

Annual Report
1973

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Francana Development Corporation Limited

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Francana Development Corporation Ltd.
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Directors

R. Lavoie
President and General Manager,
Crédit Foncier Franco-Canadien

H. R. Fraser
Chairman,
Anglo American Corporation of Canada Limited
Chairman,
Hudson Bay Mining & Smelting Co., Limited

J. D. Taylor, Q.C.
President,
Anglo American Corporation of Canada Limited

M. B. Harding
Assistant General Manager — Finance,
Crédit Foncier Franco-Canadien

M. M. Lessard
Vice-President,
Francana Development Corporation Ltd.

Officers

R. Lavoie
President and Chief Executive Officer

M. B. Harding
Vice-President

M. M. Lessard
Vice-President

C. D. Hyde
Secretary and
Vice-President of Frandevcor Investments Ltd.

C. Richard
Treasurer

Subsidiaries

Frandevcor Explorations Ltd.
Frandevcor Investments Ltd.
Frandevcor Ventures Ltd.

Report to the Shareholders

The consolidated net profit of Francana Development Corporation Ltd. for the year ended December 31, 1973 was \$2,850,000 compared with \$780,000 for the preceding year. These results include a net extraordinary gain of \$1,989,000 resulting mostly from the disposal in 1973 of an unquoted investment held by Francdevcor Explorations Ltd., and a net extraordinary loss of \$92,000 in 1972. Operating profits of \$861,000 for 1973 were at about the same level as those for the preceding year. A substantial increase in dividends received from Hudson Bay Mining and Smelting Co., Limited offset the impact of adverse market conditions on the portfolio of trading securities.

At year end, the shareholders' equity had a consolidated book value of \$17,670,000, a \$2,450,000 increase over the value at December 31, 1972. The net value of the shareholders' equity adjusted to reflect the market value at year end of quoted securities, stood at \$41.8 million compared to \$38.9 million at the end of the preceding year.

During 1973, your Company and its subsidiaries invested \$2.1 million in six different situations. Of this amount, \$200,000 was invested in the form of loans, \$1.8 million in quoted common and preferred shares, and the remaining \$100,000 in unquoted capital stock.

The ownership and the issued capital of Francana Development Corporation Ltd. did not change in 1973. Crédit Foncier Franco-Canadien owns 60% of the Company's outstanding shares and Anmercosa Investments Ltd., a

wholly-owned subsidiary of Anglo American Corporation of Canada Limited, owns 40%.

Hudson Bay Mining and Smelting Co., Limited

Francana Development Corporation Ltd. held at year end 456,000 common shares of Hudson Bay Mining and Smelting Co., Limited, equivalent to 4.6% of that company's outstanding capital stock.

High prices for copper, zinc, gold, silver and potash resulted in record earnings for Hudson Bay Mining of \$44.6 million or \$4.77 per share for the year ended December 31, 1973, compared to \$11.4 million or \$1.26 per share for the preceding year. Extraordinary items including recovery of a portion of the extraordinary write off in 1972 of the anticipated loss at the Wellgreen Mine in the Yukon, brought earnings to \$47.3 million or \$5.06 per share in 1973 against \$2.9 million or \$0.32 per share in 1972. In line with these excellent results, Hudson Bay Mining increased its dividend from \$0.80 per share in 1972 to \$2.00 per share in 1973.

Hudson Bay Mining mined 1.8 million tons of copper-zinc ore during 1973. As of December 31, 1973 reserves were 700,000 tons higher than at the previous year end and amounted to 18 million tons assaying 0.034 oz. gold per ton; 0.52 oz. silver per ton; 12.11% copper, and 2.9% zinc.

During 1973, Hudson Bay Mining completed a number of acquisitions and investments, the most substantial of which was the \$30 million acquisi-

tion of a 37.8% equity position in Western Decalta Petroleum Limited of Calgary, which could be raised to 44.6% through conversion of a \$5 million debenture. The purchase was made by issuing 900,000 treasury shares valued at \$25.00 per share and the payment of \$7.5 million in cash. The company also acquired a substantial equity position in Canadian Merrill Ltd., a Canadian oil and gas exploration company. Also during 1973, Hudson Bay Mining increased its ownership of Terra Chemicals International, Inc. to 35% through conversion of preferred shares, and its equity position in Stikine Copper Limited to 30% by carrying out development programs and feasibility studies of that company's orebody.

