

Annual Report

**Francana Development
Corporation Limited**



Francana Development Corporation Ltd.

612 St. James Street,
Montreal 101, Quebec
514 845-7114

Directors

B. Lechartier
Chairman and General Manager,
Crédit Foncier Franco-Canadien,
Vice-President, 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

Frandedcor Investments Ltd.

A. Bineau
Vice-President

Frandedcor Explorations Ltd.

C. L. Coleman
Mining Consultant, Director

Report of the Directors

The consolidated net income of Francana Development Corporation Ltd. and its wholly-owned subsidiaries for 1971 was \$532 000 compared with \$682 000 the previous year. The lower net income resulted mainly from a decrease of \$312 000 in the dividends received by the Company from its main investment, Hudson Bay Mining and Smelting Co., Limited. Francana Development Corporation Ltd. paid \$250 000 in dividends in 1971 compared with \$450 000 in 1970.

The consolidated assets of the Company remained unchanged during the year and amounted to \$15.2 million on December 31, 1971. The net value of these assets at year end, taking quoted assets at market value and unquoted assets at cost, was \$23.5 million compared to \$20.9 million at the end of 1970.

The ownership and the issued capital of Francana Development Corporation Ltd. did not change in 1971. Crédit Foncier Franco-Canadien owns sixty percent of the Company's outstanding shares 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 investment in its wholly-owned subsidiaries during the year by \$400 000 through the purchase of treasury preferred shares of Francdevcor Ventures Ltd. At year end the Company's total share investment in

its three wholly-owned subsidiaries amounted to \$2 392 000.

Hudson Bay Mining and Smelting Co., Limited

The Company's share holding of Hudson Bay Mining and Smelting Co., Limited did not change in 1971 and amounts to 456 000 shares, which is equivalent to approximately five percent of that company's issued stock.

A five-month strike that lasted from January until May, combined with lower prices for copper and zinc and the temporary U.S. ten percent surcharge, resulted in significantly lower earnings for Hudson Bay Mining and Smelting Co., Limited in 1971. The company's net income for the year ended December 31, 1971 amounted to \$3 008 977 million equivalent to 33¢ per share compared to \$2.16 per share in 1970 and \$3.29 in 1969. The company paid dividends totalling 50¢ per share in 1971 compared to \$1.18⅓ and \$1.46⅔ per share in 1970 and 1969 respectively.

Francana Oil & Gas Ltd.

Francana Development Corporation Ltd.'s second most important investment from a market value point of view as of December 31, 1971 is its shareholding of Francana Oil & Gas Ltd., an oil and gas exploration and production company based in Calgary that is controlled by Hudson Bay Mining and

Smelting Co., Limited and whose shares are listed on the Toronto and Montreal Stock Exchanges. There was no change in Francana Development Corporation Ltd.'s shareholding of Francana Oil & Gas Ltd. during the year and it amounted to 34.4% of the company's outstanding shares as of December 31, 1971.

During the year Francana Oil & Gas Ltd. increased its proven and probable oil and gas reserves by fourteen percent and one hundred and nine percent respectively, and at year end they stood at 20.7 million barrels of oil and 82.1 billion cubic feet of gas. This increase in reserves resulted partly from success of the company's exploration and development program and partly from the purchase of assets from two Canadian companies, Pioneer Exploration Ltd. and Camac Explorations Limited. The company's oil production in 1971 was 1 010 100 barrels compared to 1 003 000 barrels in 1970. Gas production was up thirteen percent over 1970 and totalled 1.5 billion cubic feet for the year.

Francana Oil & Gas Ltd.'s net earnings for the year ending December 31, 1971 amounted to \$811 000 compared to \$904 000 for the preceding year. The decrease in earnings resulted mainly from an increase in depletion and depreciation charges and a decrease in interest income. The company's cash flow totalled \$1.9 million

and it was virtually unchanged from the previous year.

During the year, Francana Oil & Gas Ltd. invested an additional U.S. \$640 000 in Trend Exploration Ltd., thus increasing its equity position in that company from eight to twenty-two percent. Trend Exploration Ltd. is a petroleum and mineral exploration company based in Denver, Colorado. Through this investment Francana Oil & Gas Ltd. is exposed to a well-managed, diverse oil and gas and mineral exploration program in the U.S., Europe, Australia and Indonesia. In 1971 Trend Exploration Ltd. was instrumental in a significant gas discovery in New York State which resulted in considerable interest in the area on the part of other oil and gas companies.

Francana Oil & Gas Ltd. and its wholly-owned U.S. subsidiary carried out a varied exploration program in 1971. The company participated in the drilling of forty-nine gross wells that resulted in twelve oil wells, seven gas wells, one service well and twenty-nine abandonments. Additions were made to the company's oil reserves in Saskatchewan, Alberta and Manitoba and to gas reserves in Alberta and British Columbia. The company maintained its land holdings in the major exploration areas across Canada including the Arctic, the Beaufort Sea and Eastern Canada off-shore. At year-end these holdings totalled 6.9 million gross acres equivalent to 3.0 million net acres.

