as at December 31, 1970.

Note 4

Quoted Shares

The market value of these shares was \$15 103 000 as at December 31, 1970 and \$12 312 000 as at December 31, 1969.

Note 5

Provision for writing down value of trading securities

The provision of \$485 000 for writing down trading securities as of December 31, 1970 corresponds to the difference between the cost of the trading portfolio and the net market price of the portfolio as of that date. In prior years this provision corresponded

to the difference between the cost and market value of only those securities whose market value was lower than their cost. If this method of calculation had been used as of December 31, 1970, the provision would have been \$555 000.

Auditors' Report

To the Shareholders of Francana Development Corporation Ltd.

We have examined the consolidated balance sheet of Francana Development Corporation Ltd. and its subsidiaries as at December 31, 1970 and the consolidated statements of their income and expense, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial posi-

tion of the company and its subsidiaries as at December 31, 1970, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Samson, Bélair, Côté, Lacroix et Associés
Chartered Accountants

Montreal, February 12, 1971