The Sylvite of Canada Division had a profitable third year of operation. Its refinery operated at 73% of rated capacity and shipments of product increased 80.3%, from 497,351 tons in 1972 to 896,689 tons of muriate of potash. At year end, proven reserves stood at 364 million tons.

Francana Oil & Gas Ltd.

Francana Oil & Gas Ltd. is a junior oil and gas exploration and production company, which is controlled by Hudson Bay Mining & Smelting Co., Limited and whose shares are listed on the Toronto and Montreal Stock Exchanges.

Francana Development Corporation Ltd. owned 1,833,977 common shares of Francana Oil & Gas Ltd. at the end of 1973, equivalent to 32.7% of the then outstanding capital stock of that company. These holdings represent

an increase of 120,777 common shares during 1973, through the conversion into 20,000 common shares of the remaining 5% convertible preferred shares held by your Company and through subscription to additional treasury capital stock as a result of a rights offering to all shareholders.

Francana Oil & Gas Ltd. had revenues of \$3,386,000 in 1973, a 14.1% increase over 1972. Natural gas production was up 21.0% to 2.7 million cubic feet while crude oil production of 1,143,000 barrels was off slightly over the 1972 levels. The company's cash flow reached \$2,308,000, which was \$351,000, or 17.9% higher than in 1972.

Net earnings for 1973 reached \$1,118,000, for a 71.9% or \$468,000 gain over 1972. Earnings per share after the issue of 611,272 treasury shares during the year, were up to \$0.208 for a 66.4% improvement over the \$0.125 achieved in 1972. These good financial results are due to higher average prices for both crude oil and natural gas sales, and to the adoption in 1973 of the equity method of accounting for the company's investment in Trend Exploration Limited which added \$284,000 to net earnings.

Francana Oil & Gas Ltd. participated directly in the drilling of 22 wells and indirectly, through land contributions, in another 26 wells. This program resulted in 10 oil wells and 14 gas wells, most of which were extensions of or developments in previously productive areas. Total exploration and development expenditures amounted to \$1.8

million, approximately the same level as in 1972.

At year end, the company's crude oil reserves stood at 14.4 million barrels proven and 3.9 million barrels probable for a total of 18.3 million barrels. These total oil reserves represent an 8.4% decline from the level at the end of 1972. Total proven and probable natural gas reserves were 101.6 billion cubic feet at the end of 1973, of which 89.4 billion were proven. These reserves represent a 10% increase over the 92.4 billion cubic feet of total reserves at the end of 1972, of which 84.1 billion were proven.

During 1973, Francana Oil & Gas Ltd. increased its equity participation in Trend Exploration Limited, from 22% to 30%. Trend is a privately held oil and gas exploration and production company based in Denver, Colorado, with exposures in several prospective areas around the world. Trend and its partners enjoyed considerable success in 1973 on their 1.1 million acre Irian Jaya concession in Indonesia. Three oil discoveries on separate reef prospects at Jaya, Walio and North Kasim were added to the 1972 discovery at Kasim. The construction of terminal facilities was completed in August 1973 and the Kasim and Jaya fields were placed in production in September. Production reached 50,000 barrels per day by year end.

Frandevcor Explorations Ltd.

Frandevcor Explorations Ltd., a wholly-owned subsidiary of Francana Development Corporation Ltd., invests in oil and gas and mining companies.

The company realized in 1973 a substantial capital gain from the sale of its 5% equity participation in **Trend Exploration Limited** to Francana Oil & Gas Ltd. and other investors in Trend. Its investment in unquoted securities of Trend totalled \$378,000 at cost, representing a \$215,000 investment in 1969 and a \$163,000 purchase of treasury stock in 1971. The gain on disposal of this asset is included in this year's earnings as an extraordinary gain of \$2,054,000, net of income taxes.

During 1973, the company also increased its equity participation in **Consumers Oil Ltd.**, a junior oil and gas exploration and production company headquartered in Calgary which has crude oil reserves in Alberta and Saskatchewan, and natural gas reserves in Alberta, Saskatchewan and British Columbia. Unproven properties are located in these three provinces as well as both on land and offshore in Nova Scotia and the Arctic Islands.

Frاندevcor Ventures Ltd.

Frاندevcor Ventures Ltd., a wholly-owned subsidiary of Francana Development Corporation Ltd., invests through junior debt and minority equity participations in private or public junior industrial and service companies that are well managed and offer good growth potential.