Frandevcor Ventures Limited

Frandevcor Ventures Ltd. is a wholly-owned subsidiary of Francana Development Corporation Ltd. that makes junior debt and equity investments in established, well-managed companies that require capital preferably for expansion or to finance acquisitions. Frandevcor Ventures Ltd. does not seek control of companies in which it invests nor does it intend to manage any company with which it is associated. The Company is, however, in a position to provide assistance in the policy, planning and financial areas to the management of companies with which it becomes involved.

Frandevcor Ventures Ltd.'s largest investment is in a Canadian bulk trucking company, Provost Cartage Inc., operating in Eastern Canada and the northeastern section of the U.S. During 1971 arrangements were made for another sizeable investment in the Canadian trucking industry that will involve providing the capital required by Quebec-Ontario Freightways Inc. to make an important acquisition. Quebec-Ontario Freightways Inc. is a holding and management company that, through its subsidiaries, Champlain Sept-Iles Express Inc., Eastern Asbestos Interprovincial Inc. and Barbel Transport Inc. operates a general freight system serving Toronto, Montreal, Quebec, Sept-Iles and intermediate points.

Frandevcor Ventures Ltd. has a minority position in Sterisystems Ltd., a

company that is active in the hospital-television rental business across Canada. In 1971 this company raised about \$1 million by the sale of securities to the public to finance its rapid expansion. As a result of this move, Sterisystems Limited's shares are now quoted on the Toronto over-the-counter market. The company had a successful year that saw a considerable growth in the number of hospitals using its equipment. The company's earnings in 1971 were \$375 000 compared to a loss of \$10 000 for the previous year.

Dad's Industries Limited, a producer of quality cookies in which Frandevcor Ventures Limited has an investment, made two acquisitions during the year involving the purchase of two companies holding the Dad's franchise in Alberta, Saskatchewan and Manitoba. At the year's end Dad's Industries Limited operated plants in Toronto, Regina, Calgary and Vancouver.

In 1971 Frandevcor Ventures Limited invested in a new Toronto-based company, Lumberking Home and Gardens Centres Limited, that was established to build and operate a chain of retail stores specializing in home improvement and garden supplies. The company will open its first store in the Spring of 1972 in Scarborough, Ontario. Frandevcor Ventures Ltd. also took a minor participation in the financing of a U.S. company developing optical scanning equipment, Scan-Optics, Inc.

Francana Development Corporation Ltd.'s investment in Frandevcor

Ventures Ltd. increased during the year by \$400 000 through the purchase of treasury preferred shares and it totalled \$1 600 000 as of December 31, 1971.

Frاندevcor Investments Ltd.

Frاندevcor Investments Ltd.'s portfolio increased from \$2.3 to \$2.7 million at cost during the year. The company's net income for the year ending December 31, 1971 was \$33 000 after providing for a reduction of \$113 000 in the provision for writing down the share portfolio to market value; this provision decreased from \$485 000 to \$372 000 during the year. Francana Development Corporation Ltd.'s investment in this subsidiary totalled \$501 000 on December 31, 1971.

Frاندevcor Explorations Ltd.

Frاندevcor Explorations Ltd. is a wholly-owned subsidiary that was incorporated to handle the Company's participation in the mining and oil and gas industries.

During the year Frاندevcor Explorations Ltd. increased its participation in Trend Exploration Limited by an additional investment of \$163 000 through the purchase of treasury common shares. This move increased Frاندevcor Explorations Ltd.'s holding in Trend Exploration Limited from two to five percent of that company's outstanding shares.

Frاندevcor Explorations Ltd. continued its search for investment opportunities and examined a number of possible projects during the year, but decided not to participate in any of them. Francana Development Corporation Ltd.'s investment in this subsidiary remained unchanged at \$291 000.

New Investments

Francana Development Corporation Ltd. is interested in investing in well-managed, established companies with good growth potential. Through its subsidiary, Frاندevcor Ventures Ltd., the Company is prepared to put up a significant amount of junior debt and equity capital to permit such companies to expand. The form and size of the investment is adapted to the needs of the company and will be tailored to create a capital structure which should facilitate any additional financing needed for further expansion or for eventual public ownership. In addition, the Company is interested, through its subsidiary, Frاندevcor Explorations Ltd., in investing in junior mining and oil and gas companies.