The company's largest investment is in **Transport Centre Inc.**, the second largest trucker of liquid and dry bulk commodities in Canada. Through Provost Cartage Inc., its major subsidiary, and a number of other subsidiaries,

the Transport Centre group of companies serves Eastern Canada and North-eastern U.S.A. Late in 1973, the group increased its penetration of the Ontario market through an important acquisition which it operates under the name of Provost Industrial Tankers Limited.

Frاندevcor Ventures Ltd. also has a minority equity participation in **Sterisystems Ltd.** whose shares are quoted on the Toronto over-the-counter market. Sterisystems Ltd. is active in the health care field through three divisions: Hospital Services Division, engaged in television rentals to hospital patients, in the supplying of hospital communication systems and in hospital flower sales; Sterimed Division, distributing electrical and electronic medical and surgical instruments; and the Webber Pharmaceutical Division, Canada's original and leading manufacturer of Vitamin E products, which was acquired early in 1973. Sterisystems enjoyed a successful year with revenues growing from \$2.9 million to \$5.6 million and net profits increasing 78.3% from \$451,000 in 1972 to \$804,000 in 1973, equivalent to \$0.58 per share in 1973 compared to \$0.37 in 1972.

Frاندevcor Ventures Ltd. is a substantial minority shareholder in **Dad's Industries Limited**, which produces and distributes Dad's and Harnois cookies, out of plants in Toronto, Regina, Calgary and Joliette. In January 1973, this company completed the acquisition of E. Harnois Inc., whose product line and Joliette production facilities complement the Dad's operations. Although 1973 was an especially difficult year due to the unsettled

market for commodities used in the production of cookies, the Harnois acquisition was successfully integrated and the company continued its progress in expanding its market share and consumer acceptance.

PolyCom Systems Ltd. is a Toronto based computer service company whose shares trade on the Toronto over-the-counter market and in which Frandevcor Ventures Ltd. has a minority equity participation. PolyCom offers computer time sharing and other related services to a number of clients in both the public and private sectors. 1973 was a year of considerable changes in the management and in the operations of the company, which should yield improved performance in the future. Late in 1973, PolyCom purchased a Honeywell 6066 computer whose substantial computing capability combined with Dartmouth Time Sharing Software is enabling PolyCom to increase its market penetration and broaden the range of services offered to its clients.

Scan-Optics, Inc. is a Connecticut based company engaged in the development, manufacturing and marketing of optical character reading equipment, in which Frandevcor Ventures Ltd. holds a minor equity participation. Following the introduction of a new management team, a redirection of engineering, development and marketing efforts, as well as substantial refinancing, Scan-Optics showed signs in the last quarter of 1973 of being on the right course towards realizing a profitable penetration of the computer peripheral equipment market in the U.S.A., Europe and Japan.

In December 1973, Frandevcor Ventures Ltd. and the other shareholders of **Quebec Ontario Freightways Inc.**, a holding company engaged in the general freight transportation industry in Eastern Canada, undertook to sell their investment to another carrier, subject to approval of the transfer of operating authorities by the appropriate governmental regulatory agencies.

C & C Yachts Limited is a Canadian company engaged in the design and production of power-assisted sailing yachts, in which Frandevcor Ventures Ltd. acquired a minority equity participation in 1973. C & C Yachts whose common shares trade on the Toronto Stock Exchange, is well known for the quality of its design and workmanship, and is a leading supplier of sailing yachts to the North American market. 1973 sales were up 30.5% to \$9,071,000 compared to \$6,951,000 in 1972; net earnings of \$533,000 or \$0.54 per share for 1973 were up 29.4% over 1972 results of \$412,000 or \$0.43 per share.

Frandevcor Investments Ltd.

Frandevcor Investments Ltd., a wholly-owned subsidiary of your Company, holds a portfolio of listed securities which was reduced from \$2,148,000 at cost at the end of 1972 to \$1,899,000 at the end of 1973. The adverse stock market conditions prevailing at the end of 1973 resulted in a substantial increase in the reserve for losses on trading securities and a net loss for the year of \$194,000 compared to a \$382,000 profit the preceding year.

New Investments

Francana Development Corporation Ltd., directly or through its subsidiaries, is interested in investing in well-managed, established companies with good growth potential. It is prepared to arrange and participate in both debt and equity financing required for expansion, acquisitions or change of ownership. The form and size of each investment recognizes the needs and objectives of the affiliate and its shareholders, as well as the requirements of future additional financing and eventual public ownership.