B. Lechartier
Chairman and President

February 28, 1972

Consolidated Balance Sheet

as at December 31, 1971 (Note 1)

Assets	1971	1970
Current Assets		
Cash	\$ 120 000	\$ 155 000
Accounts receivable	110 000	135 000
Demand or short term deposits	1 000 000	1 350 000
Trading securities, at cost (Note 2)	2 726 000	2 345 000
	<u>3 956 000</u>	<u>3 985 000</u>
Loans	<u>1 116 000</u>	<u>1 217 000</u>
Investments, at cost		
Debentures (Note 3)	35 000	210 000
Quoted shares (Note 4)	8 951 000	8 860 000
Unquoted shares	1 148 000	885 000
	<u>10 134 000</u>	<u>9 955 000</u>
Other Assets	<u>3 000</u>	<u>2 000</u>
	<u>\$15 209 000</u>	<u>\$15 159 000</u>

Liabilities	1971	1970
Current Liabilities		
Accounts payable	\$ 20 000	\$ 154 000
Provision for income taxes	4 000	1 000
	<u>24 000</u>	<u>155 000</u>
Deferred Income	<u>3 000</u>	<u>6 000</u>
Provision		
for writing down value of trading securities (Note 5)	<u>373 000</u>	<u>485 000</u>
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>2 009 000</u>	<u>1 713 000</u>
	<u>14 809 000</u>	<u>14 513 000</u>
	<u>\$15 209 000</u>	<u>\$15 159 000</u>

Approved by the Board of Directors

B. Lechartier, Director

G. W. H. Relly, Director

Consolidated Statement of Income and Expense

for the year ended December 31, 1971

	1971	1970
Income		
Dividends	\$ 498 000	\$ 805 000
Interest	251 000	272 000
Profit (loss) on sale of trading securities	(136 000)	(37 000)
Management fees	8 000	12 000
	<u>\$ 621 000</u>	<u>\$ 1 052 000</u>
Expense		
General expenses	\$ 114 000	\$ 114 000
Financial expenses	8 000	—
	<u>\$ 122 000</u>	<u>\$ 114 000</u>
Profit before provision for writing down value of trading securities and income taxes	<u>\$ 499 000</u>	<u>\$ 938 000</u>
Provision for writing down value of trading securities (decrease)	(113 000)	230 000
Provision for income taxes	80 000	26 000
	<u>(33 000)</u>	<u>256 000</u>
Net profit for the year	<u>\$ 532 000</u>	<u>\$ 682 000</u>

Consolidated Statement of Retained Earnings

for the year ended December 31, 1971

	1971	1970
Balance, January 1	\$ 1 713 000	\$ 1 481 000
Add:		
Net profit for the year	532 000	682 000
Gain on realization of investments	14 000	—
	<u>2 259 000</u>	<u>2 163 000</u>
Deduct:		
Dividends	<u>250 000</u>	<u>450 000</u>
Balance, December 31	<u><u>\$ 2 009 000</u></u>	<u><u>\$ 1 713 000</u></u>

Consolidated Statement of Source and Application of Funds

for the year ended December 31, 1971

	1971	1970
Source of Funds		
Net profit for the year	\$ 532 000	\$ 682 000
Provision for writing down value of trading securities (decrease)	(113 000)	230 000
Depreciation	1 000	2 000
	<u>420 000</u>	<u>914 000</u>
Loans reimbursed	176 000	88 000
Investments realized		
Debentures	189 000	—
Unquoted shares	27 000	—
	<u>\$ 812 000</u>	<u>\$ 1 002 000</u>
Application of Funds		
Loans and advances	\$ 77 000	\$ 155 000
Investments made		
Debentures	—	210 000
Quoted shares	290 000	5 000
Unquoted shares	91 000	—
Dividends paid	250 000	450 000
Office equipment and other	2 000	1 000
	<u>\$ 710 000</u>	<u>\$ 821 000</u>
Working Capital		
Increase in working capital for the year	\$ 102 000	\$ 181 000
Working capital at beginning of the year	3 830 000	3 649 000
Working capital at end of the year	<u>\$ 3 932 000</u>	<u>\$ 3 830 000</u>

Notes to the Consolidated Financial Statements

for the year 1971

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 Ventures Ltd.
Frandedcor Investments Ltd.
Frandedcor Explorations Ltd.

Note 2

Trading Securities

The market value of trading securities was \$2 353 000 as at December 31, 1971 and \$1 859 000 as at December 31, 1970.

Note 3

Debentures

The market value of these debentures was \$37 000 as at December 31, 1971 and \$214 000 as at December 31, 1970.

Note 4

Quoted Shares

The market value of these shares was \$17 572 000 as at December 31, 1971 and \$15 103 000 as at December 31, 1970.

Note 5

Provision for writing down value of trading securities

The provision corresponds to the difference between the cost of the trading portfolio and the net market price of the portfolio as at December 31.

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, 1971 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 position of the company and its subsidiaries as at December 31, 1971, 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 11, 1972.