Your Company does not seek control of companies in which it invests, nor does it intend to manage any company with which it is associated. However, it desires to contribute to the development of the companies with which it becomes involved usually through board representation and by providing assistance in the policy, planning and financial areas.

R. Lavoie,
President.

May 25, 1974

Consolidated Balance Sheet

as at December 31, (Note 1)

	1973	1972
Assets		
Current Assets		
Cash	\$ 89 000	\$ 69 000
Accounts receivable	476 000	111 000
Demand deposits	1 543 000	—
Trading securities (Note 2)	1 456 000	2 080 000
Income taxes recoverable	—	36 000
	3 564 000	2 296 000
Loans	1 668 000	1 737 000
Investments, at Cost		
Quoted investments (Note 3)	11 439 000	9 514 000
Unquoted investments (Note 4)	1 494 000	1 776 000
	12 933 000	11 290 000
Other Assets	3 000	3 000
	\$ 18 168 000	\$15 326 000

	1973	1972
Liabilities		
Current Liabilities		
Accounts payable	\$ 23 000	\$ 33 000
Provision for income taxes	412 000	—
	435 000	33 000
Deferred Income	63 000	73 000
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	4 870 000	2 420 000
	17 670 000	15 220 000
	\$ 18 168 000	\$15 326 000

Approved by the Board of Directors
R. Lavoie, Director
H. R. Fraser, Director

Consolidated Statement of Revenue and Expenses

year ended December 31,

	1973	1972
Revenue		
Dividends	\$1 049 000	\$ 534 000
Interest	256 000	190 000
Profit (loss) on trading securities (Note 5)	(265 000)	297 000
Management fees	30 000	9 000
Other	6 000	—
	1 076 000	1 030 000
Expenses		
General expenses	136 000	125 000
Financial expenses	10 000	1 000
	146 000	126 000
Profit Before Income Taxes	930 000	904 000
Provision for income taxes	69 000	32 000
Net Operating Profit	861 000	872 000
Extraordinary items		
Net gain on disposal of assets after income taxes	2 054 000	—
Amounts written off loans and investments	(65 000)	(92 000)
Net Profit for the Year	\$2 850 000	\$ 780 000

Consolidated Statement of Retained Earnings

year ended December 31,

	1973	1972
Balance, January 1,	\$2 420 000	\$2 010 000
Add:		
Net profit for the year	2 850 000	780 000
	<u>5 270 000</u>	<u>2 790 000</u>
Deduct:		
Dividends	400 000	370 000
Balance, December 31,	<u>\$4 870 000</u>	<u>\$2 420 000</u>

Consolidated Statement of Source and Application of Funds

year ended December 31,

	1973	1972
Source of Funds		
Net profit from operations	\$ 861 000	\$ 872 000
Item not affecting funds		
Depreciation	1 000	1 000
Funds from operations	862 000	873 000
Loans reimbursed	193 000	949 000
Unquoted investments realized	3 069 000	208 000
	4 124 000	2 030 000
Application of Funds		
Loans and advances	200 000	1 500 000
Investments made		
Quoted	1 823 000	528 000
Unquoted	835 000	927 000
Dividends paid	400 000	370 000
Office equipment	—	1 000
	3 258 000	3 326 000
Increase (decrease) in working capital for the year	866 000	(1 296 000)
Working capital at beginning of the year	2 263 000	3 559 000
Working capital at end of the year	\$3 129 000	\$2 263 000

Notes to the Consolidated Financial Statements

year 1973

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:

Frandevcor Investments Ltd.
Frandevcor Explorations Ltd.
Frandevcor Ventures Ltd.

Note 2

Trading Securities

The portfolio of trading securities is valued as a whole at the lower of cost or market as at December 31:

	1973	1972
Cost	\$1 899 000	\$2 148 000
Less		
Provision for unrealized losses	443 000	68 000
Book and market value	\$1 456 000	\$2 080 000

Note 3

Quoted Investments

These investments had a market value of \$35,556,000 as at December 31, 1973 and \$33,157,000 as at December 31, 1972.

Note 4

Unquoted Investments

These investments are shown at cost less an amount of \$92,000, written-off in 1972.

Note 5

Profit (Loss) on Trading Securities

Realized profits or losses on trading securities are shown net of the increase or decrease in the provision for unrealized losses. The provision increased by \$375,000 in 1973 and decreased by \$304,000 in 1972.

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, 1973 and the consolidated statements of their revenue and expenses, 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, 1973, 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 7, 1974.

